



Partnering for Financial Well-Being

Office of the President

October 31, 2012

Monica Jackson
Office of the Executive Secretary
Consumer Financial Protection Bureau
1700 G Street NW
Washington, DC 20552

Dear Ms. Jackson:

The National Endowment for Financial Education® (NEFE®) is pleased to offer the following comments for the Bureau of Consumer Financial Protection [Docket CFPB-2012-0030] Request for Information on Effective Financial Education per Federal Register Vol. 77, No. 149 August 2, 2012 Notice.

The National Endowment for Financial Education (www.nefe.org) is the only private, nonprofit national foundation wholly dedicated to improving the financial well-being of all Americans. All NEFE resources and initiatives are research-based, noncommercial, and not tied to any products or services. NEFE inspires empowered financial decision making for individuals and families through every stage of life.

Question 1: In your experience, what are consumers' most common financial decision-making challenges?

A major issue for consumers who need or want to make financial decisions is whom to trust, often made more challenging by a lack of confidence. With the plethora of programs and messages available through various sources, many consumers are unable to vet the advice and information they receive, and numerous consumers are leery of commercial and for-profit financial education tools. This partially is because there are few viable means by which consumers can authenticate the accuracy of the information they receive, and is exacerbated by the fact that few financial education resources are evaluated either internally or externally. If programs and resources are evaluated, the results often are unavailable or difficult to locate.

Additionally, research shows that many consumers struggle with confidence and fear that they may make a wrong financial decision or fear that they do not know as much as they should. A survey conducted by Harris Interactive on behalf of NEFE in February 2011 showed that among those who filed taxes in 2011, 74 percent indicated they have causes of worry about completing and filing their taxes. Twenty-seven percent indicated that they were fearful of doing something wrong and facing a fine; 24 percent worried about completing all the right forms; and 24 percent worried about ensuring they have all the proper paperwork needed. From our observations, the kind of fear described in this survey may

paralyze consumers into not acting at all. Another NEFE-funded study called Arizona Pathways to Life Success for University Students (APLUS) was conducted by the University of Arizona and found that lower confidence can coexist with fairly high levels of knowledge and competence in personal finance. In fact, women in wave 1.5 of the study scored higher on knowledge, but lower on confidence. Sometimes consumers know more than they are giving themselves credit for.

Lack of trust and lack of confidence could partially be remedied by the evaluation of financial education programs and messaging, either internally by the issuer, or externally by an independent evaluator. Encouraging financial education providers to evaluate their programs gives an incentive for providers to collect data that provides valuable information which ultimately may become a means for consumers to differentiate effective programs from those that are ineffectual and those that possibly provide inaccurate or misleading information. Additionally, program evaluation could help consumers choose a program based on what it teaches: e.g. knowledge versus behavior change. If the type of program chosen does not align with the expected outcome, education efforts will be ineffective regardless of the quality of the program.

Evaluation data—and the programs themselves—should be readily available and easy to locate, increasing consumers' access to quality information and services. In all cases, evaluation methods should comply with widely-accepted standards for evaluation. The President's Advisory Council on Financial Capability has recommendations on these standards, which are needed for meaningful comparison.

Question 2: Is there a common set (or lack) of habits, attitudes, or practices, and if so, what are they?

Emerging research is demonstrating that integration of concepts regarding planning and financial decision making will provide a more impactful means for educating people about personal finance. Implications show that the greatest benefits to positive financial behaviors come from people who have refined decision-making skills and who plan ahead regarding fiscal choices. When taught together with traditional financial education topics, we believe these concepts will provide the greatest benefit to consumers and students alike.

Our observations from various focus groups and NEFE initiatives are that people tend to learn from their peers. These observations uphold existing research such as Albert Bandura's Social Learning Theory, and indicates that social learning has significant impact on financial knowledge and behaviors. Social learning in the context of financial behavior is something that should be studied more extensively, along with other items outlined in the Financial Literacy and Education Commission's 2012 Research Priorities and Research Questions, available at <http://www.treasury.gov/resource-center/financial-education/Documents/2012%20Research%20Priorities%20-%20May%202012.pdf>. We believe that a common set of research priorities should be adopted by the financial education community to provide the most impact.

Question 3: What are the major challenges in providing financial education that would help adult consumers address the issues identified in questions 1 and 2, and what would lead to good financial outcomes for recipients?

A major challenge in providing financial education to adults is a lack of trust. Consumers may be wary that an education provider will try to sell something, may have access to personal information, or will judge a consumer's personal decisions. These fears and inhibitions may prevent people from participating in financial education or accessing useful resources and tools. It is imperative that consumers have easy access to quality, trusted resources when needed.

