Attachment J

The Bell Policy Center

Add to Financial Literacy Standards for Public Schools

SB16-045

Testimony to Senate Education Committee
Rich Jones, Director of Policy and Research
January 28, 2016

Thank you for the opportunity to present this testimony.

I am Rich Jones, the director of policy and research with the Bell Policy Center. The Bell is a non-partisan, nonprofit research and advocacy organization founded on progressive values and dedicated to making Colorado a state of opportunity for all.

The Bell Policy Center supports SB16-045 to include knowledge of and understanding about student loan debt and retirement planning in the state's academic standards for financial literacy. Numerous studies show that Americans are not saving enough to meet their financial needs in retirement. Improving the understanding of several basic financial concepts has been found to increase the likelihood that people will plan and save for retirement. However, studies show that significant majorities of Americans are not familiar with these concepts and that financial literacy is lowest among people younger than 35.

Several studies show that financial literacy training has increased students' understanding of key financial concepts, resulting in the students making better financial decisions. When coupled with changes in how financial products are structured, financial literacy training can help people save more for retirement and better use credit products.

Americans face a growing number of complex and often bewildering financial choices. As the workplace retirement savings market has shifted from traditional company-provided pensions to defined contribution plans, such as 401(k)-type accounts, people are faced with a range of decisions including how much to save, where to invest and how much of their savings to withdraw during retirement. Making effective decisions in this environment requires knowledge of several key financial concepts.

The Center for Retirement Research at Boston College determined that half of all households are not saving enough to maintain their standard of living in retirement. This number grows to six out of 10 for low-income working households and those aged 30-39.[1]

The National Institute on Retirement Security determined that two out of three working households aged 25-64 do not meet conservative retirement savings benchmarks for their age recommended by the financial services industry, even counting their entire net wealth.[2]

The Employee Benefits Research Institute (EBRI) finds that four out of 10 Gen Xers and Baby Boomers will not have enough income to meet basic expenses, health insurance and long-term care needs in retirement. They find that participation in an employer-sponsored defined contribution plan is one of the most important factors in ensuring workers have adequate savings in retirement.[3]

Business professors from the Wharton School of Business at the University of Pennsylvania and the Global Financial Literacy Excellence Center at George Washington University developed three questions to assess how well people understand key financial concepts. Over the past decade, they have administered their questions to people throughout the U.S. and 11 other countries to measure financial literacy. They found that understanding these concepts resulted in better financial decision-making. Those who answered these questions correctly were more likely to plan for and save for retirement and use credit more responsibly and less likely to use high-cost credit such as payday loans.[4]

Unfortunately, they also found that a majority of Americans do not understand the critical financial concepts captured by these questions. Based on their research, they developed a series of training materials that have been found to increase students' understanding of these concepts. In addition, there are other financial education courses that have been found to increase financial literacy among students.

Increasing Coloradans' understanding of these key financial concepts, along with expanding access to retirement savings plans at work and expanding automatic enrollment of employees in existing 401(k) plans, would help to increase the likelihood that Coloradans are saving for retirement.

We thank Senator Todd for bringing this bill to you today and thank the committee for the opportunity to share our thoughts with you.

If you have any questions, or if I can provide further information, please contact me at (303) 297-0456, ext. 244 or jones@bellpolicy.org.

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[1] NRRI Update Shows Half Still Falling Short, Center for Retirement Research, Boston College, December 2014, http://crr.bc.edu/briefs/nrri-update-shows-half-still-falling-short/
[2] The Continuing Retirement Savings Crisis, National Institute on Retirement Security, March 2015, http://www.nirsonline.org/index.php?option=content&task=view&id=882
[3] What Causes EBRI Retirement Readiness Ratings™ to Vary: Results from the 2014 Retirement Security Projection Model, EBRI, February 2014, http://www.ebri.org/publications/ib/index.cfm?fa=ibDisp&content_id=5351
[4] Financial Literacy and Retirement Planning in the United States, Annamaria Lusardi and Olivia S. Mitchell, Working Paper 17108, NBER, 2011, http://www.nber.org/papers/w17108.pdf

Attachment K

THE WALL STREET JOURNAL.

