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# *Financial Capability: Policies and Priorities*

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# Retirement Challenges

- As many as 78 million working Americans – about half the workforce – don't have a retirement savings plan at work
  - Fewer than 10% of those without plans at work contribute to a plan (IRA) of their own
  - Only 42% of American adults have even tried to calculate how much they need to save for retirement
    - Even among those nearing retirement (45-59 year olds), only about half have tried (51%)
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# Retirement Confidence and Reported Behavior

- Only 16% of workers are very confident they will have enough money to live comfortably throughout their retirement years
  - Almost half (46%) are not too or not at all confident they will have enough money to live comfortably
  - 27% of workers have saved less than \$1,000
  - 16% saved between \$1,000 and \$10,000
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# Promoting Saving for Retirement – Treasury Initiatives

- Automatic IRA proposal
  - Expanding the savers credit
  - Expand opportunities for automatic enrollment in 401(k) and other retirement savings plans
  - Make it easier for American families to save a portion or all of their tax refunds
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***“If you work hard your whole life, you ought to have every opportunity to retire with dignity and financial security. And as a nation, we ought to do all we can to ensure that folks have sensible, affordable options to save for retirement.”***

- President Barack Obama

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# Financial capability - key to retirement security

- ❑ **Opportunity and Responsibility**
  
  - ❑ **Administration commitment to financial education/capability**
    - Presidential Proclamation – Financial Literacy Month (Apr. 2010)
    - Executive Order created President’s Advisory Council on Financial Capability (Jan. 2010)
    - White House joined FLEC (Jan. 2010)
    - Annamaria Lusardi as IPA!
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# Our Priorities and Approach

- **Make it evidence-based**
  - **Put it where it works**
  - **Focus it where it's needed most**
  - **Increase access**
  - **Work with state and local governments, private and non-profit sectors**
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# Our Priorities and Approach

- **Make it evidence-based**
  - **Updates:**
    - **Core competencies**
    - **Metrics**
    - **Small dollar consumer loan research**
    - **Mymoney.gov research center**
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# Core Competencies

Core Competency	Knowledge	Action/Behavior
<b>EARNING</b>	<ul style="list-style-type: none"> <li>• Gross versus net pay</li> <li>• Benefit and taxes</li> <li>• Education is important</li> </ul>	<ul style="list-style-type: none"> <li>• Understand your paycheck</li> <li>• Learn about potential benefits and taxes</li> <li>• Invest in your future</li> </ul>
<b>SPENDING</b>	<ul style="list-style-type: none"> <li>• The difference between needs and wants</li> </ul>	<ul style="list-style-type: none"> <li>• Develop a spending plan</li> <li>• Track spending habits</li> <li>• Live within your means</li> <li>• Understand the social and environmental impacts of your spending decisions</li> </ul>
<b>SAVING</b>	<ul style="list-style-type: none"> <li>• Saved money grows</li> <li>• Know about transaction &amp; liquid accounts</li> <li>• Know about financial assets (checking and saving accounts, bonds, stocks, mutual funds)</li> <li>• How to meet long-term goals and grow your wealth</li> </ul>	<ul style="list-style-type: none"> <li>• Start saving early; Pay yourself first</li> <li>• Understand and establish a relationship with the financial system</li> <li>• Comparison shop; Balance risk and return</li> <li>• Save for retirement, child's education, and other needs; Plan for long-term goals; Track savings and monitor what you own</li> </ul>
<b>BORROWING</b>	<ul style="list-style-type: none"> <li>• If you borrow now, you pay back more later</li> <li>• The cost of borrowing is based on how risky the lender thinks you are (credit score)</li> </ul>	<ul style="list-style-type: none"> <li>• Avoid high cost borrowing; Plan, understand, and shop around</li> <li>• Understand how information in your credit score affects borrowing</li> <li>• Plan and meet your payment obligations</li> <li>• Track borrowing habits</li> <li>• Analyze renting versus owning a home</li> </ul>
<b>PROTECTING</b>	<ul style="list-style-type: none"> <li>• Act now to protect yourself from potential catastrophe later</li> <li>• Identify theft/fraud/scams</li> </ul>	<ul style="list-style-type: none"> <li>• Choose appropriate insurance</li> <li>• Build up an emergency fund</li> <li>• Shop around</li> <li>• Protect your identity</li> <li>• Avoid fraud and scams</li> <li>• Review your credit report</li> </ul>

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# Financial Literacy in the Federal Government

- Financial Literacy and Education Commission (FLEC)
  - President's Advisory Council on Financial Capability
  - Treasury Department
  - Agencies, programs, interagency efforts
    - White House Council on Women and Girls
    - Interagency Working Group on Domestic Violence
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# Financial Literacy and Education Commission (FLEC)

## U.S. Department of the Treasury

- Board of Governors of the Federal Reserve
  - Commodity Futures Trading Commission
  - Department of Agriculture
  - Department of Defense
  - Department of Education
  - Department of Health and Human Services
  - Department of Housing and Urban Development
  - Department of Labor
  - Department of Veterans Affairs
  - Federal Deposit Insurance Corporation
  - Federal Trade Commission
  - General Services Administration
  - National Credit Union Administration
  - Office of the Comptroller of the Currency
  - Office of Personnel Management
  - Office of Thrift Supervision
  - Small Business Administration
  - Social Security Administration
  - Securities and Exchange Commission
  - \*\* White House
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# Our Priorities and Approach

