

Financial Literacy and Education Commission

Why and How: Background Report
Developing the 2011 National Strategy

November 2010

Executive Summary

Introduction

The recent economic crisis has highlighted how essential it is that individuals and families have the information, education, and tools that they need to make good financial decisions in an increasingly complex U.S. and global financial system. Indeed, as we have learned, the financial difficulties of individuals and families can dramatically affect the financial health of local communities and regional markets. The crisis has also illustrated that the financial well-being of individuals and families is fundamental to national financial stability, and that a lack of financial literacy is one barrier that can lower standards of living and limit prosperity.

This situation pointed to the need for a national strategy to align public and private organizations, particularly the Federal agencies comprising the Financial Literacy and Education Commission (FLEC), to work on common goals to improve the financial skills, knowledge and behavior of individuals. The National Strategy 2011 (“The Strategy”) was developed by FLEC’s National Strategy Working Group (NSWG). The Strategy sets direction for financial literacy and education research, practice, coordination and policy.

In developing the Strategy, the NSWG undertook a comprehensive and inclusive approach. It conducted research and sought input from key stakeholders representing financial industry associations, private and non-profit organizations, consumer and advocacy groups, educational institutions, state and local government agencies, and the previous President’s Advisory Council on Financial Literacy. The NSWG also hosted a series of listening sessions to obtain experts’ views on the objectives of a national strategy, the role of the Federal government and other related issues. Releasing the Strategy for public comment was the final step in this inclusive approach. The NSWG will turn to its implementation in 2011, working to engage all of the FLEC member agencies, as well as the non-profit, private, and academic sectors in helping to achieve the Strategy's goals, which are to:

1. Increase awareness of and access to effective financial education;
2. Determine and integrate core financial competencies;
3. Improve financial education infrastructure; and
4. Identify, enhance, and share effective practices

Development Process of the National Strategy for Financial Literacy

In July 2009, the Treasury Department convened a meeting of the FLEC to review its approach to its purpose and role as outlined in Title V of the Fair and Accurate Credit Transactions Act of 2003. FLEC members set up a working group to craft a new national strategy. Over the following months, the NSWG undertook a comprehensive and inclusive process that included three phases: Review, Build and Deliver. More details about each phase are outlined below:

1. Review (August through early September 2009): In order to develop a research-based national strategy for financial literacy/capability, the NSWG summarized insights from the *Taking Ownership of the Future: The National Strategy for Financial Literacy 2006 (2006 National Strategy)*, strategies from other Federal agencies on other topics, financial literacy strategies from other countries, and the Government Accountability Office assessment of the 2006 *National Strategy* as part of the process to develop lessons learned and best practices.

Reviewing other national strategies: The NSWG considered national strategies from selected other Federal government agencies for both content and approach that might be applicable to the Strategy. The NSWG also reviewed the previous financial literacy strategy, the 2006 *National Strategy*. In addition, the NSWG conducted an extensive search for national financial literacy strategies in other countries and reviewed all the strategies it was able to identify.¹

The NSWG found that there were commonalities across countries in the reasons given for developing a national financial literacy strategy. As is the case in the United States, the other countries noted an increase in life expectancy, requiring more resources to support a greater number of years in retirement; a shift from defined-benefit pension plans to defined-contribution plans resulting in individuals assuming more responsibility and risk in making retirement decisions; an increase in the number and complexity of financial products and services available to consumers; and low levels of financial literacy, especially among populations underserved by the financial system.

The NSWG also found that the financial literacy strategies from other countries emphasized the following features:

- Forging partnerships;
- Focusing on a limited number of goals that contain specific action steps; and
- Reaching out to specific groups such as youth, workers, and minorities.

In addition, the NSWG felt that the following elements of the strategies from other Federal agencies should be considered for inclusion in the new financial literacy strategy, because they reflected strategic areas identified in the 2006 National Strategy:

- Encouraging research and sharing of ideas and information; and
- Supporting policy development and implementation of financial literacy initiatives by local, private and government groups.

¹ The NSWG discovered that few countries have developed a national financial literacy strategy. Further, the NSWG was restricted to reviewing those strategies available in English. The strategies reviewed for this document came from New Zealand, United Kingdom, South Africa, Ireland, Netherlands, and Australia. Brazil, Italy, and Malaysia are in the process of developing national financial literacy strategies.

Using Research in Strategy Development: The NSWG relied on the findings from the FLEC 2008 National Research Symposium on Financial Literacy and Education² (FLEC Research Symposium) to inform the Strategy. This symposium brought together 29 experts from the fields of behavioral and consumer economics, financial risk assessment, and financial education evaluation to exchange facts and information on existing research findings, gaps in the literature, and questions for future analysis. Participants included academics from public and private universities, scholars and administrators from non-profit organizations, and government officials.

