

NEW AMERICA
FOUNDATION



Financial Literacy

Need, Strategies, Opportunity

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California Assets Forum

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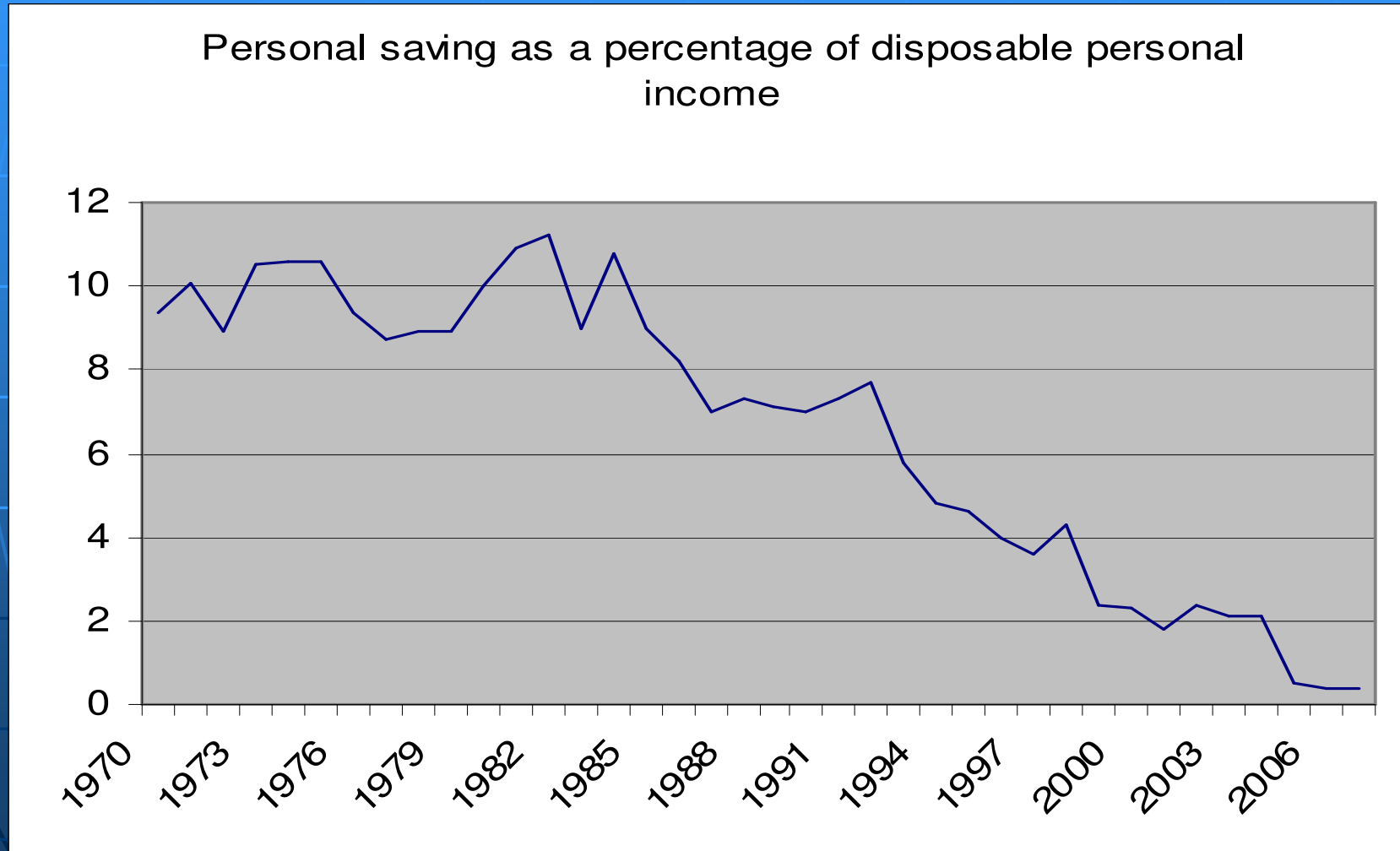
Why We Need Financial Literacy

- Consumer-Driven Financial System
 - Individuals more responsible for their retirement and healthcare planning and saving
- Changing Demographics
 - Less familiarity with system
- Market Innovations
 - More options
 - Complex products
 - Aggressive marketing

What Are the Effects of Lack of Financial Knowledge?

