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Report to Congressional Committees

June 2011

FINANCIAL LITERACY

A Federal Certification Process for Providers Would Pose Challenges

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GAO-11-614

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Highlights

Highlights of GAO-11-614, a report to congressional committees

Why GAO Did This Study

Financial literacy plays an important role in helping ensure the financial health and stability of individuals and families, and efforts to improve consumers' financial literacy have grown in recent years. Currently, hundreds of nonprofit, private, and governmental entities provide some form of financial education to Americans. The federal government does not certify or approve organizations in general that provide financial literacy, although the U.S. Trustee Program and the Department of Housing and Urban Development (HUD) have approval processes for financial literacy providers for the purposes of meeting requirements of, respectively, the bankruptcy process and certain housing programs.

In response to a mandate in the Dodd-Frank Wall Street Reform and Consumer Protection Act, this report addresses (1) what is known about which methods and strategies are effective for improving financial literacy, and (2) the feasibility of a process for certifying financial literacy providers. To address these objectives, GAO reviewed relevant literature, focusing on evidence-based evaluations of financial literacy programs or approaches; conducted interviews in the federal, nonprofit, private, and academic sectors; and examined the lessons learned from the approval processes of the Trustee Program and HUD.

View GAO-11-614 or key components.
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What GAO Found

Relatively few evidence-based evaluations of financial literacy programs have been conducted, limiting what is known about which specific methods and strategies are most effective. Financial literacy program evaluations are most reliable and definitive when they track participants over time, include a control group, and measure the program's impact on consumers' behavior. However, such evaluations are typically expensive, time-consuming, and methodologically challenging. GAO's review of 29 evidence-based studies evaluating specific programs or approaches indicates that several have been effective in changing consumer knowledge or behavior. For example, several of these studies showed that individualized one-on-one credit counseling, employer-provided retirement seminars, and education provided in a classroom setting have had effective outcomes. However, the diversity of these programs and their evaluation methods makes drawing generalizable conclusions difficult. As a result, it appears that no one approach, delivery mechanism, or technology constitutes best practice, but there is some consensus on key common elements for successful financial education programs, such as timely and relevant content, accessibility, cultural sensitivity, and an evaluation component. In addition, several mechanisms and strategies other than financial education have also been shown to be effective in improving consumers' financial behavior, including financial incentives or changing default options, such as through automatic enrollment in employer retirement plans. The most effective approach may involve a mix of financial education and these other strategies.

While a federal process for certifying financial literacy providers appears to be feasible, doing so would pose challenges. Initiating and developing such a process would necessitate that Congress or federal agencies determine which entity would administer the certification, the types of providers that would be covered, the degree of oversight required, and other aspects of the process. Some financial literacy stakeholders with whom GAO spoke cited potential benefits to federal certification. For example, some noted that it might help improve the quality of financial education providers, help consumers identify competent providers, or create greater public awareness about financial education. However, as the experiences of the Trustee Program's and HUD's approval processes show, federal certification would require financial and staff resources for administering the process. Moreover, most financial literacy stakeholders with whom GAO spoke cited additional concerns, including the potential cost and administrative burden to certified entities, the challenge of creating a single process for certifying such a diverse field, and skepticism that certification would improve the quality of financial education providers. Further, the lack of consensus about which financial literacy strategies and approaches are most effective would make certification challenging.

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Abbreviations

Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
FDIC	Federal Deposit Insurance Corporation
FINRA	Financial Industry Regulatory Authority
HUD	Department of Housing and Urban Development

United States Government Accountability Office
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June 28, 2011

The Honorable Tim Johnson
Chairman
The Honorable Richard C. Shelby
Ranking Member
Committee on Banking, Housing, and Urban Affairs
United States Senate

The Honorable Spencer Bachus
Chairman
The Honorable Barney Frank
Ranking Member
Committee on Financial Services
House of Representatives

Financial literacy—the ability to make informed judgments and to take effective actions regarding money—plays an important role in ensuring the financial health and stability of individuals and families. Economic changes in recent years have further highlighted the need to ensure that consumers can make informed financial decisions. For example, the recent financial crisis revealed that many borrowers did not fully understand the risks associated with alternative mortgage products. Efforts to improve Americans' financial literacy have grown in the past decade, and although research on financial literacy has also grown, we still know little about the effectiveness of these efforts. Currently, hundreds of nonprofit, private, and governmental entities provide some form of financial education to Americans. The federal government plays a role in regulating or overseeing certain of these providers to meet statutory requirements in selected cases, but there is no broad federal approval or certification process for entities that provide general financial education.

This report responds to a mandate included in the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), which directed us to study ways of improving financial literacy and the feasibility of certifying organizations that provide financial literacy.[1] This report responds to that mandate by examining (1) what is known about which methods and strategies are effective for improving financial literacy, and

[1]Pub. L. No. 111-203, Title X, § 1013(d)(7), 124 Stat. 1376, 1966 (2010).

(2) the feasibility of a process for certifying financial literacy providers and the benefits and challenges of doing so. For the purposes of this report, "financial literacy providers" generally refers to organizations, rather than individuals, and excludes entities that provide individualized advice for compensation, such as investment advisers or financial planners. In addition, our examination of a potential certification process for financial literacy providers focused on a process that would be operated or overseen by the federal government.

To address these objectives, we conducted a literature search of studies, reports, and articles developed by academic researchers, the nonprofit sector, and government agencies that evaluated the effectiveness of financial literacy and education efforts. In addition, we conducted interviews with and obtained related documents from representatives of federal agencies whose missions involve consumer education or protection, including the Consumer Financial Protection Bureau, Federal Deposit Insurance Corporation (FDIC), Federal Trade Commission, Board of Governors of the Federal Reserve System, Department of the Treasury (Treasury), and Securities and Exchange Commission; nonprofit organizations that provide or advocate for financial literacy and education; representatives from the Financial Industry Regulatory Authority (FINRA) and the banking and financial services industries; and selected academic researchers who focus on financial literacy. To assess the feasibility of a process for certifying financial literacy providers, we solicited the views of these parties on that topic in semi-structured interviews. To help inform the steps and resources that might be required for a certification process, we reviewed the processes used by the Department of Justice's U.S. Trustee Program to approve and oversee credit counseling agencies and debtor education providers in accordance with provisions of the Bankruptcy Code and by the Department of Housing and Urban Development (HUD) to approve and oversee organizations participating in its Housing Counseling Program. We reviewed and analyzed related documents and interviewed staff from these agencies. In addition, we gathered data from the Trustee Program and HUD on staff and monetary resources used for their approval processes and on the number of approved entities. We determined that these data were sufficiently reliable for our purposes. A more extensive discussion of our scope and methodology appears in appendix I.

We conducted this performance audit from September 2010 to June 2011 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

Financial literacy has been defined as the ability to use knowledge and skills to manage financial resources effectively for a lifetime of financial well-being. To make sound financial decisions, individuals need to be equipped not only with a basic level of financial knowledge but also with the skills to apply that knowledge to financial decision making. Thus, financial literacy encompasses both financial education—the process of improving consumers' understanding of financial products, services, and concepts—as well as consumers' behavior as it relates to their ability to make informed judgments. In the United States, a number of trends have emerged in recent years that underscore the importance of financial literacy. For example, investment options and credit products have grown in number and complexity. In addition, consumers are assuming greater responsibility for their own retirement savings, with traditional defined-benefit retirement plans becoming increasingly rare. Evidence suggests that many U.S. consumers could benefit from improved financial literacy. In a 2010 survey of U.S. consumers prepared for the National Foundation for Credit Counseling, a majority of consumers reported they did not have a budget, and about one-third were not saving for retirement.[2] In a 2009 survey of U.S. consumers by the FINRA Investor Education Foundation, a majority believed themselves to be good at dealing with day-to-day financial matters, but the survey also revealed that many had engaged in financial behaviors that generated unnecessary expenses and fees and had difficulty with basic interest and other financial calculations.[3]

A wide variety of organizations provide financial education resources, including nonprofit community-based organizations, consumer advocacy organizations, financial services companies, trade associations, employers, and local, state, and federal government entities. Some financial literacy initiatives are aimed at the general population, while others target certain audiences, such as low-income individuals, military personnel, high school

[2]Harris Interactive Inc., prepared for The National Foundation for Credit Counseling, "The 2010 Consumer Financial Literacy Survey Final Report" (April 2010).

[3]FINRA Investor Education Foundation, "Financial Capability in the United States, Initial Report of Research Findings from the 2009 National Survey, A Component of the National Financial Capability Study" (New York, N.Y.: Dec. 1, 2009).

students, seniors, or homeowners. Similarly, some financial literacy initiatives cover a broad array of concepts and financial topics, while others target specific topics, such as managing credit, investing, purchasing a home, saving for retirement, or avoiding fraudulent or abusive practices. Efforts to improve financial literacy can take many forms. These can include one-on-one counseling; curricula taught in a classroom setting; workshops or information sessions; print materials, such as brochures and pamphlets; and mass media campaigns that can include advertisements in magazines and newspapers or on television, radio, or billboards. Many entities use the Internet to provide financial education, which can include information and training materials, practical tools such as budget worksheets and loan and retirement calculators, and interactive financial games. Youth-focused financial education programs are generally tied to a school curriculum. In 2009, 13 states had requirements for a course in personal finance education prior to high school graduation, and 34 states required personal finance education standards to be implemented to some extent in the curriculum, according to a survey by the Council for Economic Education.[4]

In 2009, more than 20 federal agencies had initiatives related to improving financial literacy. In some cases, federal agencies develop and provide financial education directly. For example, FDIC has developed and disseminated Money Smart, a comprehensive financial education curriculum, and the Federal Trade Commission has developed numerous brochures and Web resources on topics such as credit products, identity theft, and fraudulent schemes. In other cases, federal agencies provide grants or other support to nongovernmental organizations that provide the direct financial education. For example, in fiscal years 2009 and 2010, Treasury's Financial Education and Counseling Pilot Program provided grants to eligible community and other organizations to provide financial education and counseling services to prospective homebuyers. The multiagency Financial Literacy and Education Commission, which was created in 2003, was charged with, among other things, developing a national strategy to promote financial literacy and education, coordinating federal efforts, and identifying areas of overlap and duplication.[5] The commission is chaired by the Secretary of the Treasury and Treasury's

[4]Council for Economic Education, *Survey of the States: Economic, Personal Finance & Entrepreneurship Education in Our Nation's Schools in 2009* (New York, N.Y.: Council for Economic Education, 2009).

[5]Pub. L. No. 108-159, Title V, 117 Stat. 2003 (2003) (codified at 20 U.S.C. §§ 9701–08).

Office of Financial Education and Financial Access provides its primary staff support. In addition, the Dodd-Frank Act required the establishment of an Office of Financial Education within the Consumer Financial Protection Bureau, and the director of the bureau will serve as Vice Chair of the Financial Literacy and Education Commission.[6]

The federal government does not generally certify or approve financial literacy providers or regulate the content of the services they provide, except in certain instances. For example, the Bankruptcy Code requires individuals to receive budget and credit counseling from an approved provider before filing a petition for bankruptcy and also requires bankruptcy petitioners to complete an instructional course on personal financial management in order to have their debts discharged.[7] As such, the Department of Justice's U.S. Trustee Program approves providers who meet certain criteria to provide these services. In addition, HUD approves housing counseling agencies to provide certain services and awards competitive grants to approved agencies to fund those services.