There are few places that comprehensively discuss and categorize the credentials for individuals, programs, and organizations of those providing financial education. Also, there is strong debate about the actual impact (both positive and negative) certification has on outcomes. NEFE hosted a Certification Forum in April 2011 that highlighted the many points of view, questions, and considerations of certification. The discussion summary of this event will be helpful to those seeking a better understanding of the pros and cons of certification, credentialing, and standards. A synopsis of the Forum can be found at <http://www.nefe.org/what-we-provide/primary-research/2011-certification-forum.aspx>.

Question 4: Given the five core areas (earning, spending, saving and investing, borrowing, and protecting) identified by the Financial Literacy and Education Commission in 2010, what skills are most helpful for building capability in the areas of spending, savings, and borrowing? What information on these and other topics should the CFPB further develop and disseminate?

The following transferable skills can be applied to nearly every financial topic, including the core areas of spending, savings, and borrowing:

- Set goals that are specific, meaningful, and attainable
- Use a decision-making process that includes establishing criteria and weighing options
- Filter resources (data and advice) for relevance and credibility
- Manage records to track actions and protect personal data
- Plan and monitor activities, allowing flexibility to adjust to changing life situations
- Analyze how personal values impact behaviors

Additionally, a holistic approach to planning and decision-making skills should be considered and integrated in a way that helps build confidence and momentum. For example, NEFE has a resource called My Retirement Paycheck (www.myretirementpaycheck.org) that helps people approaching retirement optimize their retirement decision making. It is based on the belief that whether a person has saved a lot or a little for retirement, they can make the money they do have go further by making wise and informed decisions across several interrelated decision areas. These decision areas—work, Social Security, home and mortgage, insurance, retirement plans, savings and investments, debt, and fraud—work together to affect one's retirement paycheck. Pre-retirees cannot know how much they will be able to pay themselves in retirement without looking at each area, and improving even one area provides gains and momentum in others. For example, if a pre-retiree chooses to work until full retirement age, the decision has positive implications regarding Social Security (a delay in claiming payments results in a larger monthly, inflation-adjusted benefit over one's lifetime), retirement plans (one can increase plan contributions, thereby adding to one's nest egg instead of depleting it too

quickly), insurance (healthcare coverage can be kept longer), and an increased ability to reduce debt. When a person is empowered to make even one beneficial decision, that first win often builds confidence and positive momentum that carries into other decision-making situations.

Question 5: How might CFPB effectively disseminate financial literacy and education resources that will help consumers build the necessary skills to achieve good financial outcomes?

Again, encourage providers to evaluate their programs. In regard to dissemination, the CFPB may want to distribute only those financial literacy and education resources that have been evaluated and found to have impact. By doing so, the CFPB sets a standard—without initiating a mandate or directive—and just those programs that have been rigorously evaluated will be distributed under the credibility of the CFPB. While this is not a tactic or method for dissemination, it does set a precedent that status will be given by the Bureau to those programs that follow the practice of setting objectives and measuring outcomes. Nonprofit financial education programs have access to a vetted and free resource to help them understand and conduct impactful financial education programming with NEFE’s Financial Education Evaluation Toolkit, available at <http://toolkit.nefe.org>.

Financial education can be delivered and consumed in different ways: it can be self-directed or educator-driven through schools, social services organizations, or in workshop settings. All delivery methods should be accommodated within a broad-reaching dissemination plan. NEFE has experience working with other organizations to bring financial education information directly to their clients by training intermediaries to teach and effectively interact with consumers. Many of our financial education programs are delivered through community facilitators and trainers, classroom teachers, and social services case workers.

Educators working in the context of broader dissemination and high-touch methods should know that financial education works best if it:

- Is related to an actual decision.
- Uses adult learning theory. (A NEFE-funded study by Penn State Harrisburg outlines proven interventions and techniques beneficial to adult learners. Also available is a database of effective strategies. Both can be found at <http://www.nefe.org/what-we-provide/primary-research/penn-state.aspx>.)
- Meets the needs of different kinds of learners.
- Is from a trusted source.
- Is convenient.

Question 6: What financial education tools, topics, or practices designed to help consumers improve their own financial decision making lead to measurable outcomes?

An early start is a significant predictor of future financial capability. Early financial education can be taught at home, in community settings, and in K-12 classrooms. Many components of school-based programs also are successful when used within families and communities. The following takes an in-depth look at our experience in what makes school-based financial education effective.

NEFE's flagship financial education program, the High School Financial Planning Program (HSFPP) (www.hsfpp.org), relies heavily on performance-based learning. For example, the following outcomes correspond to each of the six modules in the program: Manage personal spending to meet financial goals and minimize the impact of financial obstacles; control personal credit and debt; boost personal earning capability; put personal assets to work to build personal wealth; use financial services in a sensible and wary manner; protect personal property and financial resources. We know this performance-based approach works because periodically, the HSFPP is independently evaluated for effectiveness. The most recent evaluation was conducted by Sharon M. Danes, Ph.D., at the University of Minnesota. The evaluation summary can be found at <http://www.hsfpp.org/about-the-program/evaluation.aspx>.