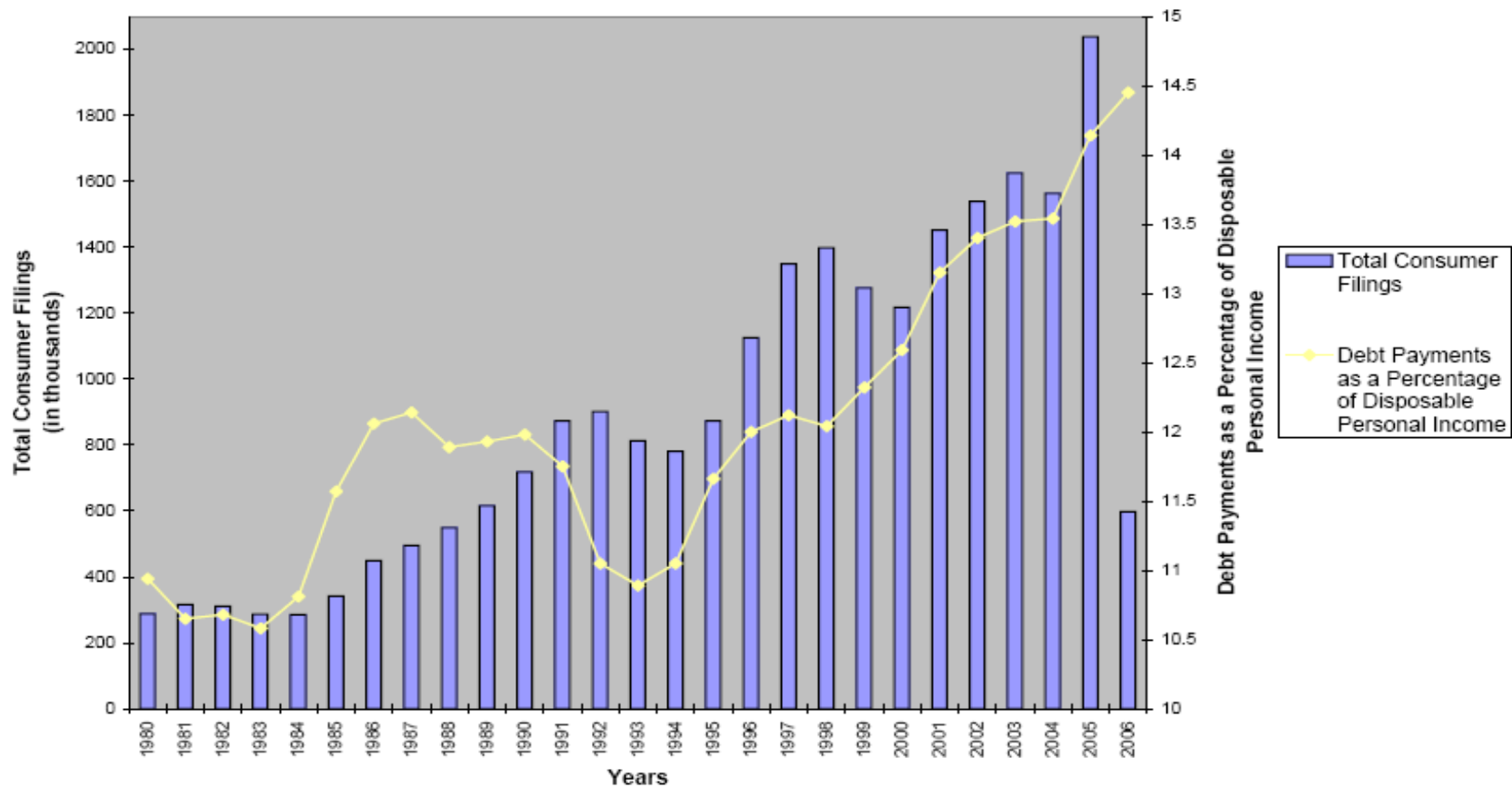
- Little Savings
- Excess Debt
- Badly Structured Debt
- Stress
 - Bankruptcies
 - Foreclosures