[6]Pub. L. No. 111-203, Title X, § 1013(d), 124 Stat. 1376, 1966 (2010). The Secretary of the Treasury has designated July 21, 2011, as the date the Consumer Financial Protection Bureau will begin exercising its new authorities. 75 Fed. Reg. 57252 (Sept. 20, 2010).

[7]The Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 amended the federal bankruptcy code to require (1) individuals to receive budget and credit counseling from an approved provider before filing a petition in bankruptcy and (2) bankruptcy petitioners to complete an instructional course on personal financial management in order to have their debts discharged. Pub. L. No. 109-8, § 106, 119 Stat. 23, 37-42 (2005) (amending various sections of Title 11). For the purposes of this report, hereafter we refer to the prefiling budget and counseling requirement as the credit counseling requirement and the predischarge personal financial management course as the debtor education requirement.

Although Definitive Evidence Is Lacking on What Is Most Effective in Improving Financial Literacy, Some Initiatives Have Yielded Positive Results

Relatively Few Evaluations Have Measured Financial Literacy Programs' Effect on Consumer Behavior

While there is a fairly extensive literature on financial literacy, relatively few evaluations of financial literacy programs have been published that use empirical evidence and even fewer evaluations measured a program's impact on the participants' behavior. One reason for this may be that the field of financial literacy is relatively new and many programs have not been in place long enough to allow for a long-term study of their effectiveness; for example, many of the key federal financial literacy initiatives were created only within the past 10 years. In the view of some experts and practitioners in the field of financial literacy with whom we spoke, the approaches that are most effective in meaningfully improving consumers' financial behavior are not fully known.

After conducting a literature search, we identified 142 papers published since 2000 that addressed the value or effectiveness of financial literacy and were authored by individuals or organizations that appeared to have significant experience or expertise in the field. We focused our review on 29 studies we identified among this group that met four additional criteria.[8] First, they evaluated the outcomes of a specific program, approach, or policy. Second, they used empirical evidence—that is, they used data rather than anecdotal evidence. Third, they were based on original data collection rather than reviews of existing literature. Finally, they were determined to be sufficiently reliable and methodologically rigorous for inclusion in our review.[9]

[8]For the purposes of this report, we are counting two related papers that examined the American Dream Demonstration Project—in an interim and final report—as a single study.

[9]Of the 29 studies, 12 were published in peer-reviewed journals.

The evaluations of financial literacy programs that are most reliable, useful, and definitive include three key elements, according to some experts with whom we spoke and literature that we reviewed: they measure behavioral change, track participants over time, and use a control group. The extent to which the studies we reviewed incorporated these elements varied:

- *Measure behavioral change:* Of the 29 studies we reviewed that evaluated the effectiveness of a financial literacy program or initiative, 22 measured, among other things, its impact on the participants' behavior. The remaining seven studies did not measure the program's impact on behavior but instead measured outcomes such as improvements in knowledge, attitude, or anticipated behavior. In general, the ultimate goal of financial education is to favorably affect consumer behavior, such as to promote improved saving and spending habits, wise use of credit, and avoidance of fraudulent or disadvantageous financial products. A financial education program may be of limited effectiveness if, for example, it increases participants' knowledge of retirement savings issues but does not actually affect, on average, participants' behavior through increased retirement contributions or other measures.

- *Track participants over time (longitudinal):* Eighteen of the 29 evaluations we reviewed were longitudinal—they involved the repeated examination of the study participants over time. Longitudinal studies of financial education programs can be important because these programs often seek to affect long-term outcomes, such as improved credit scores or increased retirement savings, that may occur several months or years after the end of the program. For example, a financial education program that seeks to increase homeownership would, ideally, track whether participants had become successful homeowners over a period of many years.

- *Involve a control group:* Seven of the 29 evaluations we reviewed used a control group—that is, the evaluation measured participants in the financial education program against a comparison group that did not participate in the program. Use of a control group helps to isolate the impact of a financial education program from other influences, such as changes in the overall economy, and provides a baseline against which to compare the program's effect. It also can help avoid selection bias because individuals who choose to participate in a financial education program may be those who are most interested and motivated to change or who place a greater value on their future.

Experts in financial literacy and program evaluation have cited many significant challenges to conducting rigorous and definitive evaluations of financial literacy programs that include these elements. For example, measuring a change in participant behavior is much more difficult than measuring a gain in knowledge, which can often be captured through a simple post-course test. Measuring behavior often relies on self-reported information, which can be inaccurate, or may require tracking credit scores, account balances, or other data that may be proprietary. Moreover, many organizations lack the financial resources or expertise to conduct program evaluation, particularly long-term evaluation involving a control group, which can be especially time and labor intensive. This is often the case when evaluations require tracking populations that are more transient in nature, such as college-aged individuals. In addition, because many variables can affect consumer behavior and decision making, ascribing long-term changes to a particular program is difficult. Moreover, some of the evaluation literature we reviewed noted that longitudinal studies using a control group and measuring behavioral change cannot be practically or realistically applied to all programs.

Consequently, many evaluations rely on other measures that are less complex and less resource intensive to measure, such as knowledge gains, changes in attitudes, or outputs. One academic review of financial literacy evaluations found that the majority of financial education programs it reviewed only measured program outputs, such as the number of individuals served or the volume of materials distributed.[10] The 2008 National Research Symposium on Financial Literacy and Education noted that one challenge in developing and implementing successful program evaluation for financial education is the field's variety of core content, delivery methods, and target populations, as well as differences in the goals and objectives of specific programs.[11] Therefore, identifying a common set of reliable methods and measures that can be used to make

[10]Angela C. Lyons, Lance Palmer, Koralalage S. U. Jayaratne, and Erik Scherpf, "Are We Making the Grade? A National Overview of Financial Education and Program Evaluation," *The Journal of Consumer Affairs* 40 (2006): 208-35.

[11]Jane Schuchardt, Sherman D. Hanna, Tahira K. Hira, Angela C. Lyons, Lance Palmer, and Jing Jian Xiao, "Financial Literacy and Education Research Priorities," *Journal of Financial Counseling and Planning* 20 (2009): 84-95. The National Research Symposium on Financial Literacy and Education was convened by Treasury and the U.S. Department of Agriculture's Cooperative State Research, Education, and Extension Service on October 6-7, 2008. The symposium reviewed existing research findings, identified gaps in the literature, and defined and prioritized questions for future analysis.

broad-based comparisons across programs can be difficult. For example, the appropriate evaluation for a media campaign that seeks broadly to increase consumer awareness may be very different from the evaluation of an individualized counseling program.

Although Some Financial Education Programs Have Shown Positive Results, Generalizing Those Results Is Difficult

The 29 evaluations of financial education programs we reviewed showed that some programs are effective in changing consumer behavior or otherwise demonstrating positive outcomes. For example, certain programs using approaches as diverse as individualized one-on-one credit counseling, employer-provided retirement seminars, and education provided in a classroom setting have each been shown to have effective outcomes. However, the heterogeneity among the programs evaluated and the nature of the evaluations themselves make generalizing or drawing conclusions about exactly which methods and strategies are most effective in improving financial literacy difficult. In addition, the studies we reviewed did not always have consistent results. For example, studies examining the effectiveness of state-mandated financial education have sometimes had conflicting conclusions. As a result, it appears that no single approach, delivery mechanism, or technology necessarily constitutes the best practice for improving financial literacy.

Results of the studies we reviewed show that individual financial literacy programs have had positive results. Further, some of these programs have had a positive impact on participants' financial behavior and not just on their knowledge. Of the 29 studies we identified as meeting our criteria, 15 evaluated classroom-based initiatives aimed at young people, 8 evaluated classroom-based initiatives aimed at adults, and 6 evaluated other delivery mechanisms, including one-on-one counseling and content offered via the Internet, newsletters, and video. In addition, two of the studies assessed financial literacy programs operated by the federal government: FDIC's Money Smart and the U.S. Army's Personal Financial Management Training. (Additional information on the 29 studies that we focused on is in app. II.)

Youth Classroom Education

We identified 15 studies that evaluated the effectiveness of classroom-based programs or curricula designed to improve financial literacy among elementary, high school, or college students. Generally, these studies found that classroom curricula on general financial education, which covered topics such as spending, saving, and budgeting, increased students' knowledge of these topics. Ten of the 15 studies also assessed the impact of a program on students' subsequent behavior and found mixed results. Examples of studies that address youth classroom education include the following:

- The National Endowment for Financial Education's High School Financial Planning Program, a high school curriculum on basic financial planning concepts, was evaluated in 2003-2004 by independent academic researchers. The study found that students who participated in the program experienced significant improvement in their financial knowledge, behavior, and confidence by the end of the course. In addition, about 60 percent of participants had positively changed their spending and savings patterns 3 months after the program had ended.[12]

- In 2008, an outside research firm assessed Junior Achievement's Finance Park, a 6-week economics education program designed for middle school students that combined classroom instruction with a daylong role-playing exercise. Using surveys conducted before and after students had participated in the program, the study found statistically significant improvement in students' content knowledge, such as their ability to develop a personal budget. It also found that their confidence in monetary decisions and ability to be successful had increased.[13]

- A 2007 study by researchers at Ohio State University used a Web-based survey of university alumni to investigate the impact of personal finance education delivered in high school and college. The study found that participating in a high-school or college-level personal finance course did not result in improvements in savings rates among participants. Individuals who had participated in a college-level personal finance course were found to have higher levels of knowledge about investment issues, although no such effect was found for individuals who had taken a personal finance course in high school.[14]

In addition, we identified four studies that attempted to assess the effect of legislative mandates that exist in certain states requiring school districts

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[12]Sharon M. Danes and Heather Haberman, *Evaluation of the NEFE High School Financial Planning Program 2003-2004* (Denver, Colo.: National Endowment for Financial Education, 2004).

[13]Evaluation and Training Institute, *JA Finance Park Final Report* (Los Angeles, Calif.: Junior Achievement, May 2008).

[14]Tzu-Chin Martina Peng, Suzanne Bartholomae, Jonathan J. Fox, and Garrett Cravener, "The Impact of Personal Finance Education Delivered in High School and College Courses," *Journal of Family and Economic Issues* 28 (2007): 265-284.

to include personal finance instruction in middle school or high school curricula.[15] As noted earlier, as of 2009, 13 states required students to take a personal finance course as a high school graduation requirement.[16] Three of the studies we reviewed reported that students in states that mandated financial education were more likely to have greater financial knowledge or better financial behaviors, such as increased rates of saving.[17] For example, a 2001 study used a national survey to determine the long-term behavioral effects of high school financial curriculum mandates.[18] The study found that respondents who graduated when state-mandated financial education was in effect had higher saving and wealth accumulation rates than those respondents who had graduated prior to such a mandate. In contrast, a study conducted in 2009 by researchers at Harvard Business School came to a different conclusion.[19] Reviewing data from three U.S. Censuses, the researchers found that individuals whose curriculum included state-mandated financial education had saving rates identical to those of students in the same state who graduated prior to the state mandate. However, there are limitations to the methodologies used to assess the effect of legislative mandates. For example, some of these studies rely on proxy measures, such as when the participant likely graduated from high school, to determine whether the person participated in a mandated financial education program. Further, these studies do not typically discern the impact of the mandate from other important factors, such as changes in the overall economy, that affect financial behaviors.

