2014 FINANCIAL EDUCATION REPORT

A Review of Financial Education Practices in the United States & Observations on Applications to Immigrant Markets for Financial Services

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PURPOSE

The purpose of this report is to provide a review of financial education practices in the United States; to offer some observations about possible "best practice" in financial education; and to offer some thoughts about the role that financial education services may play in the emerging transnational immigrant market for financial services.

The report is organized around the following material. First, it offers a high-level scan of financial education based on the available literature. Then it provides a set of observations of what might be called "best practice" for a bank focused on particular markets. Finally, relying on 2007 data from surveys of transnational immigrants to the U.S., especially Brazilians, it considers ways to link financial education with bank positioning within this market segment.

> *"To choose wisely from the variety of products and providers available, consumers must have the financial knowledge to navigate today's increasingly complex financial services marketplace."*
>
> **BEN S. BERNANKE,** Former Chairman, Federal Reserve Board

> *"Children, young adults, and even older Americans often have very little preparation for important financial decisions in life."*
>
> **ASPEN INSTITUTE,** Initiative on Financial Security

OBSERVATIONS ON APPLICATIONS TO IMMIGRANT MARKETS FOR FINANCIAL SERVICES

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OVERVIEW: APPROACHES TO FINANCIAL EDUCATION

A literature review of the financial literacy field reveals three basic approaches to developing financial literacy:

KNOWLEDGE ACQUISITION
Learning by receiving useful information (e.g., what are stocks, savings, checks, investments) from a curriculum.

SKILL DEVELOPMENT
Learning by practicing how to perform certain financial management tasks such as making a household budget, keeping a checkbook, buying stocks.

EXPERIENTIAL IMMERSION
Learning by doing real-world tasks under guidance, such as investing small amounts in the stock market.

These three approaches tend to be used for different "market segments" of learners by different types of providers.

Knowledge acquisition is mass education for the general youth market; school teachers, nonprofits, volunteer financial professionals, and even faith-based organizations provide students with the information "that everyone should know."

Skill development is training and other practice-based methods often targeted to specific consumer segments, such as low-income households that want to obtain a government or philanthropic grant to help purchase a house or start a savings account, or who are in a position to claim a special tax credit, but need certain financial management skills so they can obtain the credit. Often it is nonprofit organizations that provide training to these households. A variation is employer-driven education in employee benefits such as 401k retirement plans.

Experiential immersion is a set of experiences usually provided within a family—parents, for instance, set up real-money, financial management "learning opportunities" for their children—and typically is a middle- and upper-middle class approach. Experiential immersion recognizes that financial literacy is not just about knowledge and skills, but also about values—the meaning we ascribe to money.

Several observations may be made about "best practice" in these three approaches:

- ✓ For a person to develop strong financial literacy, no single approach is sufficient; all three approaches should be integrated: knowledge, practical skills, and real-world experiences.
- ✓ These approaches tend to ignore an additional element of successful financial management by individuals or families: the use of a wide range of professional service providers—investment brokers, mortgage brokers, and accountants, for instance—for financial management activities.
- ✓ The financial education curricula we reviewed said little or nothing about charitable donations, even though philanthropic activity is an important element of personal financial management in a great many households, including those with low incomes.
- ✓ Although financial institutions may have an interest in improving the general financial literacy of people (strong markets need smart consumers), investments in upgrading the financial literacy of targeted market segments can enhance an institution's market position.
- ✓ Investments in developing financial literacy that are targeted to specific market segments should be customized to address the prior knowledge, needs, and the "learning style" of people in the segment.

For instance, immigrant populations in the U.S. are a specific target market for financial services and they can be further segmented. Large numbers of immigrants are "un-banked." They may be low-income; use money-transfer entities to send remittances back home; have little connection to financial institutions in their countries of origin; be uncomfortable transacting with financial institutions and/or in English; and so on. However, studies show, other immigrants send remittances and have bank accounts (checking, savings, credit cards, and/or loans). And, as we'll see, still other immigrants consume a wide range of financial services in both the U.S. and their country of origin. Each of these broad market segments may benefit from very different approaches for developing financial literacy.

Financial education seeks to help individuals and families to develop the competencies—knowledge, skills, and experiences—they need to make informed choices about money management and take actions that improve their financial well-being.

WHAT IS FINANCIAL EDUCATION?

DEFINITIONS

The first comprehensive study of financial literacy education in the U.S., completed in 2000, offered this description of the competencies:

> *Personal financial literacy is the ability to read, analyze, manage and write about the personal financial conditions that affect material well being. It includes the ability to discern financial choices, discuss money and financial issues without (or despite) discomfort, plan for the future, and respond competently to life events that affect everyday financial decisions, including events in the general economy.*[1]

It is generally assumed that people who don't understand the differences in credit terms and conditions, savings and investment options, or tax and other financial matters will have difficulty making good choices. The same is true if they cannot compare and evaluate complex contractual and enrollment terms, are not aware of what rights they have under such agreements or plans, and do not know how to request clarification or register objection when and if necessary. This is particularly the case for low-income individuals with long dependence on transfer payments from the government. Many financial education programs for this population describe their goal as helping people transition from dependence to self-reliance in personal finances.