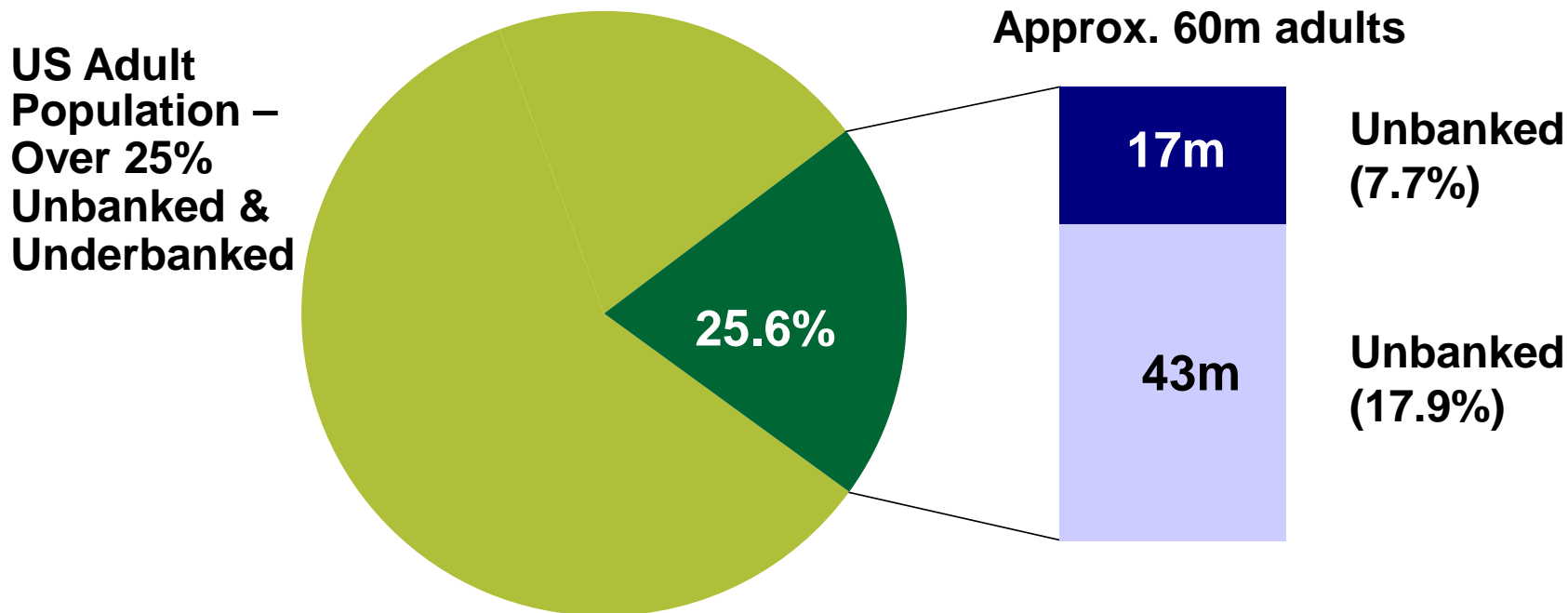
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# Unbanked and Underbanked U.S. Adults



**Unbanked** - Have no bank or credit union account

**Underbanked** - Have a bank or credit union account, but use alternative financial services, such as: non-bank money orders, check cashing, payday loans, rent-to-own, and/or pawn shops



# Why are people unbanked?

(multiple answers allowed)

Not enough money to need an account	72%
Don't want to share personal information	35%
Fees too high	35%
Don't like dealing with banks	34%
Inconvenient hours or location	23%
Banks would not open account	22%

# Who is most likely to be unbanked?

<b>Unbanked Adults</b>	
<b><i>Overall – US adult population</i></b>	<b>8%</b>
<b>African-American</b>	<b>32%</b>
<b>Hispanic</b>	<b>24%</b>
<b>Native American/Alaska Native</b>	<b>29%</b>
<b>Single female parent household</b>	<b>20%</b>
<b>Single male parent household</b>	<b>15%</b>
<b>Household income less than \$30,000</b>	<b>20%</b>
<b>Less than a high school diploma (24.5%)</b>	<b>25%</b>

Source: FDIC 2009 Survey of Unbanked and Underbanked Households

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# Underbanked Populations

- Similar to unbanked populations in many ways
- More middle-income households are underbanked
- Most frequently used alternative financial services are (% of underbanked using):
  - ❑ Money orders (81%)
  - ❑ Check cashing (30%)
  - ❑ Payday loans (16%)
  - ❑ Pawn shops (16%)

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# Financial Access Updates

- Community Financial Access Pilot
  - Small Dollar Consumer Credit Research
  - Bank On program
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***“Our Nation's future prosperity depends on the financial security of all Americans. This month, let us each take time to improve our own financial knowledge and share that knowledge with our children. Together, we can prevent another crisis and rebuild our economy on a stronger, more balanced foundation.”***

**- President Barack Obama,**

Presidential Proclamation, National Financial Literacy Month, April 2010

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# Key websites

- FINRA U.S. Financial Capability Survey
    - [www.finrafoundation.org/capability](http://www.finrafoundation.org/capability)
  - FDIC Survey of Unbanked and Underbanked Households
    - [www.economicinclusion.gov](http://www.economicinclusion.gov)
  - FLEC: [www.mymoney.gov](http://www.mymoney.gov)
  - Treasury: [www.treas.gov](http://www.treas.gov)
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