The Savings Rate is Almost Zero



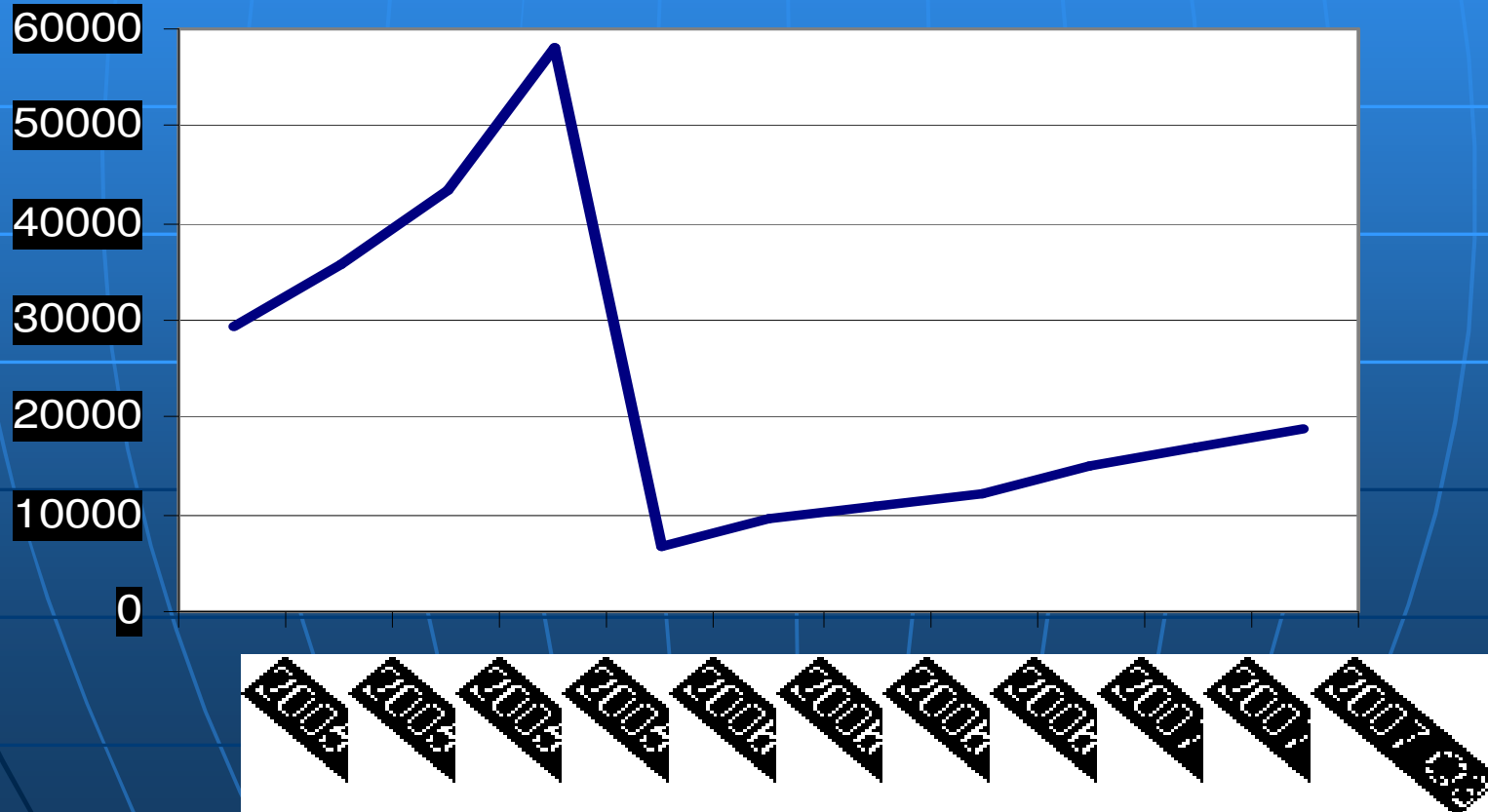
Consumer Debt Is Up; History Says this Means More Bankruptcies