Financial education is referred to by many names: investor or investment education; economic education; financial education; savings education; pension education; personal finance employee education; workplace financial education; consumer education; consumer finance protection education; money management education; retirement savings education; and retirement education. Some financial education programs no longer describe themselves as addressing financial "literacy" and instead call themselves "financial empowerment" programs. This is because, as one program explained, "clients who felt that the term 'financial literacy' implied that they were lacking in some way, but that 'financial empowerment' implied the more positive image of taking charge of one's life."

In the U.S., financial education emerged from the consumer protection movement in the 1960s and expanded rapidly in the 1990s. The concept of financial literacy, a standard for competence in personal financial management, developed. In 2000, the American Association for Retired Persons (AARP) promoted the idea that, "A financially literate individual understands his/her relationship to money, and can read, discuss, and communicate about personal financial issues. He or she possesses knowledge of banking and credit, practices money management, understands risk and the need for protection against unforeseen

1 *"Personal Finance and the Rush to Competence: Financial Literacy Education in the United States," a study funded and published in 2000 by the Fannie Mae Foundation.*

emergencies, plans for major life events, and saves and invests for the future."

At the same time, many analyses suggested various reasons that many millions of Americans, particularly youth, were not financially literate. Some blamed parents for not teaching their children financial concepts. Others argued that public education spent too little time teaching "life skills" such as personal financial management. Researchers noted that people with low reading and writing abilities also tended to have low financial literacy. More recently, some pointed to the growth of foreign-born households in the U.S. population as an additional factor. Many immigrants are unfamiliar with U.S. financial practices and/or are discouraged about establishing financial relationships with institutions because of their low income, lack of English language, or discomfort with banking processes. (As a result, they may use more expensive alternative providers to conduct basic transactions such as cashing checks and obtaining payday loans.)

It's worth noting that financial illiteracy is not confined to the U.S. A 2005 study by the Organization for Economic Co-operation and Development (OECD) found, among other things, that most Australians said they understood the concept of compound interest, but only 28 percent could solve a problem using the concept; British consumers did not actively seek out financial information; Korean high-school students answered fewer than 60 percent of questions correctly on tests about choosing and managing a credit card, knowledge about savings and investing for retirement, and understanding risk management and insurance.[2]

In the U.S., a massive field of providers of financial education has grown up; especially since 2000 the number of skilled financial professionals available to teach has increased substantially. The U.S. federal government and many state financial regulators have been extremely active in promoting financial education. In May 2006 testimony to the U.S. Congress, Ben S. Bernanke, chairman of the Federal Reserve Board at the time, cited dozens of financial education programs that the federal reserve system alone has initiated. In addition, a 2003 survey found 38 states had personal finance standards or guidelines for public education; 21 states had standards that require them to be implemented; 8 states required a course with personal finance content; 7 states required students to take a personal finance course to graduate.[3] A survey by the Consumer Bankers Association found that 46 of 48 retail banks reported contributing to financial literacy efforts, as a way to expand their customer base and promote goodwill in their communities and receive favorable consideration from regulators for compliance with the Community Reinvestment Act (CRA). At the same time, in some communities, advocacy groups have negotiated with banks to have commitments to financial education be a part of CRA agreements. [Please see "Resources" section for description of some of the major providers.]

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2 *Hecklinger, Richard E. Deputy Secretary-General of the OECD speaking January 9, 2006 at The Smith Institute, London reported in New Statesman, June 5, 2006.*
3 *National Council on Economic Education, 2003*

A 2005 study by the AARP found that since 2000 more organizations have "joined coalitions, commissions, partnerships, and other active organizations to provide nationwide networks of resources, research, staff, and educational materials to provide a wide variety of financial education offerings to Americans at every age and socio-economic level." At the same time, the AARP noted, "An almost mirror-image of these efforts has occurred in cyberspace, as Internet financial education has become widely available, and largely free of cost, to anyone interested in tapping into this vast financial information and education network."[4] Today, the AARP concluded:

> *Financial education is on the nation's drawing boards all along the spectrum of consumer income and age levels—from childhood to later life. It can be found on the Internet in the privacy of homes, in boardrooms and workplaces, classrooms and summer camps, and in the meeting rooms of faith-based and other community organizations. Financial teachers and counselors are becoming credentialed in college aid offices, the U.S. Military, credit counseling agencies, employee assistance programs, social work, health care programs, women's centers, homeless shelters, and prisons. Financial information is widely available on TV, in books, magazines, and elsewhere in the popular press.*[5]

MEASURING RESULTS

There are two basic ways to measure the results of financial education programs. One measures change in the financial literacy of individuals—what they know or know how to do. The other measures change in the financial behavior of individuals—what they do.

By most reports, the results of financial education are a mixed bag. More people are financially literate, but a great many people—tens of millions—still are not. Some of these people cannot take advantage of the abundance of Internet-based information, because of their low reading skills. Many others simply don't sign up for educational programs, as AARP noted in 2005: "Problems still exist in takeup rates of educational offerings. In our former study, we suggested that programs should be targeted to specific populations and marketed vigorously. Despite recent initiatives and the personal financial education programs that are being formed to help consumers, many people are failing to take advantage of such education."[6] At the same time, some research shows that students may not know much more after taking typical financial education courses.

The Jump$tart Coalition surveys high school seniors every two years, calculating scores from a 31-question, age-appropriate multiple choice test that examines a student's ability to make financial decisions. In 2000, the average financial literacy scores of high school students were 52 percent, and in 2004, scores were still a disappointing 53 percent.