[15]B. Douglas Bernheim, Daniel M. Garrett, and Dean M. Maki, "Education and Saving: The Long-Term Effects of High School Financial Curriculum Mandates," *Journal of Public Economics* 80 (2001): 435-465; Shawn Cole and Gauri Kartini Shastry, *Smart Money: The Effect of Education Cognitive Ability and Financial Literacy on Financial Market Participation* (Cambridge, Mass.: Harvard Business School, February 2009); Michael Gutter, *Financial Management Practices of College Students from States with Varying Financial Education Mandates* (Denver, Colo.: National Endowment for Financial Education, December 2009); and Sharon Tennyson and Chau Nguyen, "State Curriculum Mandates and Student Knowledge of Personal Finance," *Journal of Consumer Affairs* 35 (2001): 241-262.

[16]Council for Economic Education, 2009. The 13 states that required students to take a personal finance course as a high school graduation requirement as of 2009 were Arkansas, Georgia, Idaho, Illinois, Louisiana, Maryland, New Jersey, New York, Oklahoma, South Dakota, Tennessee, Utah, and Virginia.

[17]Bernheim, 2001; Gutter, 2009; and Tennyson, 2001.

[18]Bernheim, 2001.

[19]Cole, 2009.

Adult Classroom Education

We identified eight studies that reviewed the effectiveness of classroom-based programs or curricula designed to improve financial literacy among adults. Some of these programs provided general financial education and others focused on particular topics, such as preparing for retirement. In addition, some of the programs were aimed at a general population, while others targeted specific populations, such as service members or individuals with low incomes or substantial debt. With some exceptions, programs reviewed were found to be effective in improving financial knowledge and behaviors, particularly among participants with the least education or who faced significant financial challenges. Examples of these studies include the following:

- A 2007 study conducted by FDIC evaluated Money Smart, a comprehensive financial education curriculum designed to help low- and moderate-income individuals enhance their financial skills and create positive banking relationships. The study surveyed individuals prior and subsequent to their participation in the program and followed up by telephone 6 to 12 months after their final class. The study found that participants in the Money Smart training were more likely to engage in positive behaviors after completing the course, including opening deposit accounts, saving money in a mainstream financial institution, and adhering to a budget.[20]

- Researchers studied the effect of a 2-day financial education course taught to soldiers by college instructors. Soldiers who finished the course completed a follow-up survey of financial behaviors and the results were compared to those of a control group of soldiers who had not taken the course. Soldiers who had taken the financial education course were more likely to have engaged in positive behaviors, such as comparison shopping, saving, and paying bills on time. However, when the researchers controlled for other factors, only two sets of behaviors were associated with the financial education course.[21] First, those soldiers who had the financial education course were more likely to know the difference

[20]FDIC, *A Longitudinal Evaluation of the Intermediate-Term Impact of the Money Smart Financial Education Curriculum upon Consumers' Behavior and Confidence* (Washington, D.C.: Federal Deposit Insurance Corporation, April 2007).

[21]The authors controlled for the following additional factors: years in the military, pay grade, gender, education, race/ethnicity, marital status, pre-military experiences, and possession of a credit card. Catherine Bell, Daniel Gorin, and Jeanne M. Hogarth, *Does Financial Education Affect Soldiers' Financial Behavior?* (Terre Haute, Ind.: Networks Financial Institute, August 2009).

between discretionary and non-discretionary spending. Second, contrary to what might be expected, those soldiers who had taken the course were less likely than the comparison group to report using a formal spending plan and more likely to report using an informal spending plan.

Other Delivery Mechanisms

Six of the studies we reviewed evaluated financial literacy initiatives that were not delivered in a classroom setting. These studies included assessments of credit counseling and housing counseling delivered one-on-one, counseling provided via the Internet, and content delivered through newsletters or on video. In general, these studies suggest that a variety of different delivery mechanisms can be effective in improving financial literacy. Examples include the following:

- A 2011 study compared outcomes for individuals who received face-to-face credit counseling with similarly situated consumers who opted for counseling via technological methods, such as telephone or Internet. Counseling outcomes were measured using data from participants' credit reports 1 or more years following the original counseling. Delivery of credit counseling via the telephone or Internet was found to generate outcomes no worse than—and in some cases better than—face-to-face delivery of counseling services.[22]

- A study conducted by researchers from Freddie Mac in 2001 compared the loan performance over time of homebuyers who received pre-purchase homeownership counseling with participants in the loan program who did not receive such counseling. Those borrowers who received one-on-one counseling were less likely to have a 60-day delinquency on their loans during the study period than other borrowers with equivalent characteristics who had not had counseling. However, borrowers who received counseling via the telephone or through a course of home study showed no reduction in delinquency.[23]

Increasingly, technological resources are being used to provide and evaluate financial literacy. In particular, the Internet has proved to be an important tool for disseminating information and education about

[22]John M. Barron and Michael E. Staten, *Is Technology-Enhanced Credit Counseling as Effective as In-Person Delivery?* (Philadelphia, Pa.: Federal Reserve Bank of Philadelphia, February 2011).

[23]Abdighani Hirad and Peter M. Zorn, *A Little Knowledge Is a Good Thing: Empirical Evidence of the Effectiveness of Pre-Purchase Homeownership Counseling* (Cambridge, Mass.: Joint Center for Housing Studies, Harvard University, August 2001).

financial issues to consumers, and one study found that the number of Web sites that provided financial education almost doubled between 2000 and 2005.[24] Some organizations have used interactive video games to provide financial education, particularly for youth. For example, Junior Achievement has developed an online version of its Finance Park simulation to complement its traditional in-person interactive model. Technology can also be used to evaluate program effectiveness. A panel of experts convened by the New America Foundation in 2008 noted that online tools, such as interactive Web tools that allow students to set and measure their progress towards financial goals, can be used to collect data to assess the behavioral impact of a financial education program. These online tools provide flexibility to capture a number of measures on an ongoing basis for a large population.[25]

The Financial Literacy and Education Commission and many federal agencies have recognized the need for a better understanding of which programs are most effective in improving financial literacy. For example, the commission's original national strategy in 2006 noted that more research and program evaluation were needed so that organizations are able to validate or improve their efforts and measure the impact of their work. In response, in October 2008, the Department of the Treasury and the Department of Agriculture convened, on behalf of the commission, the National Research Symposium on Financial Literacy and Education, which discussed academic research priorities related to financial literacy. The commission's new 2011 national strategy sets as one of its four goals to "identify, enhance, and share effective practices." The new strategy sets objectives for reaching this goal, which include encouraging research on financial literacy strategies that affect consumer behavior, establishing a clearinghouse for evidence-based research and evaluation studies, developing and disseminating tools and strategies to encourage and support program evaluation, and forming a network for sharing research and best practices. At the same time, because of fiscal constraints, the overall level of future federal resources that will be devoted to financial literacy research and evaluation is unclear. For example, the Social Security Administration requested no funding in its fiscal year 2012 budget

[24]Lois A. Vitt, Gwen M. Reichback, Jamie L. Kent, and Jurg K. Siegenthaler, *Goodbye to Complacency: Financial Education in the U.S. 2000-2005* (Washington, D.C.: AARP, 2005).

[25]New America Foundation, *The Effectiveness of Youth Financial Education: Summary of a Convening Held July 15-16, 2008* (Washington, D.C.: December 2008).

justification for its Financial Literacy Research Consortium, which provides research grants to improve financial literacy and retirement planning; the consortium had been funded at about $9.2 million in fiscal year 2010 and had estimated obligations of $10 million in fiscal year 2011.

Stakeholders Cited Certain Common Elements Desirable for Financial Literacy Programs

Despite limited empirical evidence on the effectiveness of financial literacy programs, experts and practitioners in the field of financial literacy generally have identified certain elements that they consider desirable in almost any financial literacy program. The views of these stakeholders are not necessarily based on concrete data but rather on anecdotal evidence, experience in the field, and a broader body of research on program design and behavioral economics. For example, in 2004, Treasury's Office of Financial Education and Financial Access published a list of the elements of a successful financial education program, which was intended to guide financial education organizations in developing programs and strategies.[26] Similarly, in 2005, the Organization for Economic Cooperation and Development issued a set of principles and good practices to help guide financial education and awareness programs.[27] Some nongovernmental organizations have also developed recommended practices for financial literacy programs. For example, the Jump$tart Coalition for Personal Financial Literacy has developed best practices for personal finance education materials.[28] Based on the guidelines of these organizations and our interviews with experts and practitioners, the following elements are considered desirable for successful financial literacy programs:

- *Content that is relevant and timely.* Financial literacy programs may be more effective if they are relevant to their target audience. For example, people need different kinds of financial information at different phases of their lives. College students may need to learn how to be prepared to enter the workforce, working adults may need information on managing credit and investing for retirement, and retirees may need information on

[26]http://www.treasury.gov/press-center/press-releases/Pages/js1111.aspx

[27]Organization for Economic Cooperation and Development, *OECD Recommendation on Principles and Good Practices for Financial Education and Awareness* (Paris, France: Nov. 4, 2005). The Organization for Economic Cooperation and Development is a forum of 34 member countries whose mission is to promote policies that will improve the economic and social well-being of people around the world.

[28]http://www.jumpstart.org/assets/files/2010_J$-BestPracticesMaterials.pdf

managing their retirement funds. In our 2004 forum on financial literacy, experts noted that financial education is most effective when it comes at the right time—that is, at the "teachable moments" that occur when the information is applicable to events in a person's life.[29] Some experts have argued that financial education should be linked to specific products and programs—for example, embedded into government income support programs.

- *Delivery methods that are appropriate for the audience or topic.* While financial education programs can be delivered in a broad variety of formats, a program may be more effective if its delivery method is adapted so that it is appropriate to its target demographic, engaging to participants, and well-suited to the objectives of the program. A 2010 panel of experts convened by the National Endowment for Financial Education highlighted the importance of tailoring the delivery method for financial education to the audience and the program, noting that individuals possess varying levels of financial knowledge and that these differences need to be taken into account in program design.[30] For example, many experts have said that youth programs can be more effective when they include a hands-on activity, such as a simulation, which can make the information more true-to-life and relevant to the participants. Similarly, research indicates that young adults may prefer to receive financial education through the Internet.[31]

- *Accessibility and cultural sensitivity.* Programs should be accessible to the population they seek to serve. Many stakeholders noted the importance of offering education at times and locations that are convenient to the target audience. Further, the success of a program can depend on content that is understandable and culturally sensitive. As we have reported in the past, cultural differences can play a role in financial literacy and the conduct of financial affairs because different populations have dissimilar norms, attitudes, and experiences related to managing money.[32] In addition, a report by the Lutheran Immigration and Refugee

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[29]GAO, *Highlights of a GAO Forum: The Federal Government's Role in Improving Financial Literacy*, GAO-05-93SP (Washington, D.C.: Nov. 15, 2004).

[30]Annamaria Lusardi, Robert L. Clark, Jonathan Fox, John Grable, and Ed Taylor, *Promising Learning Strategies, Interventions, and Delivery Methods in Financial Literacy Education* (Denver, Colo.: National Endowment for Financial Education, 2010).

[31]Barron, 2011.

[32]GAO, *Consumer Finance: Factors Affecting the Financial Literacy of Individuals with Limited English Proficiency*, GAO-10-518 (Washington, D.C.: May 21, 2010).

Service states that existing financial literacy and education materials often do not effectively serve some immigrant populations because they do not incorporate linguistic idioms and cultural values, such as gender roles and religious beliefs.[33]

- *Use of partnerships.* Developing partnerships among organizations involved in delivering financial education can have several benefits, including making more efficient use of scarce resources, facilitating the sharing of best practices, and effectively reaching targeted populations. For example, when Freddie Mac was developing and implementing its CreditSmart program, which initially was geared toward the African-American community, it partnered with five historically black colleges and universities. Program representatives told us that using these trusted intermediaries contributed to the program's effectiveness. In addition, partnerships can help connect appropriate content with an effective delivery mechanism. For example, financial institutions, which have expertise in money matters, sometimes provide financial education content to schools, which can serve as an efficient means of directing that content to students.