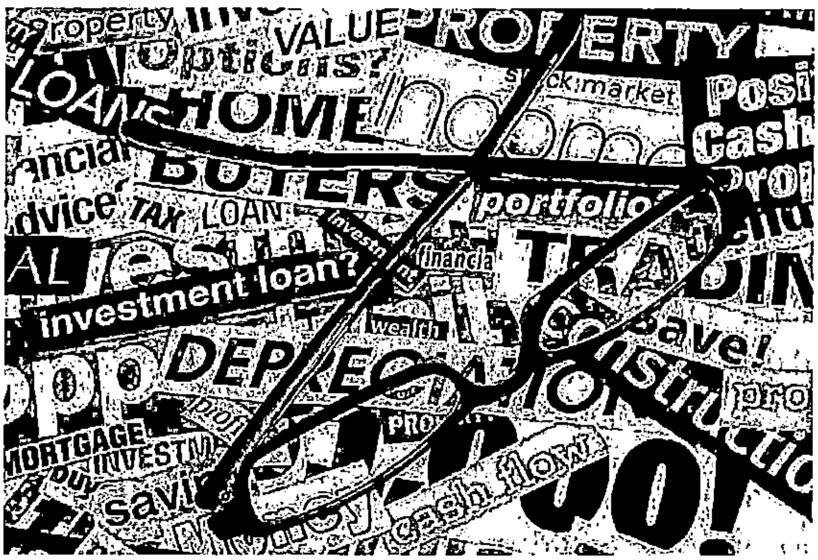
http://blogs.wsj.com/totalreturn/2015/03/25/a-three-question-test-of-financial-literacy/

TOTAL RETURN

A Three-Question Test of Financial Literacy

By KAREN DAMATO

Mar 25, 2015 7:00 am ET



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Are you—or your spouse or your teen or your parents—among the financially illiterate?

For a quick answer, try this three-question quiz that two professors—Olivia S. Mitchell of the University of Pennsylvania's Wharton School and Annamaria Lusardi of the George Washington University School of Business—have been using for years to assess individuals' basic financial savvy.

1. Suppose you had $100 in a savings account and the interest rate was 2% per year. After five years, how much do you think you would have in the account if you left

the money to grow?

A. More than $102

B. Exactly $102

C. Less than $102

2. Imagine that the interest rate on your savings account was 1% per year and inflation was 2% per year. After one year, how much would you be able to buy with the money in this account?

A. More than today

B. Exactly the same

C. Less than today

3. Please tell me whether this statement is true or false: "Buying a single company's stock usually provides a safer return than a stock mutual fund."

♦ True

♦ False

The correct answers are at the bottom of this post.

In a recent working paper, Ms. Mitchell and Ms. Lusardi review some of the sorry statistics on financial literacy that they and other researchers have come up with over the years—including breakdowns by education, gender, age and nationality. Among the findings:

♦ In a survey of Americans over the age of 50, only half could answer the first two of the above questions correctly. Only one-third got all three right.

♦ Forty-four percent of Americans with a college degree answered all three questions correctly. The figure was 31% for people with some college and 64% for Americans with postgraduate education.

"Even well-educated people are not necessarily savvy about money," the professors write.

♦ In the U.S. and other countries, men are much more likely to get all three correct answers. The figure is 38% for men vs. 23% for women in this country.

But the gender variation has an additional twist, as Ms. Mitchell and Ms. Lusardi explain:

> Another striking finding, also consistent across countries, is that men are more confident about their financial knowledge than they should be: even when they were wrong, they reported being 'very confident' about their answers. In contrast, women generally answer fewer of the financial knowledge questions correctly, on average, but they are more likely to admit when they do not know how to answer our questions. This suggests that financial education may be more welcomed by women, should the opportunity arise.

♦ Fifteen-year-olds in the U.S. ranked in the middle of the pack in a more-extensive test of financial literacy given in 18 countries by the Paris-based Organisation for Economic Co-operation and Development. The top performance came from Chinese students, with 15-year-olds in countries including Australia, France and Poland also scoring higher than Americans.

Feeling confident about your responses to the three-question quiz above? You can try your hand at some of the questions from the OECD's Programme for International Student Assessment.

Correct answers:

A.

C.

False

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