There are some signs that financial education leads to changed financial behavior, but not nearly as much change as the financial education movement seeks. There is evidence, for instance, that employees were more likely to contribute to their 401(k) retirement plans when their company offered financial education about retirement.

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4 *Lois A. Vitt, Gwen M. Reichbach, Jamie L. Kent, and Jurg K. Siegenthaler, "Goodbye to Complacency: Financial Literacy Education in the U.S. 2000-2005," (AARP: 2005), Institute for Socio Financial Studies, Middleburg, VA, USA, pp. 6-7.*

5 *Ibid, p. 7.*

6 *AARP study, p. 110.*

A 2003 University of Michigan study cast doubt on the causal linkage: although students of financial education knew more about cash-flow management and other practices, it was not clear that this knowledge caused them to change their financial management practices. There is also evidence that high school students who take a course in money management may increase their savings even though tests showed little improvement in their knowledge about personal finance. This raised questions about the way that financial knowledge causes or doesn't cause financial behaviors.

The AARP 2005 study concluded that education focused on knowledge building alone did not necessarily lead to actions.

> *The hope of most financial education sponsors is that when people are given more financial knowledge, they will choose to be prudent when making spending decisions. They will plan ahead, save more for retirement, and engage financial service professionals to help them navigate the maze of investment choices that confront them. This hope often does not square with the evidence.*[7]

7 *AARP study, p. 111.*

THE KNOWLEDGE ACQUISITION APPROACH

The knowledge acquisition approach is based essentially on curriculum—a framework for the information that people need to be financially literate. A great many curricula are in use, developed by many different sources. And different curricula are aimed at different audiences—young children or high school students, for instance—and are based on different literacy achievement levels. Many curricula, lesson plans, and resource kits are available on the Internet. In addition, some curriculum promoters use special events and other gimmicks to build public awareness and use of their materials. Since 1997, for instance, the American Bankers Association has promoted a National Teach Children to Save Day held annually in April. On this day, thousands of bankers across America visit K-12 classrooms and present the program using age-appropriate concepts and activities.

CURRICULUM FRAMEWORKS

Although we have not conducted an exhaustive study of curricula, the main framework of information modules typically includes some or all of the following:

- The Importance of Financial Management
- Basic Financial Management Concepts:
- Money (Income, Spending, Cash Flow, Savings, Credit, Investment, Assets, Risk Management, Insurance, Taxation, Bankruptcy)
  - *Personal/Family Finance*
  - *Business Finance*
  - *Financial Institutions*
  - *Stock Markets*
- Using Financial Services and Tools
  - *Keeping Personal Financial Records*
  - *Budgeting Personal Finances*
  - *Personal Financial Planning*
  - *Saving Money*
  - *Borrowing Money (credit)*
  - *Checking Accounts, Credit Cards, Debit Cards*
  - *Home Buying and Home Owning*
  - *Paying for Education (e.g., College Tuition)*
  - *Investing*
  - *Insurance (Health, Automobile, Life)*
  - *Retirement Accounts*
  - *Predatory Lending and Financial Scams*
  - *Electronic Banking*
- Establishing Financial Management Relationships
  - *Banks*
  - *Investment Brokers*
  - *Accountants*
  - *Money Transfer Companies*
- Career Opportunities in Financial Services Professions
- Training for Financial Education Providers

A different approach to framing, taken, for instance, by the accounting profession, organizes financial management around "life stages," identifying different financial knowledge and tools needed at different points in one's life—from childhood to college, parenthood to retirement. It also provides information for population segments, such as women, business owners, or military personnel. At www.wife.org, women can find financial information focused on their situations and concerns. The main sections of this website include: Your Money, Investment and Saving, Retirement, Budgets and Planning, Tax Talk, Money Clubs, Family Matters, Features, Resource Center, Facts about Women, Do Something Financial Education curriculums (K-12), Financial Education Game, and an e-newsletter. Readers can sign up for the WIFE e-newsletter and 21 Day Makeovers.

STANDARDS FOR INFORMATION MATERIALS

Developers of curriculum materials such as resource kits recognize certain standards for their products. Materials should be:

- Easy to use by the professionals, teachers, and other "instructors" using them, and be expressed in language appropriate for classrooms.
- Useful to teachers and linked to other curricular goals, such as math education and reading/writing literacy.
- Sensitive to varying income levels and cultural groups.

INTERNET DELIVERY

As mentioned earlier, websites for financial education have proliferated. This increases access to educational information, but it is not clear that as a result the financial literacy of users is improving. The AARP cites a study that examined the relationship of e-banking services and the extent to which families using Internet technology are better financial managers compared to those who do not. A significant but small positive effect for technology users was found. "The question remains, however whether e-banking and other technological advantages of the Internet leads to better financial management, or whether good financial management practices lead to the adoption of Internet technologies."[8]

Some financial service providers also provide financial education information on their company websites. In 2004, for instance, Citigroup committed $200 million over 10 years to support financial education programs and organizations worldwide. These are essentially marketing efforts, and financial education experts often criticize the sites for providing little objective education and a great deal of marketing. "Consumers wanting to learn about personal finance will be disappointed with this type of website," wrote the AARP report.[9]

8 *AARP study, p. 81.*
9 *AARP study, p. 82.*

LIMITS OF KNOWLEDGE ACQUISITION

Knowing about something like credit or savings is not the same as knowing how to save or borrow, nor does it necessarily provide motivation to save or borrow. Knowledge often is power, but sometimes it is just knowledge. It's not clear that just giving people more information about financial management changes their behaviors, or under what conditions it has an effect. After reviewing numerous studies of this question, the AARP concluded in 2005 that knowledge acquisition alone is not enough. One's personal financial management is also determined by beliefs, attitudes, and values, as well as other factors. A similar conclusion was reached by the OECD's examination of worldwide financial literacy: "Financial education programmes are not the only approach to helping people manage their financial futures. Research in behavioural finance has shown that powerful psychological and behavioural traits such as inertia and lack of will-power reduce the effectiveness of financial education programmes."