- *Program evaluation:* An evaluation component, ideally built into a financial literacy program, helps to determine whether programs are having a positive impact on participants' attitudes, knowledge, or behaviors. Effective evaluation often depends on establishing specific goals and identifying performance measures that can be used to track progress toward meeting goals, according to stakeholders at Treasury and other organizations. As previously discussed, given the resources required for evaluation, the extent to which program impact can be tracked and measured may vary based on the nature and scope of the individual program.

[33]Lutheran Immigration and Refugee Service, "Financial Literacy for Newcomers: Weaving Immigrant Needs into Financial Education" (Baltimore, Md.: Mar. 27, 2006).

- *Trained and competent providers.* As we have previously reported, teacher quality is an important school-level factor influencing student learning.[34] However, a 2009 study sponsored by the National Endowment for Financial Education found that less than 20 percent of teachers and prospective teachers reported feeling very competent to teach the personal finance concepts surveyed, including money management and saving.[35] To help offset this lack of subject matter expertise, guidelines from the Organization for Economic Co-operation and Development recommend that specific financial education materials and tools be provided to the teachers. The Jump$tart Coalition for Personal Financial Literacy has encouraged that financial education materials provided to teachers include a number of specific elements, including student learning objectives and assessment tools, background information, lesson plans, and activities.

- *Sustainability.* Programs should have the necessary resources for long-term sustainability and success. Treasury's Office of Financial Education and Financial Access has noted that a successful financial literacy program should be developed for long-term success, as evidenced by characteristics such as continuing financial support, legislative backing, or integration into an established course of instruction.

Alternatives and Complements to Traditional Financial Education Have Been Shown to Improve Consumer Behavior

Financial education may not be the only approach—or necessarily always the best approach—for improving consumers' financial behavior. As noted earlier, generally the goal of a financial literacy program is to improve a consumer's financial behavior or produce positive outcomes, such as participation in a retirement savings plan, timely repayment of credit, or the opening of a deposit account in lieu of using a check-cashing service. One tool for achieving such outcomes is financial education. However, alternative strategies or mechanisms, sometimes in conjunction with financial education, have also been successful in improving financial behavior. Insights from behavioral economics, which blends economics with psychology, have been used to design strategies apart from education to assist consumers in reaching financial goals without compromising their ability to choose approaches or products. These strategies recognize

[34]GAO, *Teacher Quality: Sustained Coordination among Key Federal Education Programs Could Enhance State Efforts to Improve Teacher Quality*, GAO-09-593 (Washington, D.C.: July 6, 2009).

[35]Wendy L. Way and Karen Holden, *Teacher's Background & Capacity to Teach Personal Finance* (Denver, Colo.: National Endowment for Financial Education, March 2009).

the realities of human psychology, including procrastination and inertia, inability to stick to plans, difficulty in processing complex information, and the desire for conformity.

Literature we reviewed indicated that strategies for improving consumer financial behavior or outcomes that were alternative or complementary to traditional financial education can be effective. Examples of such strategies include the following:

- *Changing the default option.* A default is the choice people make when they do not deliberately choose an alternative. Because people are prone to inertia and procrastination, the default option often becomes the most common choice when making financial decisions. For example, in recent years, some employers have adopted automatic enrollment policies for their defined contribution plans—retirement plans under which participants accumulate retirement savings in individual accounts, such as a 401(k) plan. Under automatic enrollment, workers are enrolled into the plan automatically, or by default, unless they explicitly choose to opt out. As we have previously reported, studies have shown this mechanism to be effective for increasing participation in retirement plans.[36] For example, one study of employees hired before and after their company adopted automatic enrollment found that the retirement plan participation rate of those hired before automatic enrollment was 37 percent at 3 to 15 months of tenure, compared with 86 percent for the group hired after.[37]

- *Using commitment mechanisms.* Strategies that commit people to specific actions in the future can be an effective way of influencing behavior. For example, a program called Save More Tomorrow asked employees to commit to increasing their retirement plan contribution rates well in advance of each scheduled pay increase. The program sought to use this commitment mechanism to help employees who would like to save more but lack the willpower to act on this desire.[38] An evaluation of

[36]GAO, *Retirement Savings: Automatic Enrollment Shows Promise for Some Workers, but Proposals to Broaden Retirement Savings for Other Workers Could Face Challenges*, GAO-10-31 (Washington, D.C.: Oct. 23, 2009).

[37]Brigitte C. Madrian and Dennis F. Shea, "The Power of Suggestion: Inertia in 401(k) Participation and Savings Behavior," *The Quarterly Journal of Economics* 116 (2001): 1149-1187.

[38]Richard H. Thaler and Shlomo Benartzi, "Save More Tomorrow: Using Behavioral Economics to Increase Employee Savings," *The Journal of Political Economy* 112 (2004): S164-S187.

this program found that 78 percent of employees offered the program joined, and 80 percent of those who joined remained in the program for several pay raises, with their savings rate increasing, on average, by 10 percentage points over a period of 40 months.[39]

- *Using monetary incentives.* Using incentives with tangible monetary benefits can also be effective in changing behavior. For example, studies have shown that employees are more likely to contribute to a retirement plan if their employer provides matching contributions, and the amount that an employee contributes to a plan can be influenced by the formula for the matching contribution.[40] Research shows that programs that offer monetary matches can provide concrete rewards that encourage individuals to take specific actions. In one experiment, low- and middle-income clients of a tax return preparation firm were randomly offered a match of 0, 20, or 50 percent on their tax refunds that would be contributed to an individual retirement account. Higher matches, combined with information received from tax professionals, raised the participation rate in the savings plan and the amount of the contribution.[41] Similarly, an experiment compared a random selection of eligible lower-income people who received individual development accounts—which provide a match for savings made for certain purposes—with a control group that was not offered these accounts.[42] Four years into the program, the individual development accounts increased homeownership rates of prior renters by 7 to 11 percentage points relative to the control group. However, the study found that there was almost no impact on other

[39]Automatic reminders can also act like commitment mechanisms and help people stick to plans. For example, experiments with randomly selected new bank account holders showed that those who received a monthly reminder about saving via text message or letter saved 6 percent more than those who did not and were 3 percent more likely to achieve their targeted amount. Also, reminders that highlighted clients' goals were two times more effective than reminders that did not mention the goal. See Dean Karlan, Margaret McConnell, Sendhil Mullainathan, and Jonathan Zinman, "Getting to the Top of Mind: How Reminders Increase Saving," *NBER Working Paper 16205*, July 2010.

[40]See, for example, Congressional Research Service, *Retirement Plan Participation and Contributions: Trends from 1998 to 2006*, RL33116 (Washington, D.C.: Jan. 30, 2009).

[41]Esther Duflo, William Gale, Jeffrey Liebman, Peter Orszag, and Emmanuel Saez, "Saving Incentives for Low- and Middle-Income Families: Evidence from a Field Experiment with H&R Block," *The Quarterly Journal of Economics* (November 2006): 1311-1346.

[42]Individual development accounts are specialized savings accounts that provide lower-income consumers with matching funds when balances are used for particular purposes, such as buying a home, starting a business, or paying for education. Individual development accounts have received support from foundations, private donors, and the government.

targeted uses, such as post-secondary education or retirement savings.[43] In addition, a follow-up study conducted 10 years after the start of the program found that the homeownership rates for those who did not receive access to the individual development accounts were similar to those who did, suggesting that the benefits diminished over time.[44]

- *Simplifying financial decisions.* Reducing the complexity of financial information provided to consumers and simplifying the choices they need to make can motivate consumers to take action. A few studies have shown that more investment options are correlated with reduced participation in participant-directed retirement plans, possibly because of too many choices or information overload.[45] Further, as we have noted in prior reports on Social Security information and credit card disclosures, certain practices help people understand complicated information, such as writing information in clear language, using straightforward layout and graphics, and making options easy to compare in a single document.[46] In one experiment, newly hired staff at an orientation seminar randomly received either a standard packet of information on supplemental retirement accounts, an additional planning aid designed to simplify enrollment, or an even simpler planning brochure. Simpler planning information was associated with significantly higher participation rates in retirement

[43]Gregory Mills, William G. Gale, Rhiannon Patterson, Gary V. Engelhardt, Michael D. Eriksen, and Emil Apostolov, "Effects of Individual Development Accounts on Asset Purchases and Saving Behavior: Evidence from a Controlled Experiment," *Journal of Public Economics* 92 (2008): 1509-1530.

[44]Michal Grinstein-Weiss, Michael Sherraden, William G. Gale, William M. Rohe, Mark Schreiner, and Clinton Key, *Ten-Year Impacts of Individual Development Accounts on Homeownership: Evidence from a Randomized Experiment* (Washington, D.C.: Brookings Institute: Mar. 4, 2011).

[45]Julie Agnew and Lisa R. Szykman, *Asset Allocation and Information Overload: The Influence of Information Display, Asset Choice and Investor Experience* (Boston, Mass.: Center for Retirement Research, Sept. 28, 2004) and Sheena S. Iyengar and Wei Jiang, *The Psychological Costs of Ever Increasing Choice: A Fallback to the Sure Bet* (New York, N.Y.: Columbia University: Apr. 5, 2005).

[46]GAO, *Social Security Statements: Social Security Administration Should Better Evaluate Whether Workers Understand Their Statements*, GAO-05-192 (Washington, D.C.: Apr. 1, 2005); GAO, *Social Security Administration: Longstanding Problems in SSA's Letters to the Public Need to Be Fixed*, GAO/HEHS-00-179 (Washington, D.C.: Sept. 26, 2000); GAO, *Credit Cards: Increased Complexity in Rates and Fees Heightens Need for More Effective Disclosures to Consumers*, GAO-06-929 (Washington, D.C.: Sept. 12, 2006); and GAO, *SSA Benefit Statements: Well Received by the Public but Difficult to Comprehend*, GAO/HEHS-97-19 (Washington, D.C.: Dec. 5, 1996).

accounts, with enrollments for the three groups of 7, 21, and 27 percent, respectively.[47]

- *Leveraging the peer effect.* People are often more comfortable making a choice when they know that others in their peer group have made the same choice. Incorporating individuals' tendency to want to follow their peers can help motivate consumers to take action. In an experiment conducted at a large university, a random sample of employees in certain departments were promised a monetary reward for attending a benefits fair that presented information about tax-deferred account retirement plans. Employees were more likely to attend the fair—and ultimately to participate in the retirement plan—if colleagues in their department received a monetary award, even if the employees themselves received no such award.[48] Another study found that an effective tool for increasing participation in retirement accounts was to present videos encouraging participation that included fellow employees with certain characteristics similar to the target audience.[49]

Much of the literature and the experts we spoke with have noted that these various strategies to improve consumers' financial behavior and subsequent outcomes should not be viewed as a substitute for financial education but rather as a complement to it. The most effective approach to improving consumers' financial decision making and behavior may be to use a variety of these types of strategies in conjunction with financial education.

[47]Annamaria Lusardi, Punam Anand Keller, and Adam M. Keller, "New Ways to Make People Save: A Social Marketing Approach" in *Overcoming the Saving Slump: How to Increase the Effectiveness of Financial Education and Saving Programs*, ed. Annamaria Lusardi (Chicago, Ill.: University of Chicago Press, 2008), 209-236.

