Congressional Research Service
Informing the legislative debate since 1914

# Financial Literacy and Financial Education Policy Issues

October 18, 2021

**Congressional Research Service**
https://crsreports.congress.gov
R46941

Congressional Research Service
Informing the legislative debate since 1914

# Financial Literacy and Financial Education Policy Issues

SUMMARY

R46941

October 18, 2021

**Cheryl R. Cooper**
Analyst in Financial Economics

Throughout their lives, Americans make financial decisions about saving, borrowing, and investing that can be complex and affect their financial well-being both now and in the future. Informed financial choices can help households as they work to avoid financial hardship, build assets, and achieve financial security over the course of their lives. Having a better understanding of financial products, terms, and costs may help consumers improve their financial circumstances and be less vulnerable to financial scams. While informed consumers can make consumer financial markets more competitive and efficient, not all consumers may be well-equipped to navigate complex financial markets, and many consumers have trouble managing their financial lives.

*Financial literacy* describes the skills, knowledge, and tools that equip people to make individual financial decisions and take actions to attain their goals. Research suggests that financial literacy is important, because it is correlated with good financial management behaviors and attaining higher financial well-being. For example, higher financial literacy is correlated with good credit management (e.g., timely payment of bills, taking on sustainable amounts of debt), planning for retirement, and higher wealth accumulation.

Research suggests that many Americans have low financial literacy and are not knowledgeable about many financial concepts. Financial literacy varies in the U.S. population based on demographic characteristics. African American and Hispanic adults, women, lower-income adults, adults with less formal education, and younger adults tend to have lower financial literacy relative to the rest of the population.

For this reason, some policymakers are interested in financial education programs in order to improve the capacity of consumers to make good financial decisions. *Financial education* describes the process by which people gain information, skills, confidence, and motivation to act, through various means, including classroom education, one-on-one counseling and coaching, technology-based intervention, and self-study.

Research suggests that, while financial literacy is important, improving consumers' financial literacy is difficult, and the impact of financial education programs on financial literacy and ultimately financial well-being is mixed. Improved financial outcomes may depend upon the quality and design of financial education programs.

The federal government has played an important role in financial literacy and education, particularly through the dissemination of financial education research, best practices, and resources for practitioners. Many federal government agencies engage in financial education activities. Congress created the Financial Literacy and Education Commission (FLEC) to coordinate these activities throughout the federal government. The FLEC is comprised of the heads of 22 agencies and the White House Domestic Policy Council. It is chaired by the Secretary of the Treasury, and the vice-chair is the Consumer Financial Protection Bureau (CFPB) Director. The Treasury Department's Office of Consumer Policy coordinates the commission. The statutory purpose of the FLEC is to "improve the financial literacy and education of persons in the United States through development of a national strategy to promote financial literacy and education."

Many policymakers are interested in potential areas of improvement relating to the federal government's role in financial literacy and financial education. For example, a significant policy issue relates to whether changes to the FLEC could improve its effectiveness as a coordinator within the federal government and its leadership role more broadly in the field of financial education. Debate exists about whether FLEC's structure or activities should be changed to better achieve its statutory goals.

# Contents



## Tables



## Contacts

Throughout their lives, Americans make financial decisions about saving, borrowing, and investing that can be complex and affect their financial well-being both now and in the future. Informed financial choices can help households as they work to avoid financial hardship, build assets, and achieve financial security over the course of their lives. Consumer understanding of financial products may help consumers avoid financial scams[1] or find better products for their situation, making financial markets more competitive and efficient.[2]

Not all consumers may be well-equipped to navigate complex financial markets and make informed financial decisions. In the United States, many consumers have difficulty managing their finances. More than half of Americans feel anxiety about their personal finances, and about half report difficulties meeting their monthly expenses.[3] In addition, research suggests that many families may not have much emergency savings. For example, a 2019 Federal Reserve survey found that 37% of families reported not being able to cover a $400 emergency expense with savings or the equivalent.[4] Some consumers can find it difficult to gain access to affordable financial products and services that meet their needs.[5]

For these reasons, some policymakers are interested in promoting *financial literacy* through *financial education programs* in order to improve individuals' *financial well-being*. In this report, those terms are defined as follows:

- *Financial literacy* describes the "skills, knowledge, and tools that equip people to make individual financial decisions and actions to attain their goals."[6]
- *Financial education* describes "the process by which people gain information, skills, confidence, and motivation to act, through various means, including classroom education, one-on-one counseling and coaching, technology-based intervention, and self-study."[7]
- *Financial well-being* is defined as "control over day-to-day, month-to-month finances; the ability to absorb a financial shock; on track to meet your financial goals; and the financial freedom to make the choices that allow you to enjoy life."[8] It is a measure of success for financial education programs developed by the Consumer Financial Protection Bureau (CFPB).[9]

---

[1] See Jeremy Burke et al., *Can Educational Interventions Reduce Susceptibility to Financial Fraud?* FINRA Investor Education Foundation, Insights: Financial Capability, March 2021, at https://www.finrafoundation.org/sites/finrafoundation/files/can-educational-interventions-reduce-susceptibility-to-financial-fraud.pdf.

[2] See Justine Hastings, Brigitte Madrian, and William Skimmyhorn, "Financial Literacy, Financial Education and Economic Outcomes," *Annual Review of Economics*, vol. 5, no. 1 (2013), pp. 347-373.

[3] Judy Lin et al., *The State of U.S. Financial Capability: The 2018 National Financial Capability Study*, FINRA Investor Education Foundation, June 2019, pp. 4, 8, at https://www.usfinancialcapability.org/downloads/NFCS_2018_Report_Natl_Findings.pdf.

[4] Board of Governors of the Federal Reserve, *Report on the Economic Well-Being of U.S. Households in 2019, Featuring Supplemental Data from April 2020*, May 2020, pp. 2-3, at https://www.federalreserve.gov/publications/files/2019-report-economic-well-being-us-households-202005.pdf.

[5] For more information, see CRS Report R45979, *Financial Inclusion and Credit Access Policy Issues*, by Cheryl R. Cooper.

[6] U.S. Financial Literacy and Education Commission (FLEC), *U.S. National Strategy for Financial Literacy*, 2020, p. 2, at https://home.treasury.gov/system/files/136/US-National-Strategy-Financial-Literacy-2020.pdf.

[7] FLEC, *U.S. National Strategy for Financial Literacy*, 2020, p. 2.

[8] Consumer Financial Protection Bureau (CFPB), *Financial Well-Being: The Goal of Financial Education*, January 2015, p. 5, at https://www.consumerfinance.gov/data-research/research-reports/financial-well-being/.

[9] For more technical information about the financial well-being scale's development, see CFPB, *CFPB Financial Well-*

Research suggests that many Americans have low financial literacy and are not knowledgeable about many financial concepts. For example, in a 2019 Federal Reserve survey,[10] 35% correctly answered three standard financial literacy questions used commonly in academic studies on interest rates, inflation, and investment diversification.[11] This finding is similar for other types of financial literacy questions as well. For example, on another six-question scale used in a different survey, 7% of respondents answered all six questions correctly, and 40% answered at least four of the six questions correctly (two-thirds correct).[12]

On average, financial literacy varies in the U.S. population across demographic characteristics. African American and Hispanic adults, women, lower-income adults, adults with less formal education, and younger adults[13] were more likely to answer fewer financial literacy questions correctly than the rest of the population.[14] For younger adults, financial literacy is also correlated with parental education.[15] While educational attainment is correlated with financial literacy, it is generally not a good proxy for financial literacy, as the impact of financial literacy on consumer finances is generally more than the impact of education alone.[16]

Rather than measure the effectiveness of financial education programs solely based on improvements in financial literacy (e.g., whether the course participants increase their knowledge of financial terminology or can solve math problems), an alternative measure may be to observe any improvement in individuals' financial well-being, a measure that aims to reflect financial situations of consumers. The CFPB found that consumers' scores on its financial well-being scale

*Being Scale: Scale development technical report*, May 26, 2017, at https://www.consumerfinance.gov/data-research/research-reports/financial-well-being-technical-report/.

[10] Board of Governors of the Federal Reserve, *Report on the Economic Well-Being of U.S. Households in 2019, Featuring Supplemental Data from April 2020*, pp. 51-52.