Throughout each of the HSFPP modules, students reinforce transferable skills that relate to multiple program outcomes. These outcomes cover many of the topics and practices we believe can improve a person's financial decision-making at any point in life:

- Set financial goals. This applies to individuals as well as families.
- Use a decision-making process to weigh the options and consequences when making decisions surrounding spending, investing, saving, and one's career. Criteria-based decision making is crucial to discern what is most appropriate for one's own situation (i.e. comparison shopping, selecting a financial advisor).
- Analyze how personal values impact spending, saving, and planning behaviors.
- Utilize resources that are credible and timely.
- Manage personal financial records.
- Evaluate situations to adjust as conditions change. Evaluation involves identifying target outcomes, periodically assessing progress towards achieving the outcomes, and adjusting actions when progress is off target or situations change. This includes being aware of "windows of opportunity" such as planning to pay for college or adjusting an investment strategy in preparation for retirement.
- Plan for contingency. Have a back-up plan: whether to establish an emergency fund, keep work skills current in the event of a layoff, diversify investments, or have insurance to cover loss of property.
- Weigh the opportunity cost of any major decisions.

Delivery through schools works best if teachers are trained to improve their own financial knowledge and confidence. The Jump\$tart Teacher Training Alliance (<http://www.jumpstart.org/teacher-training-alliance.html>) uses performance-based learning to achieve the following outcomes:

- Examine how economic trends impact personal financial situations;
- Develop personal finance strategies;
- Identify ways to build wealth through saving and investing;
- Assess how career planning impacts earning power;
- Compare and contrast financial services and products;
- Specify strategies to protect from fraud;

- Consider options when using credit and managing debt;
- Devise plans to minimize financial risk; and
- Explore personal finance resources.

Valuable financial tools include online financial calculators, case studies, what-if simulations, FAQs for specific situations, and one-stop clearinghouses for financial education resources and information. Additionally, we recommend that when possible, financial educators should pre-assess learners to discover a “starting point” for learning, and build in multiple entry and exit points so consumers can build knowledge, skills, and confidence at their own pace.

Question 7: What research in behavioral economics or other academic fields—published or still in process—provides insight into financial education approaches that can help consumers achieve their own financial goals?

Financial capability is a three-legged stool comprised of education (both formal and informal); regulation and consumer protection; and behavioral economics, choice architecture, and defaults. All three play a role in building financial capability, which serves consumers best when multiple approaches are used. However, no one component is a complete answer by itself. I, Ted Beck, presented this concept to the Financial Literacy and Education Commission on October 18, 2012, and it will be included in the President’s Advisory Council on Financial Capability Research and Evaluation Subcommittee’s final report to the President.

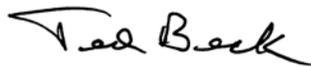
In recent years more and more research studies are supporting the theory that adults learn when the material is approachable and relatable and can be utilized in a way that can be applied in their own context. Adult transformative learning theories are published widely in educational research literature and make the case for using relatable materials and culturally responsive teaching methods. Effective financial education occurs when more than facts and figures are taught; attitudinal and behavior change occurs when financial education is administered continually over periods of time and is cumulative in nature. Emerging research states that teaching concepts such as decision making and planning can have a greater impact on student outcomes—for both K-12 and adult learners. An example of a recent study that supports the notion of cumulative financial education is the Arizona Pathways for Life Success in University Students (APLUS) study available at <http://www.nefe.org/what-we-provide/primary-research/aplus-research-on-young-adults-wave-2.aspx>. In this study, researchers documented a "snowball effect" that showed the early efforts of financial education (in high school and again in college) exponentially increase the likelihood that students will pursue more financial education as time goes on, including informal learning through books, magazines, and seminars.

Finally, an overview of the 25 years of research in financial education can be found at www.nefe.org/research as part of NEFE’s Quarter Century Project. NEFE and project leader Tahira K. Hira, Ph.D., designed the event to bring together leading financial education professionals nationwide to review 25 years of financial education research. This project aimed to build consensus on what is already known; discover what research gaps still exist; strengthen the research capabilities of the personal finance community; and establish clearly defined research goals. The executive summary, as well as papers on themes including Promising Learning Strategies and Delivery Methods; Motivation and

Behavior; Evaluation and Measurement; and Consumer Trends and New Opportunities, can be accessed at <http://www.nefe.org/what-we-provide/primary-research/the-quarter-century-project-25-years-of-research.aspx>.

The National Endowment for Financial Education is prepared to provide more information about any of the resources included in this response. For more information, contact me at TBeck@nefe.org or (303) 224-3504; or Brent A. Neiser, CFP®, Senior Director of Strategic Programs and Alliances, at ban@nefe.org or (303) 224-3501. We appreciate the opportunity to provide this information.

Sincerely,

A handwritten signature in black ink that reads "Ted Beck". The signature is written in a cursive style with a large, sweeping initial "T".

Ted Beck
President & CEO
National Endowment for Financial Education