THE SKILL DEVELOPMENT APPROACH

Watching or hearing about a soccer game is one way to gain knowledge about playing soccer. But practicing dribbling or heading the ball is the way to learn how to play. In the practicing, you develop the skills needed to play. In financial education, skill development—practicing and role playing—comes through several mechanisms: Training, Simulations, Contests, and Calculators.

The financial management skills that are often developed are:

- Avoiding money drainers (check cashing operations, rent-to-own stores, predatory lending)
- Reducing debts
- Developing strategies to cut expenses (plug spending leaks) and increase income
- Determining ways to save money
- Recognizing the range of saving options
- Calculating interest
- Using the Individual Development Accounts to build assets
- Keeping records
- Establishing or repairing credit
- Using credit
- Ordering and reading a credit report
- Opening financial accounts
- Reading statements from financial institutions
- Managing a checking account
- Using electronic banking services
- Calculating net worth
- Determining insurance needs
- Reading a paycheck—the difference between gross pay and net pay
- Identifying tax obligations
- Filing for Earned Income Tax Credit (EITC)

TRAINING

Training involves learning and practicing specific financial management skills, rather than learning a whole curriculum of financial management. It is targeted and practical, usually focusing on skills that the participants—usually adults—want to develop to meet their financial management goals. (Training is often combined with the knowledge-acquisition course approach.)

A trainer is not a teacher; the role is different, explains one guidebook about literacy training: A teacher is thought to "possess all the essential information" and "fills" the minds of students who passively absorb the information. Trainers, on the other hand, "pose thought provoking questions that lead adult learners toward their own solutions." Trainers use workshops, rather than courses with many sessions, to facilitate learner-focused processes—and they may or may not be experts in the subject matter. Workshops are scheduled for adult convenience, often in the evenings or on weekends.

SIMULATIONS AND CONTESTS

One form of practice to build skills is the simulation, in which participants act as though they are in a real-world financial management situation. The Stock Market Game, developed in 1977 by the Securities Industry Foundation for Economic Education, is a contest in which teams of school students invest a hypothetical $100,000 in common stocks on the U.S. exchanges. For 10 weeks teams conduct research, choose stocks, and manage their portfolios—then the teams with the greatest gains win (real) cash prizes. Several million students participate in the "hands-on" game every year. Most of them start off knowing nothing about stock markets, but are attracted to the potential to win prizes. Teachers report that the game is an effective way to teach students about the U.S. economy and current events that affect stock value. However, some teachers and financial educators also express concern that the game's structure promotes excessive risk-taking in stock selection and excessive trading of stocks rather than long-term investing principles.

The Stock Market Game is a simulation that also is a contest. Another type of contest is the "Fed Challenge," an academic game operated by the Federal Reserve System. Five-member high-school student teams play the role of monetary policy makers. "The competition hones students' analytical and presentation skills, while expanding their knowledge of economic principles," said Ben Bernanke, the former Federal Reserve chairman who twice judged national finals of the competition.[10]

CALCULATORS

Calculators allow users to analyze specific financial management situations, such as the total cost of purchasing and financing an automobile versus leasing the car. These interactive tools—the user plugs figures and assumptions into the calculator model—are widely available at websites. The Center for Financial Learning, for instance, offers more than 100 calculators for child expenses, life insurance, taxes, and many other categories at **www.FinancialLearning.com.** The calculator's analysis provides users with a starting point for decision making.

10 *Ben S. Bernanke, Financial literacy," testimony before the U.S. Senate Committee on Banking, Housing, and Urban Affairs, May 23, 2006.*

When people learn financial management by actually managing money, they are immersed in a hands-on experience with real money and real consequences. They acquire the "micro" knowledge and develop the "micro" skills they need to deal with the problems and decisions they face. And because they are using real money with real consequences, their decisions reflect their attitudes and values about personal finance. For consumers of financial services, personal experiences were the most important source of information about personal finances, according to analyses of the University of Michigan's Surveys of Consumers in 2001. Family and friends also counted as important sources.

Among the mechanisms for experiential immersion are Small Financial Accounts, Counseling, and Family Immersion.