[11] In the academic literature, financial literacy is often measured by standard questions designed by Lusardi and Mitchell related to compound interest, inflation, and risk diversification:

1) Suppose you had $100 in a savings account and the interest rate was 2% per year. After 5 years, how much do you think you would have in the account if you left the money to grow: [**more than $102**, exactly $102, less than $102? Do not know, refuse to answer.]

2) Imagine that the interest rate on your savings account was 1% per year and inflation was 2% per year. After 1 year, would you be able to buy: [more than, exactly the same as, or **less than today** with the money in this account? Do not know; refuse to answer.]

3) Do you think that the following statement is true or false? "Buying a single company stock usually provides a safer return than a stock mutual fund." [True, **False**, Do not know; refuse to answer.]

For more information, see Annamaria Lusardi and Olivia Mitchell, "The Economic Importance of Financial Literacy: Theory and Evidence," *Journal of Economic Literature*, vol. 52, no. 1 (2014), p. 10.

[12] The six financial literacy questions focus on "interest rates and inflation, principles relating to risk and diversification, the relationship between bond prices and interest rates, the impact that a shorter term can have on total interest payments over the life of a mortgage, and compounding interest on a loan." See Judy Lin et al., *The State of U.S. Financial Capability: The 2018 National Financial Capability Study*, FINRA Investor Education Foundation, June 2019, p. 33, at https://www.usfinancialcapability.org/downloads/NFCS_2018_Report_Natl_Findings.pdf.

[13] Other research also suggests that younger adults may have lower financial literacy than other adults. For example, see TIAA Institute, *Millennials and Money: Financial Preparedness and Money Management Practices before COVID-19*, Research Dialogue, Issue no. 167, August 2020, p. 4, at https://www.tiaainstitute.org/publication/millennials-and-money-0.

[14] Judy Lin et al., *The State of U.S. Financial Capability: The 2018 National Financial Capability Study*, pp. 33-35; and Annamaria Lusardi and Olivia S. Mitchell, "The Economic Importance of Financial Literacy," p. 17.

[15] Annamaria Lusardi and Olivia S. Mitchell, "The Economic Importance of Financial Literacy," pp. 20-21.

[16] Annamaria Lusardi and Olivia Mitchell, "Financial Literacy around the World: An Overview," *Journal of Pension Economics and Finance*, vol. 10, no. 4 (2011), p. 504; and Annamaria Lusardi and Olivia S. Mitchell, "The Economic Importance of Financial Literacy," p. 23.

reflect real differences in underlying financial situations and provide information beyond traditional financial metrics, such as access to credit and savings.[17]

This report explores financial literacy, financial education, and related policy issues. First, the report describes federal government activities related to financial education, including the Financial Literacy and Education Commission (FLEC), which Congress created to coordinate efforts related to financial literacy and financial education throughout the federal government. Second, the report provides an overview of research on financial literacy and financial education, including best practices in financial education programs. Lastly, the report discusses relevant policy issues, including efforts to improve the effectiveness of FLEC and whether the federal government should increase support for local financial education programs.

# Financial Education and Federal Government Activities

The federal government promotes financial literacy and education by disseminating financial education research, best practices, and resources for practitioners. Many federal government agencies engage in financial education activities. For this reason, Congress created the Financial Literacy and Education Commission (FLEC) to coordinate these activities throughout the federal government.

This section of the report provides an overview of the FLEC and its current activities. It also highlights the CFPB's financial education activities, the sole agency where financial education is mandated as a core function.

## The Financial Literacy and Education Commission (FLEC)

The FLEC, created by the Fair and Accurate Credit Transactions Act of 2003 (P.L. 108-159), and updated in 2010 by the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act, P.L. 111-203), coordinates the financial literacy and education activities sponsored by various federal agencies. The FLEC is comprised of the heads of 22 agencies and the White House Domestic Policy Council (see **Table 1** for a list of agency members). It is chaired by the Secretary of the Treasury, and the vice-chair is the CFPB Director. The Treasury Department's Office of Consumer Policy coordinates the commission.