[48]Esther Duflo and Emmanuel Saez, "The Role of Information and Social Interactions in Retirement Plan Decisions: Evidence from a Randomized Experiment," *The Quarterly Journal of Economics*, 118 (2003): 815-842.

[49]Annamaria Lusardi, Punam Anand Keller, and Adam Keller, *Increasing the Effectiveness of Retirement Saving Programs for Females and Low Income Employees: A Marketing Approach* (Denver, Colo.: National Endowment for Financial Education, April 2009).

While Certifying Financial Literacy Providers Is Feasible, Doing So Would Pose Challenges

A Certification Process Could Take Many Forms Depending on Its Underlying Goals and Scope

If the federal government were to develop a process for approving or certifying financial literacy providers, a variety of approaches could be taken. At present, the federal government does not have a process for approving or certifying most organizations that provide financial education, with two notable exceptions. As previously mentioned, the U.S. Trustee Program approves credit counseling agencies and debtor education providers to meet requirements of the U.S. Bankruptcy Code.[50] In June 2005, the Trustee Program established its Credit Counseling and Debtor Education Unit to implement new statutory provisions.[51] Approximately 166 credit counseling agencies and 265 debtor education providers were approved by the Trustee Program as of March 2011. In addition, since 1968 HUD has had a process for approving housing counseling agencies through its Housing Counseling Program, and as of April 2011, there were 2,758 agencies participating in the program, of which HUD had approved 1,047.[52] These agencies provide a variety of housing counseling services and are the only ones that can provide counseling to meet the mandatory counseling requirements of certain

[50]The Bankruptcy Code, as amended by the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005, describes credit counseling as "an individual or group briefing (including a briefing conducted by telephone or on the Internet) that outline[s] the opportunities for available credit counseling and assist[s] such individual in performing a related budget analysis." 11 U.S.C. § 109(h)(1). "Debtor education" is described as "an instructional course concerning personal financial management." 11 U.S.C. § 111(d)(1)(C). The interim regulations require that the course must be conducted for a minimum of 2 hours and cover budget development, money management, wise use of credit, and consumer information. 28 C.F.R. § 58.25(f), (g).

[51]Bankruptcy Abuse Prevention and Consumer Protection Act of 2005, § 106, Pub. L. No. 109-8, 119 Stat. 23, 37-42 (2005) (amending various sections of Title 11).

[52]City, county, and state governments may participate as housing counseling agencies in HUD's program but do not require approval. Twenty participating entities were state housing finance agencies and 1,691 were branches and affiliates of approved intermediary organizations. HUD approves national and regional intermediaries that have a network of providers.

housing programs, such as the Federal Housing Administration's Home Equity Conversion Mortgage Program. Some nongovernmental entities also have certification processes or confer designations that are related to financial literacy. For example, the Institute for Financial Literacy—a nonprofit organization that provides financial literacy information and services—has recently implemented an accreditation process for organizations that provide financial education, which will be based on standards it has developed.[53] Some professional and trade organizations also confer designations—such as Certified Financial Educator—to individuals to indicate that certain examination, educational, or other requirements have been met. Some designations require a certification examination; an accredited degree, training, or relevant experience in the financial services industry; and continuing education.

The existence of the Trustee Program's and HUD's approval processes for credit counseling and debtor education and housing counseling organizations, respectively, suggests that it would be feasible for the federal government to implement an approval or certification process that would encompass financial literacy providers more broadly. However, initiating and developing such a process would require that Congress or the relevant federal agency or agencies address a number of issues, including the goals of the program, who would administer the process, what type of providers it would cover, what criteria or standards would apply to providers, and what degree of ongoing oversight would be put in place:

- **What are the goals of the certification process?** As we have reported in the past, defining a program's mission, strategic goals, and desired outcomes is critical.[54] The scope, structure, and design of any certification process for financial literacy providers would depend on what it set out to achieve. For example, a certification process whose primary goal was to protect consumers from low-quality or unscrupulous providers might have different characteristics and design from a process whose primary goal was to promote public awareness of financial education.

[53]In addition, the Institute for Financial Literacy certifies individuals to provide financial counseling, education, and related services.

[54]GAO, *Executive Guide: Effectively Implementing the Government Performance and Results Act*, GAO/GGD-96-118 (Washington, D.C.: June 1, 1996).

- **What entity would administer the certification?** A federal agency could operate a certification process directly or, alternatively, it could oversee or charter a nongovernmental entity to do so. Some stakeholders in the field of financial literacy told us that if a federal entity were to take on this responsibility, the Department of the Treasury, the Financial Literacy and Education Commission, or the Consumer Financial Protection Bureau would be plausible candidates. One representative of a federal agency suggested that several federal agencies could be involved, certifying providers that cover the topics or address the target audience under each agency's purview. Another model would be for the federal government to charter a nongovernmental intermediary that would implement the certification, with a federal agency overseeing that intermediary. This would be similar to HUD's process of approving intermediary organizations that then oversee and provide subgrants to branches and affiliates that provide the actual counseling to consumers. For example, NeighborWorks America, a federally chartered nonprofit corporation with its own nationwide network, receives federal funds to provide grants, training, and technical assistance to agencies that provide housing counseling.[55] As a HUD-approved intermediary organization, NeighborWorks must ensure that its affiliates meet the criteria for HUD approval and HUD does not approve each affiliate independently.

- **What entities would be covered?** A wide range of entities provide some form of financial education, including community-based organizations, large national nonprofits, trade and professional associations, credit counseling agencies, colleges and universities, credit unions, and private companies. Further, some of these entities provide broad financial education, while others focus on very specific topics. One step in developing a federal process for certifying financial literacy providers would be to determine the scope of the entities that would be eligible. Some stakeholders with whom we spoke noted that trying to encompass all types of financial literacy providers could be unrealistic. For example, applying consistent criteria and standards among programs using very different approaches and delivery mechanisms would be difficult. One representative of a federal agency suggested that there be separate certification processes based on the topics covered. The Institute for Financial Literacy, according to its representatives, has opted for a broader scope in developing its organizational accreditation, which is open to organizations that provide financial education either exclusively

[55]NeighborWorks America is an organization chartered by Congress in 1978 as the Neighborhood Reinvestment Corporation. 42 U.S.C. §§ 8101-8107. The organization began operating as NeighborWorks America in 2005.

or as part of a wider range of services, in which case only the relevant activities are accredited.

- **What criteria would be used?** Criteria would need to be developed for determining the certification of financial literacy providers. These criteria could include financial soundness, governance structure, size, populations served, reputation, and nonprofit status, among others. Criteria could also address the expertise and capacity of providers, including years of experience and staff knowledge in economics and personal finance education. Some stakeholders told us that for-profit companies that market or sell financial products should be ineligible, presumably because they may not provide unbiased information or may be more likely to use financial education to help sell products. Along these lines, only nonprofit organizations and units of government are eligible to become HUD-approved housing counseling agencies. By contrast, the Bankruptcy Code does not require entities approved to fulfill the debtor education requirement to be nonprofits, although it does require approved credit counseling agencies to be nonprofits. Some bank representatives told us that, within their industry, many entities provide financial education as a legitimate community service and do not use it to market products. One federal agency noted that a code of ethics could also be included as part of the certification process to help address these issues.

- **Should certification include content standards?** One option for certification would be to require that certified providers include in their programs certain content standards, such as specific topics that must be covered, or to require that certain core competencies be addressed.[56] Such standards could provide consistency and quality in the program content offered by certified financial literacy providers. For example, one financial literacy advocate told us that such standards would help teachers identify high-quality content for financial education incorporated into classroom instruction or after-school programs. The Trustee Program's interim final rule on procedures and criteria for debtor education providers specifies the topics that must be covered in the personal financial management instructional course required of bankruptcy filers prior to discharge of

[56]Some organizations have already developed model content standards or core competencies. For example, the Jump$tart Coalition for Personal Financial Literacy has developed "National Standards in K-12 Personal Finance Education," which delineate the personal finance knowledge and skills that elementary and secondary students should possess. The Department of the Treasury has developed a key set of "core competencies" that define what consumers should know to make informed decisions about their personal finances.

their debt.[57] HUD's Housing Counseling Program Handbook states that HUD has the option of requiring, promoting, or incentivizing the adoption and implementation of housing counseling and education standards. However, HUD does not generally specify the content its approved housing counseling agencies must cover.[58] An alternative to specific content standards would be to certify curricula or programs in lieu of providers. The certifying entity would need to assess those curricula periodically to determine that the information offered to consumers is accurate, up-to-date, and relevant.

- **What level of oversight would be conducted?** A federal process for certifying financial literacy providers would likely require some form of oversight to help ensure continued compliance with any statutory or program requirements. The level of oversight for certified entities could be fairly limited, such as a simple reporting requirement on activities performed. Alternatively, oversight could be more comprehensive and include such things as more detailed reporting requirements, complaint resolution, quality reviews, and administrative proceedings to remove entities when necessary. In addition, providers could be required to reapply regularly. For example, the Trustee Program requires approved credit counseling agencies and debtor education providers to reapply annually, and HUD assesses approved housing counseling agencies for reapproval at least every 3 years.

Federal Certification of Financial Literacy Providers Could Have Certain Benefits

Some representatives of federal agencies and organizations that provide or advocate for financial literacy cited potential benefits that could result from implementing a federal process for certifying financial literacy providers:

- *Improve overall quality.* A federal certification process could potentially improve the quality of organizations that chose to apply for certification and would need to meet a certain set of qualifications and standards. For example, Trustee Program officials told us that their approval process for financial education providers for the purposes of the bankruptcy process

[57]*Application Procedures and Criteria for Approval of Nonprofit Budget and Credit Counseling Agencies and Approval of Providers of a Personal Financial Management Instructional Course by United States Trustees*, Executive Office for United States Trustees, Justice, 71 Fed. Reg. 38076 (July 5, 2006).

[58]An exception is the counseling required for borrowers prior to receiving a Home Equity Conversion Mortgage, for which HUD specifies the items that must be discussed with the borrower.

may have encouraged higher standards among those providers. In addition, a certification process could raise the quality of the financial education community overall. For example, HUD officials noted that their Housing Counseling Program has helped set a standard for the industry as a whole.

- *Encourage greater program evaluation among providers.* A certification process could help to increase program evaluation efforts by encouraging provider organizations to assess their ability to meet certification standards and by requiring certified providers to report on outcomes. Representatives from one financial literacy organization told us that organizations that are interested in continuous improvement could benefit from such a process.

- *Help consumers identify competent providers.* From the consumer standpoint, a federal certification of financial literacy providers could serve as a federal "stamp of approval." Representatives from one trade association told us that certification could assist consumers and others in distinguishing among providers.

- *Increase public awareness.* A federal certification process could help draw public attention to the issue of financial literacy. Potentially, it could give providers additional visibility, which could raise the profile of financial literacy and encourage consumers to seek out these resources.

- *Weed out poor quality providers.* Federal certification could help to weed out poor quality or abusive financial literacy providers, according to a few stakeholders with whom we spoke, presumably because consumers might avoid providers that had not been certified.

- *Aid in building capacity.* Federal certification possibly could aid some financial literacy providers in garnering outside funding from foundations or other sources that they rely on for support. Recognition by a federal agency could provide legitimacy to nonprofit organizations that could help them leverage other resources. In addition, two financial literacy stakeholders suggested that the federal agency overseeing certification could serve as an information clearinghouse for providers. This could allow them to more readily access information on best practices, financial education resources, and the results of research on financial literacy issues. Certification might also provide networking opportunities among certified providers, who might share information and resources among themselves.