THE EXPERIENTIAL IMMERSION APPROACH

SMALL FINANCIAL ACCOUNTS

Imagine if the parents of every new-born child opened a savings account for the baby—depositing $500 at the beginning, matched with funds from the government and philanthropic sources; adding money regularly so the account grew over the years with more than interest income; and insisting that the child had to reach the age of 18 before using any of thousands of dollars that accumulated. Such small-fund accounts could be unique, experience-based vehicles for effective financial education of the children who were account-holders and their families

The Aspen Institute's Initiative on Financial Security (IFS) describes four ways that a child account can prepare children and young adults for financial decisions in life:[11]

- Child accounts make the learning process real. "Child Accounts provide a hands-on opportunity for teaching financial literacy to both children and their families. Instead of learning about money in the abstract—which research has not yet shown to be effective—children can watch their accounts grow over time and develop a personal stake in their long-term financial security."
- Child accounts start the learning process at an early age. "Saving, like every other good habit, is best learned at a young age, and an earlier start on saving instills a saving mindset that can persist throughout life."
- Child accounts connect the child's family to private sector providers and financial education material. "These materials will help families understand the value of regular contributions and the power of compounding – and will facilitate the policy's hands-on approach to financial education."
- Child accounts can be a part of public education for financial literacy. "Since every child will have an account, the education system could incorporate some element of financial education into the curriculum, similar to the U.K.'s national "Money Week" each year for all 7 year-olds. The policy can also leverage the expertise of existing organizations that have successful financial education programs and strong connections to specific communities."

These points capture the essence of the experiential approach. It is real-world and, therefore, more interesting than "book learning." And because

11 *Aspen Institute, "The Initiative on Financial Security."*

it is real-world, it connects the learner to the systems of this real world, not just the classroom.

In the United Kingdom, the Child Trust Fund has provided such accounts for children for several years. A UK Treasury official, Ivan Lewis, described at a 2006 OECD roundtable discussion the way accounts lead to financial management learning:

> *I met four mothers recently... [they] talked very eloquently about their Child Trust Fund vouchers. The vouchers have got them to think a little bit about finances, because there is a challenge in terms of converting those vouchers into accounts. But, more profoundly, they have started thinking about what they want for their kids, their ambitions, their aspirations, and about their kids having better life chances than they had. They saw the Child Trust Fund as being very, very important, particularly when I explained that there is a second payment at seven and, we hope, further investments later. I explained that parents, grandparents and friends had the opportunity of topping-up those accounts.*

Other types of small financial accounts that can be used to create "teachable moments" in financial management are the "savings club," a traditional activity, and "micro lending," a fairly new innovation in the U.S. In savings clubs, individuals and families start savings accounts, with no- or low-balance requirements, and receive information and planning support from local non-profit organizations and professional financial service providers (see, for instance America Saves, a nationwide saving campaign involving more than 1,000 organizations). They may also join other club members in learning about saving and supporting each other's efforts. In micro lending, a bank credit program developed in Bangladesh, a group or "club" also figures prominently. Families or individuals who know each other are offered very small loans by a bank, but they cannot obtain more funding until the loan has been repaid. This creates peer-to-peer support and pressure to repay loans.

FINANCIAL COUNSELING

Counseling often goes hand-in-hand with Small Financial Accounts. One-on-one counseling involves an expert providing advice to an individual or family about pending financial management decisions. The advice amounts to financial education—just-in-time training in a real-world situation. While many consumers of financial services might pay for a professional to provide the advice, or use their network of friends to find someone who would advise for free, many low-income families can access no-cost counselors. And if they are enrolled in a government or philanthropy program to build assets, such as savings or home ownership, they may be required to participate in counseling programs.

Because counseling occurs as individuals approach financial management decisions, it can have a strong effect on their behavior. One study of 40,000 mortgages targeted to low-income borrowers found that counseling before the purchase of a home reduced 90-day payment delinquency rates by 19 percent. Another study found that one-on-one credit counseling for 14,000 people helped them to reduce, over a three-year period, their debt and delinquency rates.

Workplace counseling, particularly about pensions, 401(k), and other retirement issues, is standard fare in many corporations. Homebuyer counseling is widely available now. Pre-purchase counseling has long been a way of preparing and qualifying prospective homeowners—particularly those who have low income, inadequate savings, or impaired credit histories—for the financial responsibility of a mortgage. Many affordable-housing programs include a financial literacy component, with such training generally addressing debt management, budgeting, and saving. Neighborhood Housing Services, a subsidiary of the Neighborhood Reinvestment Corporation (NRC), was one of the first community-based affordable-housing programs to institute this practice, providing homebuyer counseling to tens of thousands of people.

More recently, government- and philanthropy-funded programs to help low-income households build savings in Individual Development Accounts (IDAs) have used financial counseling to help participants develop strategies for increasing their savings, including preparing a monthly family budgeting, avoiding predatory lenders, and taking advantage of the Earned Income Tax Credit. For some participants, the real-world learning has staying power. "Accountholders… highly value the information about cutting expenses, getting out of debt, avoiding financial scams, and investing for the future," reports the Corporation for Enterprise Development, a leader in the emergence of IDAs. "While the offer of matching funds [from government and philanthropy] may be what draws people into the program, accountholders consistently tell us that the financial education is what changed their lives."

FAMILY IMMERSION

Experiential immersion in financial education was the theme of an article, "12 Ways to Make Your Kids Financially Savvy," in The Wall Street Journal in late 2007.[12] Columnist Jonathan Clements described the methods he had used to help his two children learn how to handle finances, among them:

- Giving them choices between spending and saving money. "When my children were young and we went to restaurants, I would give them a choice: They could have a soda or they could have $1. [They] ended up drinking a lot of water."
- Every quarter, putting their pocket money and clothing allowance into a savings account. "That way, they've had to learn to budget for a three-month period."
- Creating a small mutual fund account for each child. "I have continued to show them their mutual-fund statements as they arrive in the mail, and my kids have grown more interested as they have grown older. They have also become more curious about financial markets, and I can now chat about investing for at least 30 seconds before they reach for their iPods."