The statutory purpose of the FLEC is to "improve the financial literacy and education of persons in the United States through development of a national strategy to promote financial literacy and education."[18] FLEC agencies meet regularly to try to "streamline, improve, or augment the financial literacy and education programs, grants, and materials of the Federal Government, including curricula for all Americans."[19] The FLEC is also tasked with establishing best practices for teaching financial literacy, and maintaining a website with financial education resources for

[17] For example, savings, which acts as a buffer against unanticipated and adverse financial events, has the strongest positive correlation with financial well-being. Financial well-being is negatively correlated with being denied credit, non-bank short-term credit use, and being contacted by a debt collector. For more information, see CFPB, *Financial Well-Being in America*, September 2017, pp. 6-7, at https://www.consumerfinance.gov/data-research/research-reports/financial-well-being-america/.

[18] 20 U.S.C. § 9702.

[19] 20 U.S.C. § 9703.

the public.[20] The FLEC is also charged with creating, implementing, and regularly updating a national strategy to promote basic financial literacy and education among American consumers.

**Table 1. Members of the Financial Literacy and Education Commission (FLEC)**

| | |
|---|---|
| Treasury Department | Department of Housing and Urban Development |
| Consumer Financial Protection Bureau | Department of the Interior |
| Office of the Comptroller of the Currency | Department of Labor |
| Board of Governors of the Federal Reserve System | Department of Veterans Affairs |
| Federal Deposit Insurance Corporation | Federal Trade Commission |
| Federal Emergency Management Agency | General Services Administration |
| National Credit Union Administration | Small Business Administration |
| Securities and Exchange Commission | Social Security Administration |
| Department of Education | Commodity Futures Trading Commission |
| Department of Agriculture | Office of Personnel Management |
| Department of Defense | White House Domestic Policy Council |
| Department of Health and Human Services | |

**Note:** List of commission member agencies in the FLEC is available at https://home.treasury.gov/policy-issues/consumer-policy/financial-literacy-and-education-commission.

In recent years, the FLEC has published national strategies for financial literacy[21] and led the "coordination among federal member agencies in providing information and guidance for consumers on timely financial topics."[22] In general, rather than directly administering financial education programs, the federal government's role in financial education has been primarily one of policy development, research coordination, and program development, to "support, inform, and improve the broader financial education field."[23]

Many FLEC agencies have their own programs, based on their agency's mission, mandate, and functions. For example: the U.S. Department of Defense leads programs on personal financial management for military servicemembers; the U.S. Department of Housing and Urban Development offers housing counseling certifications and grants; and the Department of Labor provides educational resources on workplace retirement plans and saving for retirement.[24] Recently, the FLEC agencies have responded to the Coronavirus Disease 2019 (COVID-19) pandemic with financial educational materials to help impacted consumers.[25]

[20] FLEC's website, https://www.mymoney.gov/, maintains resources for financial education researchers, teachers and educators, and youth.

[21] FLEC, *U.S. National Strategy for Financial Literacy*, 2020.

[22] FLEC, *U.S. National Strategy for Financial Literacy*, 2020, p. 3.

[23] FLEC, *U.S. National Strategy for Financial Literacy*, 2020, p. 5.

[24] FLEC, *Annual Report to Congress*, 2020, pp. 9-16, at https://home.treasury.gov/system/files/231/FLEC-ANNUAL-REPORT-2020-final.pdf; and GAO, *Financial Literacy: Overview of Federal Activities, Programs, and Challenges*, 14-556T, April 30, 2014, pp. 4-5, at https://www.gao.gov/products/GAO-14-556T.

[25] FLEC, *Annual Report to Congress*, 2020, pp. 2-5.

## The CFPB's Financial Education Activities

The Dodd-Frank Act created the CFPB and mandated financial education as a core function of the new agency.[26] The act established an Office of Financial Education within the CFPB to "be responsible for developing and implementing initiatives intended to educate and empower consumers to make better informed financial decisions."[27] As such, the office is tasked with creating a strategy to improve consumers' financial literacy. The Dodd-Frank Act also created other offices within the CFPB, such as the Office of Service Member Affairs and the Office of Financial Protection for Older Americans, and enumerated responsibilities for these offices related to improving financial literacy or providing education and counseling for specific groups of consumers.