These experts completed a comprehensive literature review prior to the symposium aligned with four topics -- behavior theory application, consumer economic socialization, financial education and program evaluation, and financial risk assessment. Through a facilitated process designed to elicit individual views, each participant dropped away the topic headings and named 10 overarching research priorities, each articulated through a research question. These questions informed development of all four goals of the Strategy. Following is an alignment of each Strategy goal with the selected and relevant research question.

Goal 1: Increase awareness of and access to effective financial education.

Research Questions -- Six of the selected research questions point to a better understanding of the target audience that, in turn, improves the ability of educators and policymakers to deliver the right message, motivation and context leading to positive financial behavior and success. The questions relate to socialization factors, including conflicting messages, and how those factors vary by gender, life stage, race, socio-economic status, education and ethnicity. Other questions focus on internal factors such as financial risk tolerance and psychological characteristics of learners, and external pressures such as economic shocks.

Goal 2: Determine and integrate core financial competencies.

Research Question -- What are the core principles of personal finance that every consumer needs to know, and what evidence exists that current standards are effective in helping people reach their financial goals?

Goal 3: Improve financial education infrastructure.

Research Question -- What is the most effective mix of financial education, decision framing, and regulation to improve financial well-being?

Goal 4: Identify, enhance and share effective practices.

Research Question -- What are reliable and valid measures of the success for financial education, and what measures should be used to document success for various financial topic areas and target audiences?

The NSWG approached its task knowing the critical nature of aligning the National

² For a summary of the symposium, see <http://www.ustreas.gov/offices/domestic-finance/financial-institution/fin-education/commission/ResearchSymposiumpaper12-8-08.pdf> or see “Financial Literacy and Research Priorities” in the 2009(Vol 20, No 1) Journal of Financial Counseling and Planning.

Goals with existing research. The FLEC's work on setting national research priorities for financial literacy and education provided an exemplary foundation for this endeavor.

2. **Build** (Mid-September through early December 2009): The NSWG, in conjunction with the Treasury Department, contacted 150 key stakeholders with knowledge and expertise in the field of financial literacy and education, and asked them to respond to the list of questions below to help guide the formulation of the Strategy. The stakeholders represented private industry, the non-profit sector, academia, and all levels of government—federal, state, and local.

Of the 150 stakeholders, sixty-four responded and provided their opinions and viewpoints on six key questions.

1. What should be the most critical objectives of the new national strategy?
2. What should be the key measures of successfully reaching those objectives?
3. What are the most important issues that financial education should be addressing today?
4. What do you see as your organization's role in executing a national strategy for financial education?
5. How can the Federal government best help to coordinate and promote financial literacy/capability?
6. What would you name the new national strategy?

The stakeholders who responded to the survey were invited to participate in facilitated listening sessions where they were each asked to comment on a proposed vision, mission and goals for the Strategy. The individual comments from the listening sessions, along with a report of lessons learned and the summary of 64 stakeholder comments from the survey, were used in drafting the Strategy.

One of the questions asked each respondent to identify the major goals of a national strategy on financial literacy. The responses to this question were grouped into four themes (specific examples are provided in parentheses):

- Promote national awareness and visibility: A number of stakeholders wrote about the need to build national awareness of the importance of financial education (*create a national financial literacy awareness campaign, make products easily accessible, and use innovative technologies to reach people*).
- Improve financial literacy competencies of individuals: Some stakeholders indicated that it was necessary to address core competencies through education that provides knowledge and skills (*develop tools and resources, provide funding for providers and counselors, and leverage key relationships among relevant stakeholders*).
- Develop a model financial literacy curriculum and related resources: Many stakeholders stated that a major focus of the new national strategy should be setting standards and providing clear guidelines for course content and desired outcomes (*develop a model curriculum focusing on day-to-day financial*

- challenges, training and resources for educators, and define clear financial literacy training goals and certification of providers).*
- Implement qualitative and quantitative measures to help ensure resources and programs are effective over the long-term: Many stakeholders noted the need for standards for assessing the effectiveness of financial education efforts (*establish measurable national strategy goals, search out best practitioners, formulate benchmarks for financial education program providers and determine what strategies work*).