More important than the particular mechanisms Clements used were the values he was trying to instill in his children, such as delaying gratification; the benefits of saving money; the virtue of thrift; and being suspicious of

12 *Jonathan Clements, "12 Ways to Make Your Kids Financially Savvy," The Wall Street Journal, December 17, 2008, p. R1, R3.*

opulence. One's values are an important part of financial management decision-making, as the AARP noted it heard from many participants in financial education: "Traditional values—getting ahead, having a job with a future, setting goals, becoming a homeowner, having a secure later life, getting a second chance, giving back to the community—were mentioned by many of the program participants we interviewed."

OBSERVATIONS

Our review of the financial education field allows us to offer several observations about what might be called "best practice" for a financial institution interested in supporting financial education as part of its contribution to the financial industry and as a market positioning strategy for the institution.

INTEGRATING THE EDUCATIONAL APPROACHES

There is strong demand among consumers for financial education—but it is highly specific to certain topics. Large majorities of the teenagers responding to a Charles Schwab survey, for instance, said they want to learn how to make their money grow, pay their bills, stay out of debt, and be financially self-reliant. But consumers also want the information delivered in ways that suit their learning styles and are at their convenience.

For a person or family to develop strong financial literacy, no single approach is sufficient; all three approaches should be integrated: acquisition of knowledge, development of practical skills, and immersion in real-world experiences all contribute to financial literacy. Knowledge- and skill-building are insufficient because they don't engage the learner in real-world decision making with consequences. But real-world decision making requires knowledge and skills targeted to the specific decisions to be made.

ENGAGING FINANCIAL PROFESSIONALS

Although many financial education programs use professionals from financial services as volunteers to teach and train people, the financial education approaches do little to prepare individuals and families to work with these professionals—the investment brokers, mortgage brokers, and accountants, for instance, whose services may be essential to one's financial management. Any uninformed first-time user of professional financial services is likely to experience substantial confusion about how to most effectively purchase and use the services. Service providers in effect become "teachers" of their customers, but they also have a stronger interest in making sales to the customers. The AARP study found that planners of programs preferred instructors with academic or counseling backgrounds; participants in the programs "strongly dislike" being sold financial services or products by instructors.

BEING PHILANTHROPIC

Many people give money to their church, nonprofit organizations, favorite causes, or to philanthropic entities such as community foundations, yet the financial education curricula we reviewed said little or nothing about charitable donations. Philanthropic activity is an important element of personal financial management in a great many households, including those with low incomes. Financial education should include information about charitable giving.

POSITIONING IN MARKETS

Financial institutions and professions promote financial education because it is good for their industry and because it may strengthen their strategic positioning within a market, if their educational efforts engage and help existing or prospective customers, as well as raise their profile in the community.

Financial institutions do not need to reinvent the wheel when it comes to financial education curriculum and skill development—there are many industry-based providers already active and willing to partner. At a minimum, an institution can refer customers and prospective customers to some of the financial education websites already in existence. At a more intense level of activity, financial institutions can partner with nonprofit organizations and financial professionals that provide financial education to targeted populations. These organizations and professionals are more likely than the financial institution to be able to establish trusted relationships with the populations. These types of partnerships, according to the Woodstock Institute, "work well because both parties bring different areas of expertise to the table. The principal strengths of community groups in offering financial literacy training are their keen understanding of the specific needs of their constituents and their ability to tailor programs to fit those needs. Without partnerships with community groups, many banks are not experienced in dealing with the unbanked population."

A financial institution may have an interest in improving the general financial literacy of people. However, segment-targeted investments in developing financial literacy should be customized to address the existing knowledge and skills, needs, and "learning styles" of people in the segment.

The market of immigrants who need financial services is growing rapidly due to greatly increased migration into the U.S. and the growing income and assets of immigrants. And, increasingly, financial institutions are seeking to position themselves strategically to capture this market. A number of banks, for instance, are branding themselves as providers for Hispanics and customizing services accordingly. Some new equity funds for business development are also targeting immigrant markets (e.g., venture capital for Hispanic-owned businesses). In fact, segmenting the immigrant market by ethnic identities (e.g., Chinese, Hispanic, and Arabic) is a conventional approach to financial services targeting.

But a financial institution seeking to capture underserved or "un-banked" immigrant customers faces well-known barriers: they may not be familiar with U.S. financial practices; they may be discouraged from seeking banking services by language, educational, or cultural issues; they have relatively small incomes and therefore have few resources for saving, investment, or acquiring credit; and they have either no credit history or a weak credit history.

DRILL DOWN: TRANSNATIONAL IMMIGRANT MARKET FOR FINANCIAL LITERACY

However, a 2007 survey of Brazilian immigrants in Massachusetts[13] suggests that a segment of the immigrant market known as transnational immigrants—people who reside in the U.S. and are financially active in their home country—has a very different profile from that associated with the typical immigrant when it comes to personal financial management. The survey of about 250 Brazilians living in Massachusetts who send remittances to people back in Brazil found that:

- 55% earned more than $30,000 per year
- 11% owned their own home
- 83% sent remittances at least once a month; 48% said they have been sending remittances for at least four years
- The amount remitted is about $1,000 per transaction (mean)
- Less than 20% of remitters use the remittance company for other financial services, mostly money orders
- Location was the single largest reason for selection of a remittance company (63% said the location was in walking distance), followed by "spoke native language" and convenient hours/days of operation
- 92% said they preferred to send remittances to the recipient's bank account
- 66% said they would be interested in contributing a small portion of their remittances to a "development fund" to help members of their immigrant community get better jobs, education, and services. Of these respondents, 42% said they might contribute 1% of their remittances, 20% said they might contribute 2-5% of their remittances
- 70% reported they had a bank account in the U.S.
- Of those without a bank account, most said they did not have the necessary identification papers or did not need an account

13 *Survey sponsored by the Innovation Network for Communities, www.in4c.net.*

- 30% said they had both credit and debit cards; 35% had debit cards only; 4% had credit cards only
- Credit card holders estimated they charged about $700 a month on cards
- About 8% said they made house payment loans; 5% paid car loans
- 36% reported having a checking account in Brazil; 32% had a savings account; 7% had a credit card; 10% had a student loan in Brazil; 7% had a mortgage in Brazil; 4% had a pension plan in Brazil
- 36% said they helped their families and friends in Brazil financially beyond sending remittances—16% helped with real estate loans; 13% with other investment-oriented finance
- 12% said they contribute to "hometown associations" that help in the home country

Much of this data is similar to data collected from surveys of Latino immigrants in the U.S. from other nations. Examination of the Brazilian data suggests that a large number of immigrants who remit have sufficient income to manage (beyond using it for consumption) and, in both the U.S. and Brazil, routinely use financial services such as saving and checking accounts, debit and credit cards, and various types of loans. This is quite different from the typically assumed profile of immigrants. Moreover, these transnational immigrants are obtaining financial services in two distinct countries with different financial regulatory regimes, markets, providers, products, and services, and they are continuously making financial choices about which country's financial system to use. They do much more than simple remittance transactions.

Transnational immigrants are different immigrant customers with unique financial service needs. They face barriers to effectively investing and building their capital. First, the two countries have different financial systems in which the rules and institutions, the product and service offerings, the taxation models, and the "culture of money" are different. Second, the countries have fluctuating currency value and exchange rates. Third, the countries present investment opportunities that are difficult to compare with each other. Several hypothetical examples show some of the challenges:

- A Brazilian living in Boston decides, under pressure from family members back in Brazil, to purchase land in his Brazilian hometown for a potential retirement home for himself in 15 years. Was this a wise investment? The real estate market in his home community is relatively weak and generally risky. Would he have done better financially, for instance, by purchasing Certificates of Deposit in the U.S., letting the interest accumulate for 10 years without financial risk, and then using his funds to purchase hometown property much closer to his retirement time?
- A transnational married couple from Brazil and Canada, but living in the U.S., conducts business in those three countries. What are the most advantageous ways for them to handle the national "location" of various household financial accounts and asset ownership? What is the best way for them to move income, savings, and investments across borders? If their children are born in the U.S., what are the tax consequences when their parents die?

With these examples in mind, it seems that transnational immigrants may have use for financial education that:

- contains comparative information about the financial system they know in their home country with that of the United States;
- develops more sophisticated skills than the basic checking, savings, and credit skills, since they may already have those skills; and
- provides real world counseling for financial decisions that are transnational.

This is quite a different "package" than the financial education typically offered to immigrants to the U.S., but it may fit nicely into a strategy to position a financial institution in the transnational immigrant market.

FINANCIAL LITERACY FOR LIMITED ENGLISH PROFICIENCY POPULATIONS

The Appleseed Foundation - Financial Access for Latino Immigrants *- Appleseed is working to bring Hispanic immigrants into the mainstream American financial system, thus helping them avoid predatory and other high-cost financial services, and enabling them to save, access credit, and build wealth.*
http://appleseeds.net/servlet/IssueDetails?issue=latino_financial

National Council of La Raza (NCLR) *- NCLR seeks to measurably increase the level of liquid, nonliquid, and institutional assets held by the Hispanic/Latino community. This will be measured both by the wealth of individual families and the amount of capital assets controlled by Latino institutions. NCLR brings considerable resources to this issue, a strong track record in community development, the largest Hispanic Community Development Finance Institution (CDFI) providing low-cost capital to communities, and demonstrated capacity to analyze and shape public policy. www.nclr.org*

MoneyWi$e *- A national financial literacy partnership of Consumer Action and Capital One, this is the first program of its kind to combine free, multilingual financial education materials, curricula and teaching aids with regional meetings and roundtables to train community-based organization staff so that consumers at all income levels and walks of life can be reached. www.money-wise.org*

DOCUMENTS REVIEWED

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Sandra Braunstein and Carolyn Welch, "Financial Literacy: An Overview of Practice, Research, and Policy," Federal Reserve Board, Division of Consumer and Community Affairs.

Jonathan Clements, "12 Ways to Make Your Kids Financially Savvy," The Wall Street Journal, December 17, 2008, p. R1, R3.

Pamela Friedman, "Providing and Funding Financial Literacy Programs for Low-Income Adults and Youth."

Katy Jacob, "Learning the Ropes: Financial literacy programs help low-income families," The Woodstock Institute, 2000.

Smith Institute, "Financial Literacy: Roundtable Discussion, November 2005," published with OECD, January 9, 2006.

Lois A. Vitt, Gwen M. Reichbach, Jamie L. Kent, and Jurg K. Siegenthaler, "Goodbye to Complacency: Financial Literacy Education in the U.S. 2000-2005," (AARP: 2005), Institute for Socio Financial Studies, Middleburg, VA, USA.