A Certification Process Could also Pose Challenges

A federal certification process for financial literacy providers would face certain challenges and potential downsides. Most notably, developing, implementing, and operating a federal process for certifying financial literacy providers would involve financial costs and staff resources for the federal agency administering the process. While each certification or approval process is unique, the experiences of the Trustee Program and HUD may offer insights into the potential resources that a broader certification process for financial literacy providers might entail.

Experiences of the Trustee Program and HUD

The Trustee Program spent $6.1 million between fiscal years 2005 and 2007 to develop its Credit Counseling and Debtor Education Unit, which was created in 2005 to administer the approval of credit counseling agencies and debtor education providers.[59] In fiscal year 2010, the Trustee Program spent $1.6 million in salaries and benefits for the unit, according to agency officials. The number of full-time equivalent staff assigned to the unit between fiscal years 2007 and 2010 ranged from 13 to 18, with field staff assisting on a rotational basis. For fiscal year 2011, 11 full-time equivalent staff had been assigned to the unit. These staff have been responsible for developing application forms and procedures, approving and monitoring credit counseling agencies and debtor education providers, and taking steps to help ensure that filers were meeting requirements. Because approved entities must submit an application each year, staff review hundreds of applications and reapplications annually, according to agency officials. The officials told us that based on their experience, any federal government process requiring periodic review and enforcement would require substantial resources. In addition, the rulemaking process related to approving credit counseling agencies and debtor education providers has been lengthy. For example, the Trustee Program is still using the interim final rules it proposed in July 2006. While it issued proposed rules in 2008, as of May 2011, neither final rule had been approved.[60]

[59]We estimated the costs associated with the Trustee Program's Credit Counseling and Debtor Education Unit in 2008. GAO, *Bankruptcy Reform: Dollar Costs Associated with the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005*, GAO-08-697 (Washington, D.C.: June 27, 2008).

[60]Lengthy rulemaking processes are not unusual. In a review of 16 significant final rules among a number of federal agencies, we found that the average length of time from initiation to final publication of a final rule was just over 4 years. GAO, *Federal Rulemaking: Improvements Needed to Monitoring and Evaluation of Rules Development as Well as to the Transparency of OMB Regulatory Reviews*, GAO-09-205 (Washington, D.C.: Apr. 20, 2011).

HUD has estimated that the cost of administering its Housing Counseling Program will be $18.8 million for fiscal year 2012, with the majority going toward salaries and benefits. This amount does not include the grants that HUD makes to some of those agencies. Estimates for prior years were not readily available, according to HUD, because until recently the cost of administering the housing counseling program was not segregated. Because responsibilities for the Housing Counseling Program are spread across the agency, HUD officials did not provide an exact number for full-time equivalent staff devoted to approving and overseeing housing counseling agencies. However, they estimated that approximately 200 staff members nationwide have significant responsibilities within the program. Those responsibilities include collecting and reviewing applications, processing reapprovals, monitoring approved agencies, and providing them with education and outreach. HUD staff conduct regular reviews of approved agencies—which can include conducting onsite visits—to determine if their performance meets program standards and requirements or to address risk-related issues. In December 2004, HUD first published proposed rules that set forth the eligibility requirements, performance standards, and administrative procedures required of approved housing counseling agencies. The final rule became effective in October 2007.[61] HUD staff told us that the initial development of the approval process for housing counseling agencies was relatively resource-intensive. HUD's handbook for the program provides guidance to its staff and to program participants, including the branches, affiliates, or sub-grantees of approved intermediaries. HUD also recently created standard operating procedures for staff to follow in conducting performance reviews. The Dodd-Frank Act established an Office of Housing Counseling within HUD, but federal budget constraints could delay its establishment and reduce the scale of HUD's activities.[62]

As noted earlier, some financial literacy stakeholders suggested that if a federal certification process is to be implemented, the financial education offices of either Treasury or the Consumer Financial Protection Bureau could be among the appropriate choices to implement this process. According to a Treasury official, the Office of Financial Education and Financial Access within Treasury has an allocation of six full-time equivalent staff for fiscal year 2011. The level of staff needed to operate a

[61]Housing Counseling Program, Department of Housing and Urban Development, 72 Fed. Reg. 55638 (Sept. 28, 2007) (codified at 24 C.F.R. Part 214).

[62]Pub. L. No. 111-203, Title XIV, Subtitle D, 124 Stat. 1376, 2163 (2010).

program for certifying financial literacy providers would clearly depend on the specific scope and nature of the program, but current staffing levels at Treasury's financial education office would likely be insufficient to take on such a responsibility. According to staff at the Consumer Financial Protection Bureau, its Office of Financial Education was still being staffed as of May 2011.

Other Considerations

While viewpoints varied, in general, a majority of the representatives of nonprofit and private sector financial literacy organizations, academic experts, and representatives of federal agencies with whom we spoke believed that the disadvantages of implementing a federal certification process for financial literacy providers outweighed the advantages. While such a process would be feasible, many stakeholders commented that it might not be the most productive use of the scarce federal resources available for financial literacy. In addition to the federal resources that would be required, several other challenges, disadvantages, and other factors were cited:

- *There would be administrative costs for the entities being certified.* Representatives of financial literacy organizations and others noted that applying for and maintaining federal certification would result in some administrative cost and burden for the participating organizations. Our review of public comments submitted in response to the Trustee Program's 2008 proposed rules found that some participating organizations noted the administrative burden caused by the requirements for the credit counseling and debtor education approval process, and one organization noted that it dedicated more than 100 employee hours each year to complete its application. The resources needed for administrative requirements such as these could act as a barrier to participation in any certification process for certain financial literacy providers—particularly smaller, community-based organizations.

- *Financial literacy providers are highly diverse.* Financial literacy is a wide-ranging field covering many different types of organizations, topics, and delivery mechanisms. For example, financial education can be provided in one-on-one counseling, in a classroom setting, via the Internet, as a set of curricula, or via broadcast or print media. A single uniform certification process covering financial literacy providers as a whole may be impractical or inappropriate. Moreover, the varying nature of providers and programs could require that certification include multiple processes.

- *Whether certification would improve provider quality is unclear.* Several stakeholders with whom we spoke questioned whether a federal certification process for financial literacy providers would help distinguish between higher-quality and lower-quality providers. They also noted that some high-quality providers might not even apply for certification if the benefit was not clear to them or the administrative burden appeared significant. Further, one stakeholder raised concern that the criteria required for financial literacy providers to be certified would create a "floor" of basic qualifications rather than actually serve to promote high standards. As we reported in 2009, there were issues related to counseling provided by HUD-approved housing counseling agencies for HUD's reverse mortgage program. We found that HUD's internal controls did not provide reasonable assurance that counseling providers were complying with program counseling requirements and, as a result, some prospective borrowers may not have been receiving the information needed to make informed decisions about obtaining a reverse mortgage.[63]

- *Whether consumers would recognize or use the certification is unclear.* Several stakeholders were skeptical that many consumers would select a financial literacy provider based on whether or not the provider had been federally certified. For example, staff at one federal agency noted that a certification process in and of itself would not necessarily result in greater consumer confidence in the advice they receive from certified providers.

- *A certification process may not weed out bad actors.* One potential goal of federal certification of financial literacy providers would be to help weed out unqualified or unscrupulous providers, but how certification would achieve that goal is not clear.

- *Financial literacy certification may not be an appropriate role for the federal government.* Several stakeholders questioned whether certifying financial literacy providers is an appropriate role for the federal government. In addition, staff at two federal agencies noted that the federal government should be prudent about certifying organizations because the certification could be misrepresented as an endorsement beyond what certification actually signified—that the organization met certain prescribed criteria.

- *There is a lack of consensus on what is effective in improving financial literacy.* As discussed earlier, the most effective ways of improving consumer financial literacy are still not fully known. Several financial literacy experts noted that there is not yet consensus or consistency

[63]GAO, *Reverse Mortgages: Product Complexity and Consumer Protection Issues Underscore Need for Improved Controls over Counseling for Borrowers*, GAO-09-606 (Washington, D.C.: June 29, 2009).

within the field on specific standards or core concepts that financial literacy programs should include. As a result, certifying financial literacy providers may be premature.

Some representatives of nonprofit and private sector financial literacy organizations, academic experts, and representatives of federal agencies with whom we spoke noted that there may be alternatives to a federal certification process that could still help achieve some of the same goals. For example, federal agencies could develop voluntary national standards or continue to promote core competencies and leading practices, such as those that have been identified by the Financial Literacy and Education Commission. Another potential option would be to require financial literacy provider organizations receiving federal funds to adhere to specific guidelines, which could address such areas as the information that organizations provide to consumers. Some stakeholders also noted that in lieu of a certification process, the federal government might promote provider competency more directly, such as by offering or funding additional training or technical assistance.

Agency Comments

We provided a draft of this report for review and comment to the Consumer Financial Protection Bureau, Department of Justice, FDIC, Federal Trade Commission, HUD, Securities and Exchange Commission, and Treasury. We incorporated technical comments from these agencies as appropriate. In addition, the Consumer Financial Protection Bureau provided a written response, which is reprinted in appendix III. The bureau noted the responsibilities it was given under the Dodd-Frank Act to promote financial education, with the overarching goal of improving consumers' ability to make informed choices in the financial services marketplace. The bureau said it believed that before any decision to create a federal financial literacy certification program could be made there would need to be additional exploration of the program's pros and cons, goals, potential methods, and alternatives.

We are sending copies of this report to the appropriate congressional committees, Consumer Financial Protection Bureau, Department of Justice, FDIC, Federal Trade Commission, HUD, Securities and Exchange Commission, Treasury, and other interested parties. In addition, the report will be available at no charge on GAO's Web site at http://www.gao.gov.

If you or your staffs have any questions about this report, please contact me at (202) 512-8678 or cackleya@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs are on the last page of this report. GAO staff who made major contributions to this report are listed in appendix IV.

Alicia Puente Cackley
Director, Financial Markets
and Community Investment

Appendix I: Scope and Methodology

Our objectives were to examine (1) what is known about which methods and strategies are effective for improving financial literacy, and (2) the feasibility of a process for certifying financial literacy providers and the benefits and challenges of doing so. For the purposes of this report, financial literacy providers generally refers to organizations, rather than individuals, and excludes entities that provide individualized advice for compensation, such as investment advisers or financial planners. In addition, our examination of a potential certification process focused on a process that would be operated or overseen by the federal government.

To address our first objective, we conducted a literature search to identify studies, reports, and articles related to the effectiveness of financial literacy and education efforts. We identified these documents through a search of ProQuest and ECO databases, which was augmented with a general Internet search based on key words to link financial literacy and education with effectiveness. We also asked for recommendations for papers from academic experts and from representatives of organizations that we interviewed, and we used the bibliographies of the studies we reviewed to identify additional studies. We categorized the identified studies based on their relevance to our objective and other characteristics. We limited our search to studies published since 2000 to help ensure that the material was still relevant. The focus of our search was on documents that addressed the effectiveness of financial literacy initiatives or programs and methods of evaluation; we generally excluded from our search documents that included only broader discussions of financial literacy or the extent to which consumers are financially literate. In addition, we reviewed papers that addressed the effectiveness of strategies for improving consumer behavior that are alternative to financial education and papers that addressed the application of behavioral economics to financial literacy and behavior. We limited our review to published works that were authored by academic researchers, think tanks, government agencies, or private or nonprofit organizations that we assessed to have a reasonable degree of experience or expertise in the field of financial literacy and education. We performed our searches from September 2010 to May 2011.