The CFPB publishes an annual report to Congress on its strategy to improve consumers' financial literacy and its financial literacy activities.[28] In its 2020 annual report, the CFPB outlines a financial literacy strategy to: (1) provide financial education to the public, such as through online resources[29] and coordination with community organizations;[30] (2) share research on effective financial education and financial well-being with financial educators; and (3) address financial inclusion needs of military servicemembers, older Americans, traditionally underserved consumers, and students.[31] Recently, the CFPB has included more information on its website to help consumers during the COVID-19 pandemic.[32] During FY2020, 12.1 million consumers used the CFPB's digital and print financial education materials, and an additional 4 million consumers accessed the CFPB's COVID-19 pandemic resources.[33]

### The CFPB's Civil Penalty Fund

The Dodd-Frank Act also established a civil penalty fund at the CFPB.[34] The primary purpose of the fund is to compensate consumers who have been harmed by companies that the CFPB has taken judicial or administrative actions against under federal consumer financial laws. If victims cannot be located or payments are otherwise not practicable, the CFPB can allocate unused funds for consumer education and financial literacy programs. The fund administrator determines the amount of funds to allocate towards financial education every six months.[35]

[26] For background on the CFPB and its other functions and authorities, see CRS In Focus IF10031, *Introduction to Financial Services: The Consumer Financial Protection Bureau (CFPB)*, by Cheryl R. Cooper and David H. Carpenter.

[27] 12 U.S.C. § 5493(d)(1).

[28] CFPB, *Financial Literacy Annual Report*, December 2020, at https://files.consumerfinance.gov/f/documents/cfpb_financial-literacy_annual-report_2020.pdf.

[29] For more information about the CFPB's resources for consumers, see https://www.consumerfinance.gov/consumer-tools/.

[30] For more information about the CFPB's resources for financial education practitioners, see https://www.consumerfinance.gov/consumer-tools/educator-tools/.

[31] CFPB, *Financial Literacy Annual Report*, December 2020, p. 9.

[32] For more information about the CFPB's resources for consumers during the COVID-19 pandemic, see https://www.consumerfinance.gov/coronavirus/.

[33] CFPB, *Financial Literacy Annual Report*, December 2020, p. 32.

[34] 12 U.S.C. § 5497(d).

[35] Details about the CFPB's procedures for allocating civil penalty funds can be found at CFPB, "Consumer Financial Civil Penalty Fund," 78 *Federal Register* 26489-26504, May 7, 2013.

Civil penalty fund money for consumer education and financial literacy programs is awarded as contracts through the federal procurement process.[36] The CFPB's criteria for programs includes promoting and enhancing the economic security of consumers and their financial literacy, either through developing decision-making skills, promoting savings, or making it easier for consumers to access financial products and/or services.[37] Programs must also have an evaluation component.[38] As of the end of FY2020, the CFPB had allocated $28.8 million from the civil penalty fund for consumer education and financial literacy programs since its creation in 2011.[39]

# Research on Financial Literacy, Financial Education, and Financial Well-Being

While financial literacy is important for consumers to manage their finances successfully, improving consumers' financial literacy is difficult. The quality and design of specific programs are important in order to be effective for consumers.

This section of the report first discusses research about the importance of financial literacy in enabling consumers to manage their financial lives successfully and to have positive financial well-being. Then it discusses best practices for financial education programs, and research on the mixed effectiveness of various youth and adult programs.

## Why Financial Literacy Is Important

Research suggests that financial literacy is correlated with good financial management behaviors and financial well-being.[40] Both financial knowledge and financial skills[41] have a strong relationship with financial well-being.[42] People with higher financial well-being tend to have effective money management skills, do financial research, make financial plans, and more often follow through on financial decisions.[43] CFPB research suggests that, even when controlling for economic opportunity, financial skills and behavior are also associated with an individual's financial situation and well-being.[44]

---

[36] For more information about the CFPB's consumer education and financial literacy part of the civil penalty fund, see https://www.consumerfinance.gov/enforcement/payments-harmed-consumers/civil-penalty-fund/consumer-education-financial-literacy/.

[37] CFPB, *Criteria for Use of Civil Penalty Fund Monies for Consumer Education and Financial Literacy Programs*, p. 2, at https://files.consumerfinance.gov/f/201207_cfpb_civil_penalty_fund_criteria.pdf.

[38] CFPB, *Criteria for Use of Civil Penalty Fund Monies for Consumer Education*, pp. 2-3.

[39] CFPB, *Annual Performance Plan and Report, and Budget Overview*, February 2021, p. 20, at https://files.consumerfinance.gov/f/documents/cfpb_performance-plan-and-report_fy21.pdf.