The views expressed by these individual stakeholders reflect in many ways those of the larger financial education/literacy community. Academic researchers have written about the low levels of financial literacy and awareness. Many research studies have attempted to evaluate selected financial education programs, with these programs covering a range of different topics, target audiences, and delivery channels. Reviews of these evaluation studies conclude that more research is needed to develop effective assessment tools and procedures.³

Refining the strategy: As mentioned above, the stakeholders who responded to the NSWG survey were invited to participate in person or over the telephone in one of three facilitated listening sessions that lasted approximately 90 minutes and were held on December 8, 9, and 10, 2009. The paper summarizing the stakeholder survey responses was provided, as background, to the participants at the listening sessions. The participants were asked to provide individual views on refining the vision, mission, and goals of the strategy. With respect to the goals of the Strategy, a number of participants identified the following as important:

- Increasing awareness of financial education
- Developing core competencies
- Establishing standards for providers
- Measuring the impact of programs

These goals reflect the themes identified in the NSWG’s review of national financial literacy strategies in other countries, in the stakeholders’ responses to the NSWG survey, and in the report of the proceedings of the FLEC Research Symposium.

Defining Results: As the multi-disciplinary profession of personal finance gains maturity, the need to quantify results related to financial success is paramount. A comprehensive literature review conducted in preparation for the FLEC Research Symposium called for consistency among researchers in defining and measuring program success.

³ For a summary of the academic literature on the low levels of financial literacy and awareness in the United States, see Annamaria Lusardi, *Americans’ Financial Capability*, report prepared for the Financial Crisis Inquiry Commission, February 26, 2010. (www.fcic.gov/hearings/pdfs/2010-0226-Lusardi.pdf) For a review of financial education program evaluations and an assessment of the effectiveness of these evaluations, see Angela C. Lyons, *et al.*, “Are We Making the Grade? A National Overview of Financial Education and Program Evaluation”, *The Journal of Consumer Affairs*, Vol 40, No 2, 2006. (www.frbsf.org/community/research/assets/AreWeMakingtheGrade.pdf)

The opportunity, and responsibility, for clearly articulating results related to the Strategy falls on three categories of organizations: 1) the FLEC as a total entity, 2) the 20 federal FLEC agencies as separate entities, and 3) all organizations in the public, private, non-profit and foundation sectors concerned with financial literacy, capability and access.

The FLEC's responsibility for results is at the intermediary, organization level, specifically to encourage a broad range of organizations to embrace the Strategy vision and mission, and implement one or more of the goals. The FLEC plans to provide guidelines to organizations, posting relevant plans on the FLEC website and monitoring activity related to the following measures:

The number of organizations that develop an implementation plan, including program evaluation, based on one or more goals in the Strategy.

- The number of organizations implementing plans.
- The number of organizations conducting program evaluations.

Individual FLEC agencies will be accountable for developing, implementing and evaluating plans based on one or more goals in the Strategy. A facilitated work session for FLEC agencies will allow FLEC representatives to discuss the contents of agency-specific plans based on the National Strategy goals and their respective metrics, and develop a process for informing other organizations. Preliminary guidelines will be reported at the September 2010 public FLEC meeting.

In addition to FLEC agencies, which will lead the effort, all other public, private, non-profit and foundation organizations will be encouraged by FLEC to frame current and projected work against one or more of the Strategy goals. In an era of when the need for financial literacy is at an all-time high, limited resources dedicated to financial education and literacy must show financial success for all. Increases in knowledge, skills and behaviors will be aggregated into common outcome measures (e.g. increased savings, decreased debt, increased retirement planning). The ultimate result will be individuals and families who increase knowledge, take positive financial action, and realize a lifetime of financial success.

3. Deliver (Mid-December 2009 through September 2010): Building upon all of these earlier activities, the NSWG created a draft national strategy, which was reviewed by FLEC member agencies and published it for public comment along with this document in the Federal Register on September 3, 2010. There were 69 unique responses to the Federal Register Notice, with 29 percent of responses coming from non-profits, 20 percent from private businesses, 18 percent from trade associations, 15 percent from private citizens, and 12 percent from the public sector—mostly state-level official commenters. Officials from three foreign nations also responded.

Comments showed significant support for the National Strategy 2011's vision, mission, goals, and objectives: 89 percent of the respondents agreed with the vision,

87 percent agreed with the mission, 81 percent agreed with the goals, and 94 percent agreed with the objectives. The NSWG carefully considered all the comments, and made revisions to the National Strategy 2011 to enhance its clarity and usefulness. The NSWG and FLEC then published and distributed the Strategy. The implementation phase will track progress by FLEC agencies and other organizations in building and implementing an action plan based on the Strategy.

Conclusion

The NSWG reached out in a variety of ways to ensure that the development of the national strategy was informed by research and practice. The NSWG reviewed other strategies and surveyed financial education experts. At each stage in this process, the NSWG noted that certain themes were repeated, as this summary has highlighted. This consistency of themes led to the NSWG's selection of goals for the Strategy. These goals are listed below:

- Increase awareness of and access to effective financial education
- Determine and integrate core financial competencies
- Improve financial education infrastructure
- Identify, enhance, and share effective practices