In total, we reviewed 142 studies that were identified through this search. We then screened these studies to identify those that met the following additional criteria: (1) represented original research (as opposed to a review of existing research); (2) used empirical evidence—that is, used data rather than anecdotal information; (3) evaluated the outcomes of a specific program, approach, or policy; and (4) were determined by a GAO methodologist to be sufficiently relevant and methodologically rigorous for inclusion in our report.[1] While we attempted to be thorough in our search methods, the 29 studies that met these criteria may not reflect all published studies that exist and meet these criteria, and do not reflect any studies that may exist that were unpublished or were not readily accessible. Of these 29 studies, 12 were published in peer-reviewed journals. In addition to these studies, we reviewed other studies and papers that addressed strategies for improving financial literacy that are separate from financial education (such as changes in retirement default options) that we deemed sufficiently reliable for our work because they were published in peer-reviewed academic journals, written by noted experts in financial literacy, or widely cited in the field of financial literacy and education.

We also conducted interviews with—and obtained documentation as applicable from—representatives of federal agencies whose missions involve consumer education and protection, including the Consumer Financial Protection Bureau, Federal Deposit Insurance Corporation, Board of Governors of the Federal Reserve System, Federal Trade Commission, Department of the Treasury, and Securities and Exchange Commission; the Financial Industry Regulatory Authority; nonprofit organizations that provide or advocate for financial literacy and education, including AARP, American Association of Family & Consumer Sciences, Consumer Federation of America, Employee Benefit Research Institute, Institute for Financial Literacy, Jump$tart Coalition for Personal Financial Literacy, Junior Achievement, National Endowment for Financial Education, National Foundation for Credit Counseling, and New America Foundation; one international organization, the Organization for Economic Co-operation and Development; and one financial services company, Freddie Mac. In addition, we held interviews with representatives of the American Bankers Association and the Credit Union National Association, and we also held group interviews with representatives of individual community banks and credit unions that are members of those entities. We also interviewed six academic researchers who focus on financial literacy.

To address our second objective, we conducted an Internet search for articles, studies, or position papers related to the feasibility of a process for certifying financial literacy providers. In addition, we solicited views

[1]Two of the papers looked at the American Dream Demonstration Project; one paper presented preliminary results and the second was the final evaluation report. We reviewed both of these papers, but for reporting purposes have counted them as a single study.

on the feasibility of such a process from the representatives of federal agencies, nonprofit organizations that educate or represent consumers, financial institutions, and other organizations cited above, as well as the six academic experts with whom we spoke. Using a semi-structured interview approach, we gathered their views on the potential advantages, disadvantages, and challenges of a certification program, as well as options for how it might be structured and implemented, which federal entity might be responsible for it, and how it might be overseen. We also reviewed documentation from and interviewed representatives of two nonprofit organizations, the Institute for Financial Literacy and the American Association of Family & Consumer Sciences, both of which have developed programs for certifying individuals or organizations that provide financial education.

In addition, for illustrative purposes, we gathered information on two existing processes within the federal government for approving organizations that provide some form of financial education. These were the processes conducted by (1) the Department of Justice's U.S. Trustee Program for approving credit counseling agencies and debtor education providers to meet certain requirements of the Bankruptcy Code, and (2) the Department of Housing and Urban Development (HUD) for approving housing counseling agencies under the Housing Counseling Program. We reviewed relevant documents related to these processes, including application forms, final and proposed rules, and program handbooks and guidance. In addition, we requested from the Trustee Program and HUD their estimated expenditures and staffing levels in fiscal years 2010 and 2011 related to the approval and oversight of providers under their respective programs, and data on the number of providers participating in their credit counseling and debtor education and housing counseling programs, respectively. We also obtained information from the Department of the Treasury and the Consumer Financial Protection Bureau on staffing levels for their financial education offices. We interviewed agency staff with program responsibility and discussed their methods for compiling the data, and we determined that these data were sufficiently reliable for our reporting purposes. For the Trustee Program, we also used information that we had collected for a prior report on the costs associated with their credit counseling and debtor education program during fiscal years 2005 through 2007.[2] We also interviewed

[2]GAO, *Bankruptcy Reform: Dollar Costs Associated with the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005*, GAO-08-697 (Washington, D.C.: June 27, 2008).

representatives of the Trustee Program and HUD to learn of their agencies' experiences in developing and implementing their approval processes, and to gather their views on the benefits and challenges that might be faced if a federal entity were to undertake an approval or certification process for a broader class of financial literacy providers.

We conducted this performance audit from September 2010 to June 2011 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix II: Literature Review of Selected Published Research Evaluating Financial Literacy Programs

This appendix includes studies of evaluations of financial literacy programs that met our criteria for inclusion in our in-depth review of selected studies. Table 1 provides an overview of the 29 studies, their authors, type of program covered, program or approach evaluated, evaluation method, and key findings.

Table 1: Selected Published Research Evaluating Financial Literacy Programs, 2000-2011

Study title	Author and source	Type of program	Program or approach evaluated	Evaluation method	Findings related to program effectiveness
Assessing the Effectiveness of Financial Fitness for Life in Eastern Kentucky	Cynthia L. Harter and John F. R. Harter, *Journal of Applied Economics and Policy* 28 (2009): 20-33.	Youth classroom	Financial Fitness for Life: a personal finance curriculum divided by grades from K–12 that offers a teacher's manual, student workbook and parent's guide	Pre- and post-test of program participants with control group comparison	The curriculum increased student financial knowledge of economic and financial concepts for all school levels as determined by a standardized test.
Education and Saving: The Long-Term Effects of High School Financial Curriculum Mandates	B. Douglas Bernheim, Daniel M. Garrett, and Dean M. Maki, *Journal of Public Economics* 80 (2001): 435-465.	Youth classroom	High school mandates: state requirements that mandate the inclusion of financial education in high school curricula	National survey of households	Adults who graduated high school after the adoption of a state mandate had significantly higher rates at which they saved and accumulated wealth during their adult lives than those who graduated before the mandate.
Evaluation of the NEFE High School Financial Planning Program 2003-2004	Sharon M. Danes and Heather Haberman (Denver, Colo.: National Endowment for Financial Education, 2004).	Youth classroom	The High School Financial Planning Program: basic high school financial planning curriculum that acquaints students with concepts such as financial planning, budget, saving and investing, credit, and insurance	Pre- and post-test of program participants with follow-up survey 3 months after completion of program	Three months after completing the curriculum, students reported improvements in all areas of financial knowledge, behavior, and confidence, with the exception of knowledge related to investment issues.

Study title	Author and source	Type of program	Program or approach evaluated	Evaluation method	Findings related to program effectiveness
Financial Management Practices of College Students from States with Varying Financial Education Mandates	Michael Gutter (Denver, Colo.: National Endowment for Financial Education, December 2009).	Youth classroom	High school mandates: state requirements that mandate the inclusion of financial education in high school curricula	Web survey of college students	Students from states without a financial education mandate tend to fare worse on the majority of financial outcome measures (risk tolerance, knowledge, and behavior) than do students from states with such mandates. States whose mandates included required courses and assessment showed the best results.
High School Economic Education and Access to Financial Services	Paul W. Grimes, Kevin E. Rogers and Rebecca Campbell Smith, *Journal of Consumer Affairs* 44 (2010): 317-335.	Youth classroom	General high school course in economics and business	Telephone survey of randomly selected sample of adults	Adults who had taken a high school course in economics and business were more likely to maintain a bank account later in life.
JA Finance Park Final Report	Evaluation and Training Institute (Los Angeles, Calif.: Junior Achievement, May 2008).	Youth classroom	JA Finance Park: economics education program for middle school students intended to develop personal money management skills and knowledge The instruction culminates in a day-long hands-on experience where students assume family and income scenarios.	Pre- and post-test of program participants	The program resulted in statistically significant increases in students' financial knowledge, ability to develop a personal budget, confidence in their monetary decisions, and ability to be successful.
Real Money. Real World: Results of the 2009 Follow-Up Study	Lisa Sotak Bateson and Theresa Ferrari (Columbus, Ohio: Ohio State University Extension, July 2009).	Youth classroom	Real Money. Real World: active, hands-on role play simulation in which students in grades 6-12 develop and manage a budget and make lifestyle and budget choices similar to those of a 25 year-old	Post test of program participants with 3-month follow-up	Students reported that after the program their financial behavior had improved, with over 80 percent reporting improvements in timely payment of loans, setting aside money for the future, and comparing prices.

Study title	Author and source	Type of program	Program or approach evaluated	Evaluation method	Findings related to program effectiveness
Smart Money: The Effect of Education, Cognitive Ability, and Financial Literacy on Financial Market Participation	Shawn Cole and Gauri Kartini Shastry (Cambridge, Mass.: Harvard Business School, February 2009).	Youth classroom	High school mandates: state requirements that mandate the inclusion of financial education in high school curricula	Census data	Individuals who attended school while a state financial education mandate was in effect had, on average, levels of investment income no different from individuals who attended school when there was not such a mandate.
State Curriculum Mandates and Student Knowledge of Personal Finance	Sharon Tennyson and Chau Nguyen, *Journal of Consumer Affairs* 35 (2001): 241-262.	Youth classroom	High school mandates: state requirements that mandate the inclusion of financial education in high school curricula	National high school test of personal financial literacy (Jump$tart)	Students in states that mandated specific course work in financial education scored significantly better in financial literacy tests than those in states without such a mandate.
Teen Financial Knowledge, Self-Efficacy, and Behavior: A Gendered View	Sharon M. Danes, and Heather R. Haberman, *Journal of Financial Counseling and Planning* 18 (2007): 48-60.	Youth classroom	The High School Financial Planning Program: basic high school financial planning curriculum that acquaints students with concepts such as financial planning, budget, savings and investing, credit, and insurance	Pre- and post- test of program participants	After studying the curriculum, females reported improvements in three more financial behaviors than did males. However, male students reported achieving their financial goals to a statistically greater level than did female students.
The Impact of Personal Finance Education Delivered in High School and College Courses	Tzu-Chin Martina Peng, Suzanne Bartholomae, Jonathan J. Fox, and Garrett Cravener, *Journal of Family and Economic Issues* 28 (2007): 265-284.	Youth classroom	General high school and college financial education courses	Online survey of alumni of a midwestern university	Participation in a college-level course—but not a high-school level course—with personal finance content was associated with higher levels of investment knowledge.

Study title	Author and source	Type of program	Program or approach evaluated	Evaluation method	Findings related to program effectiveness
The Stock Market Game Study: Brief Report	Trisha Hinojosa, Shazia Miller, Andrew Swanlund, Kelly Hallberg, Megan Brown, and Brenna O'Brien (Chicago, Ill.: FINRA Investor Education Foundation, July 2009).	Youth classroom	Stock Market Game: curriculum designed to teach students the importance of saving and investing, in which students manage imaginary investments online	Randomized controlled trial	Students who played the game significantly outperformed students who did not play the game on both mathematics and investor knowledge tests. A majority of students also reported that the simulation influenced them to think more about budgeting and financial planning.
What Does Financial Literacy Training Teach Us?	Bruce Ian Carlin and David T. Robinson, *NBER Working Paper Series* 16271 (2010): 1-33.	Youth classroom	JA Finance Park: economics education program for middle school students intended to develop personal money management skills and knowledge The instruction culminates in a day-long hands-on experience where students assume family and income scenarios.	Post-course application of materials	Students who participated in the financial literacy program made better financial decisions after the program. The students were also more likely to act on the advice they received as part of the simulation.
Money Savvy Kids Memphis Evaluative Report	Eric A. Hagedorn (El Paso, Tx.: Hagedorn Evaluation Services, January 2007).	Youth classroom	Money Savvy Kids: elementary school curriculum that teaches students about saving, spending, investing, and donating	Pre- and post-test of program participants	The program was effective in positively affecting students' attitudes and knowledge about spending, saving and investing money. The students improved on all but 1 of the 10 measured items, with 5 of the improvements significant.