Influence of Total Consumer Debt on Bankruptcy Filings
Trends by Year 1980-2006



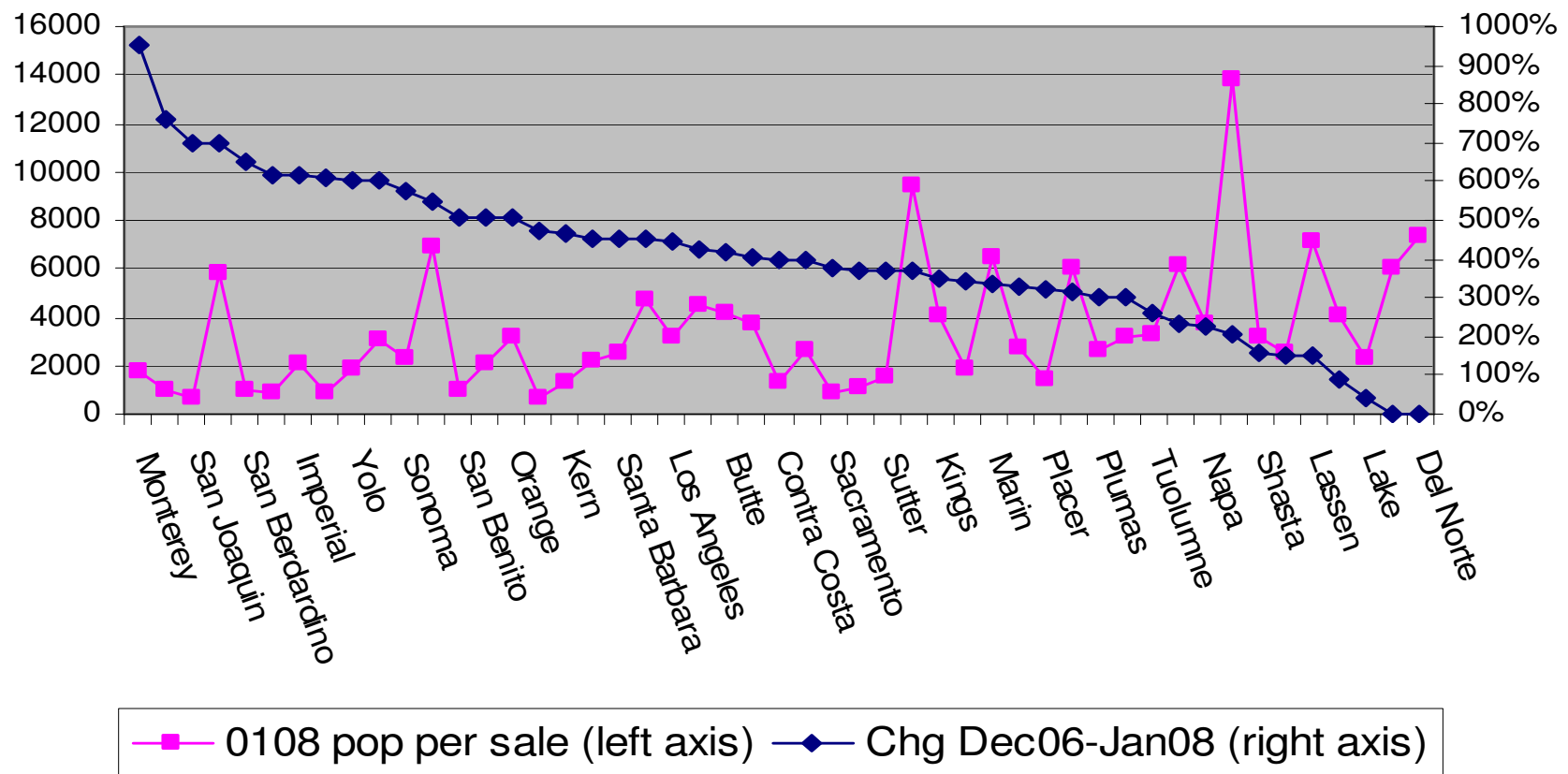
And Indeed, After A Drop, CA Bankruptcy Filings Have Started Up Again

California Bankruptcy Filings



And CA Foreclosure Sales Have Increased Many Times Over

Jan 08 Foreclosures Sales by CA County



Challenges of Financial Education

- Weak consumer demand
 - People don't know what they don't know, often intimidated when they try to learn
- Lack of consistent infrastructure, distribution system
 - Education in school limited
 - Difficulty reaching adults before they are in crisis
- Limited research on effectiveness and strategies to improve effectiveness
 - How do children and adults learn best?

What Do We Know About Effectiveness?

- Education and counseling impacts mortgage default rates
 - Counselors report that those they worked with have generally NOT been victims of the current crisis
- Financial education impacts and enhances savings, in the context of programs and accounts
- Financial education impacts participation in retirement plans
 - Education is only one part of the strategy
 - Making access to and participation in plans easy is also essential

Financial Education and Accounts

- Combining accounts and education generates
 - Active use of accounts
 - Maintenance of balance in accounts
 - Progression to more functional accounts, including investments
 - Demand for increased education
 - Changed, more asset-building, financial behavior

Financial Education Policy Ideas

- Integrated into K-12 education, linked to standardized tests, with funds for teacher training
- Link education to specific needs—“just in time”
- Train advisors in scalable manner
- Enhance ability of low and moderate income households to access quality advice
- Train those who are regularly in touch with low and moderate income consumers
- Expand workplace financial education beyond retirement planning

AB 2123

- State-wide Financial Literacy Initiative
 - Provide Californians the tools they need to manage finances, including web-site and toll-free number in multiple languages
 - Promote high-quality financial literacy programs
- Office of Financial Literacy Advocate
- Financial Literacy Advisory Committee
- Financial Literacy Fund

AB 2123's Financial Services Corps

- Enlist financial experts and advisors to deliver clear, objective, personalized financial counseling and planning to low and moderate income households
- Provide tools, resources and support to local, regional and workplace financial education initiatives
- Collect and analyze data to understand the financial education, counseling and planning needs of target households
- Explore new strategies and approaches to financial education and advice

For Further Information

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