World Bank Family Network, "Financial Literacy Training: Courses."

AMONG WEB SITES REVIEWED

www.aicpa.org (American Institute of Certified Professional Accountants)

www.Mymoney.gov (US Financial Literacy and Education Commission)

www.citigroup/financialeducation/curriculum

www.fl2010.org (Financial Literacy 2010 Initiative)

www.idfpr.com (Illinois Department of Financial and Professional Regulation)

www.nefe.org (National Endowment for Financial Education)

www.jumpstart.org (Project Jump$tart)

www.frbatlanta.org (Federal Reserve Bank – Atlanta)

www.ecponline.org (Educated Consumer Project)

www.federalreserve.gov (Federal Reserve Bank)

www.nw.org

www.nhi.org

www.woodstockinst.org (Woodstock Institute)

www.daveramsey.com (Author David Ramsey)

www.entdevgroup.org (Enterprise Development Group)

www.worldbank.org/3V3APK7VG0 (World Bank)

www.idanetwork.org (Individual Development Accounts)

www.gasolinealley.org (Gasoline Alley Foundation)

www.financiallearning.com (Center for Financial Learning)

POTENTIAL RESOURCES

American Bankers Association Education Foundation: Sponsors two national annual education programs that spotlight the need for financial education: Teach Children to Save (TCTS) and Get Smart About Credit Day (GSAC).

American Institute of Certified Public Accountants: sponsors the 360 Degrees of Financial Literacy website (**www.360financialliteracy.org**).

American Savings Education Council (ASEC): A national coalition of public and private-sector institutions committed to making saving and retirement planning a priority for all Americans. ASEC was organized in July 1995 as a program of the Employee Benefit Research Institute Education and Research Fund, and has over 250 partnering organizations that consist of corporations, financial institutions, financial trade associations, U.S. government agencies and universities.

America Saves: A grassroots, nationwide campaign involving around 20,000 enrolled Savers and 1,000 nonprofit groups, employers, financial institutions, and government agencies working at the local, state, or national levels. Through information, advice, and encouragement, AmericaSaves assists those who wish to pay down debt, build an emergency fund, save for a home, save for an education, or save for retirement.

Fannie Mae Foundation: A non-profit organization solely supported by Fannie Mae Corporation, provides support for financial education that leads to affordable housing and to homeownership for underserved populations. Its mission is to create affordable homeownership and housing opportunities through innovative partnerships and initiatives that build healthy, vibrant communities across the U.S. Home buyer education is growing in popularity around the nation, and such education utilizes the Foundation's educational materials. A home buying guide may be downloaded from the Foundation's multilingual Web site, **www.homebuyingguide.org**

Investment Company Institute (ICI): A membership organization of mutual funds that, since 2000, supports Investment Company Institute Education Foundation (ICIEF). It's primary focus has been the "Investing for Success" program and partnerships. The program is designed to strengthen investor awareness in the African-American and Hispanic communities. The Foundation also participates in national educational partnerships and programs, including ASEC, the Alliance for Investor Education, the Congressional Black Caucus Foundation, and the Congressional Hispanic Caucus Institute.

Jump$tart Coalition for Personal Financial Literacy: A non-profit coalition of about 160 organizations and corporations that seeks to improve the personal financial knowledge of young adults. It evaluates students' financial knowledge, promotes the teaching of personal finance, and provides information about relevant personal finance educational tools and resources. Its website (www.jumpstart.org) has a wealth of personal finance information and teacher resources, including a Personal Finance Clearinghouse that is one of the nation's largest inventory of personal finance educational resources. Users can search by subject category, grade level, and/or type of material.

Junior Achievement Worldwide (JA): Started as a collection of small, after-school business clubs for students. The non-profit organization was established in 1919 to "educate and inspire young people to value free enterprise, business, and economics to improve the quality of their lives." Its mission is "to ensure that every child has a fundamental understanding of the free enterprise system." Currently JA has operations throughout the U.S. and in nearly 100 countries reaching approximately 6.6 million K-12 students worldwide.

National Endowment for Financial Education (NEFE): Starting in 1997, providing financial education through collaborations with other organizations to people at all levels of society, with a focus on ill, challenged, young, culturally diverse, and underserved Americans.

Securities Industry Foundation for Economic Education (SIFEE): Established in 1976 as an affiliate of the Securities Industry Association; develops and provides learning resources for investors of all ages and advocates investor education through The Stock Market Game.

Visa: The company, along with consumer groups and financial experts, has been working to bring personal financial education tools to America's parents, teachers and children. These tools are available through Visa's online resource site, (www.practicalmoneyskills.com). Visa also has worked with a team of financial and education experts including the Jump$tart Coalition, the National Consumers League and education portal, EdGate.com, to create a cutting-edge Internet-based personal finance curriculum (www.visa.EdGate.com) that reaches more than 12,000 schools and five million students.

Women's Institute for Financial Education (WIFE): A nonprofit organization providing information to women seeking financial independence. The WIFE Web site (www.wife.org) is dedicated to women's financial interests and needs.

Woodstock Institute: A nonprofit organization formed in 1973, it researches, develops, and promotes ways to bring economic resources to lower-income and minority families and communities and to promote community reinvestment and economic development in low and minority communities. The Woodstock Institute has focused on predatory lending, homeownership, community reinvestment by financial institutions, community development, minority-owned small businesses.