Study title	Author and source	Type of program	Program or approach evaluated	Evaluation method	Findings related to program effectiveness
Financial Education, Financial Knowledge and Risky Credit Behavior of College Students	Jing Jian Xiao, Joyce Serido and Soyeon Shim (Terre Haute, Ind.: Networks Financial Institute, November 2010).	Youth/ young adult classroom	General high school and college financial education courses	Survey of 1st-year college students at a university	Taking personal finance courses in high school and college did not improve knowledge about credit issues and was associated with a higher likelihood of engaging in risky borrowing behavior.
A Longitudinal Evaluation of the Intermediate-Term Impact of the Money Smart Financial Education Curriculum upon Consumers' Behavior and Confidence	FDIC (Washington, D.C.: Federal Deposit Insurance Corporation, April 2007).	Adult classroom	Money Smart: financial education curriculum designed for low- and moderate-income individuals	Pre- and post-test of program participants with follow-up survey 6-12 months after completion of program	Participants had significant positive changes in behavior and attitude 6-12 months after the program. Participants were more likely to open deposit accounts, save money, use a budget, and have increased confidence in their financial abilities compared with prior to their participation.
Does Financial Education Affect Soldiers' Financial Behavior?	Catherine Bell, Daniel Gorin and Jeanne M. Hogarth (Terre Haute, Ind.: Networks Financial Institute, August 2009).	Adult classroom	U.S. Army Personal Financial Management Training: financial education program for young enlisted soldiers taught by college instructors which covers topics such as financial ethics, developing a spending plan, credit, and investing	Comparison group survey with follow-up 6 months after the program	When controlling for multiple factors, the study found that the course did not have an impact on most financial behaviors, with two exceptions. Soldiers who took the course were (1) more likely than the comparison group to report using informal spending plans and less likely to report using formal spending plans, and (2) were more likely to know the difference between discretionary and non-discretionary spending.

Study title	Author and source	Type of program	Program or approach evaluated	Evaluation method	Findings related to program effectiveness
Employer-Provided Retirement Planning Programs	Robert L. Clark, Melinda Sandler Morrill, and Steven G. Allen (paper presented at the Annual Conference of the Pension Research Council, University of Pennsylvania, April 2009).	Adult classroom	Employer-provided retirement seminar	Pre- and post-test of program participants at five companies	Participants demonstrated substantial increases in knowledge and confidence and later reported certain changes in their decision making, such as altering their expected retirement age.
Financial Knowledge of the Low-Income Population: Effects of a Financial Education Program	Min Zhan, Steven G. Anderson, and Jeff Scott, *Journal of Sociology and Social Welfare* 53 (2006): 53-74.	Adult classroom	Financial Links for Low-Income People: basic financial management training to persons earning less than 200 percent of the poverty level	Pre- and post-test of program participants	The financial training improved knowledge levels in all subject areas, although knowledge gains differed significantly based on certain participant characteristics, such as marital status and English proficiency.
Force or Free Will? A Comparative Analysis of Mandatory Versus Voluntary Debtor Education	Pamela P. Stokes and Adolfo Benavides, *Journal of Legal, Ethical and Regulatory Issues* 7 (2004): 73-85.	Adult classroom	Money management courses for debtors who filed for bankruptcy under Chapter 13	Survey of program participants who attended a debtor education class over varying time frames	Debtor education classes improved the short-term and long-term financial management skills and behaviors of participants. Both mandatory and voluntary attendees benefited from the classes, although voluntary attendees reported the greatest benefit.
Saving and the Effectiveness of Financial Education	Annamaria Lusardi (Hanover, N.H.: Dartmouth College, January 2004).	Adult classroom	Employer-based retirement seminars	National survey of households born between 1931 and 1941	Individuals who attended an employer-based retirement seminar increased their financial wealth by almost 20 percent compared to those who did not attend a seminar.

Study title	Author and source	Type of program	Program or approach evaluated	Evaluation method	Findings related to program effectiveness
Saving Performance in the American Dream Demonstration: A National Demonstration of Individual Development Accounts (Final Report)	Mark Schreiner, Margaret Clancy, and Michael Sherraden (St. Louis, Mo.: Washington University, October 2002).	Adult classroom	Individual Development Accounts' financial education component These accounts are designed to improve access to savings institutions for low-income individuals by matching deposits made for certain purposes. Participants also receive financial education.	Survey of participants and a control group 18 and 42 months after program start	The number of hours of general financial education received correlated with the amount that participants saved, although more than 8 to 10 hours had no additional effect.
The Effects of Financial Education in the Workplace: Evidence from a Survey of Households	B. Douglas Bernheim and Daniel M. Garrett, *Journal of Public Economics* 87 (2003): 1487–1519.	Adult classroom	Employer-based financial education	National telephone survey of respondents between 30 and 48 years old	Employees who attended employer-based financial education were more likely to participate in 401(k) plans and increased the amount they saved for retirement.
The Effects of Financial Education on the Financial Knowledge of High School Students	William B. Walstad, Ken Rebeck, and Richard A. MacDonald, *Journal of Consumer Affairs* 44 (2010): 336–357.	DVD-based youth curriculum	Financing Your Future: high school personal finance program delivered through a video that covers concepts such as saving, banking, credit, and budgeting	Pre- and post-test of program participants with control group comparison	Students who participated in the program showed a much larger gain in financial knowledge than the control group, increasing their scores on 29 of the 30 measured items, as compared to 1 for the control group.
Using a Financial Education Curriculum for Teens	Karen P. Varcoe, Allen Martin, Zana Devitto, and Charles Go, *Financial Counseling and Planning* 16 (2005): 63-71.	Newsletter-based youth curriculum	Money Talks: series of four newsletters geared toward high school students aged 13-18 years, which cover topics including saving habits, shopping tips, car costs, and money values	Pre- and post-test of program participants	The curriculum had a positive impact on the participants' knowledge and behavior, such as improved saving behavior and shopping decisions.

Study title	Author and source	Type of program	Program or approach evaluated	Evaluation method	Findings related to program effectiveness
The Impact of Credit Counseling on Subsequent Borrower Behavior	Gregory Elliehausen, E. Christopher Lundquist, and Michael E. Staten, *Journal of Consumer Affairs* 41 (2007):1-28.	Counseling	Credit counseling: personalized advice and assistance to consumers who are typically deeply in debt	Control group comparison over 3 years from the initial session	Borrowers who received credit counseling improved their credit profile and performance over the subsequent 3 years, compared with borrowers with similar initial credit profiles who did not receive counseling.
Starting a New Chapter: The Role of Credit Counseling in Helping Debtors Recover from Bankruptcy	Angela C. Lyons, Shawn Howard, and Eric Scherpf (Terre Haute, Ind.: Networks Financial Institute, November 2010).	Counseling	Credit counseling required to file for bankruptcy	Pre- and post-test of program participants	Participants significantly improved their performance on a knowledge-based test, felt more knowledgeable about the bankruptcy process and the options available to deal with their financial problems, and felt that their overall ability to manage their finances had improved.
A Little Knowledge Is a Good Thing: Empirical Evidence of the Effectiveness of Pre-Purchase Homeownership Counseling	Abdighani Hirad and Peter M. Zorn (Cambridge, Mass.: Joint Center for Housing Studies, Harvard University, August 2001).	Counseling	Affordable Gold: loan program targeted for borrowers who earn 100 percent or less of area median income Freddie Mac required that at least one qualifying borrower receive pre-purchase homeownership counseling.	Control group comparison of loan participants over at least 18 months from loan origination	Borrowers who received pre-purchase counseling were, on average, 13 percent less likely to become 60-day delinquent during the study period. In addition, those who received individual counseling were half as likely to become delinquent as those that received their counseling in a classroom.

Study title	Author and source	Type of program	Program or approach evaluated	Evaluation method	Findings related to program effectiveness
Is Technology-Enhanced Credit Counseling as Effective as In-Person Delivery?	John M. Barron and Michael E. Staten (Philadelphia, Pa.: Federal Reserve Bank of Philadelphia, February 2011).	Counseling	Credit counseling: personalized advice and assistance to consumers who are typically deeply in debt	Credit report comparison 1 year prior to, at the time of, and 2 and 4 years after the initial counseling	Credit counseling offered via the telephone or Internet resulted in outcomes no worse–and in some cases better–than counseling offered face-to-face.

Source: GAO.

Appendix III: Comments from the Consumer Financial Protection Bureau

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

June 13, 2011

Ms. Alicia Puente Cackley
Director, Financial Markets and Community Investment
U.S. Government Accountability Office
441 G Street N.W.
Washington, D.C. 20548

Dear Ms. Cackley:

Thank you for the opportunity to comment on the GAO's draft report titled *Financial Literacy: A Federal Certification Process for Providers Would Pose Challenges.*

The Consumer Financial Protection Bureau (CFPB) welcomes this report and commends the GAO for its comprehensive review of the studies evaluating the effectiveness of financial literacy programs. Financial education is one of the responsibilities of the CFPB under the Dodd-Frank Wall Street Reform and Consumer Protection Act. The statute directs the CFPB to establish an Office of Financial Education to develop and implement initiatives to educate and empower consumers to make better informed financial decisions. Other offices established under the statute, including the Office of Servicemember Affairs, the Office of Fair Lending and Equal Opportunity, and the Office of Financial Protection for Older Americans, are also tasked with advancing financial education. The overarching goal of this work will be to improve the ability of consumers to make informed choices in the financial services marketplace.

As the report points out, there are many programs and strategies to improve consumers' financial decision making. The CFPB agrees with the report's characterization of financial literacy as the "ability to use knowledge and skills to manage financial resources effectively" for a lifetime of financial well-being. Ensuring that financial literacy programs improve financial outcomes for individuals and families is a challenging task. The report raises important considerations about how a certification process could potentially affect the quality and supply of effective providers of financial literacy programs.

GAO identifies both benefits and significant challenges to developing a federal financial literacy certification process. We believe additional exploration of the pros and cons of a certification process, the goals of a certification, potential methods of certification, and alternatives to certification would be needed before any decision to create a federal certification program could be made.

The CFPB will be coordinating our financial education and financial capability efforts with those of other federal agencies as we work toward the shared goal of improving the overall financial literacy of consumers. This report is timely and helpful to this effort.

Thank you for your work on this important issue.

Sincerely yours,

Gail Hillebrand
Associate Director
Consumer Education and Engagement
Consumer Financial Protection Bureau

Appendix IV: GAO Contact and Staff Acknowledgments

GAO Contact

Alicia Puente Cackley (202) 512-8678 or cackleya@gao.gov

Staff Acknowledgments

In addition to the contact named above, Jason Bromberg (Assistant Director), Bernice Benta, Tania Calhoun, Daniel Newman, Jennifer Schwartz, Andrew Stavisky, and Seyda Wentworth made key contributions to this report.

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