[40] CFPB, *Financial Well-Being in America*, September 2017, pp. 66-67.

[41] The CFPB developed a financial skill scale, which includes: (1) knowing when and how to find reliable information to make a financial decision; (2) knowing how to process financial information to make sound financial decisions; and (3) knowing how to execute financial decisions, adapting as necessary to stay on track. For more information on how the CFPB measures financial skill, see CFPB, *Measuring Financial Skill: A Guide to Using the Bureau of Consumer Financial Protection's Financial Skill Scale*, September 14, 2018, at https://www.consumerfinance.gov/data-research/research-reports/measuring-financial-skill/.

[42] CFPB, *Financial Well-Being in America*, September 2017, pp. 66-67.

[43] CFPB, *Financial Well-Being: The Goal of Financial Education*, January 2015, p. 6.

[44] CFPB, *Pathways to Financial Well-Being: The Role of Financial Capability*, September 2018, p. 7, at https://www.consumerfinance.gov/data-research/research-reports/pathways-financial-well-being/.

Financial literacy is correlated with positive credit behaviors, such as on-time bill payment and taking on sustainable amounts of debt. Research suggests that financially literate adults are less likely to be past due on consumer credit payments, such as mortgages or credit card payments, and the effect of financial literacy on loan payment behavior is larger than educational attainment.[45] Financial literacy is correlated with being less likely to carry a balance, pay interest, be charged a late fee, or go over a credit card limit.[46] In addition, those with lower financial literacy are more likely to report their debt as excessive.[47] Other research suggests that low-financial-literacy consumers may take out higher-cost mortgages and be less likely to refinance their mortgages when interest rates decline.[48] Also, research suggests that financially literate adults are less stressed and anxious about their finances, after controlling for consumer demographics.[49]

Research also suggests that financial literacy is associated with retirement planning and wealth accumulation.[50] Consumers generally have to make a variety of financial decisions when planning for retirement, including which tax-advantaged accounts to use, how much to save each year, and which investments to choose.[51] Some people may find retirement planning challenging because of limited financial literacy. For example, nearly 60% of non-retirees with self-directed retirement savings reported a low level of comfort with making retirement investment decisions.[52] Those with low levels of financial literacy often get lower returns in financial markets (e.g., by not investing in the stock market or choosing investment options with higher fees).[53] Due to these reasons, in part, research suggests that financial literacy has a large impact on household wealth accumulation, even when controlling for educational attainment.[54] For example, one study

[45] Breno Braga, Signe-Mary McKernan, and Hannah Hassani, *Financial Knowledge and Past-Due Credit Card, Mortgage, and Student Loan Debt*, Urban Institute, November 2019, pp. 1-2, Financial Knowledge and Past-Due Credit Card, Mortgage, and Student Loan Debt.

[46] Sam Allgood and William B. Walstad, "The Effects of Perceived and Actual Financial Knowledge on Credit Card Behavior," *Networks Financial Institute Working Paper No. 15*, vol. 2011-WP-15 (July 2011); and Annamaria Lusardi and Peter Tufano, "Debt Literacy, Financial Experiences, and Overindebtedness," *Journal of Pension Economics and Finance*, vol. 14, no. 4 (October 1, 2015), p. 334.

[47] Annamaria Lusardi and Peter Tufano, "Debt Literacy, Financial Experiences, and Overindebtedness," *Journal of Pension Economics and Finance*, vol. 14, no. 4 (October 1, 2015), p. 334.

[48] Annamaria Lusardi and Olivia S. Mitchell, "The Economic Importance of Financial Literacy," pp. 22-23.

[49] Andrea Hasler, Annamaria Lusardi, and Olivia Valdes, *Financial Anxiety and Stress among U.S. Households: New Evidence from the National Financial Capability Study and Focus Groups*, The George Washington University School of Business and FINRA Investor Education Foundation, Global Financial Literacy Excellence Center, April 2020, at https://gflec.org/wp-content/uploads/2021/04/Anxiety-and-Stress-Report-GFLEC-FINRA-FINAL.pdf?x85507.

[50] Annamaria Lusardi and Olivia Mitchell, "The Economic Importance of Financial Literacy," pp. 22, 25-26.

[51] For more background on saving for retirement and related policy issues, see CRS Report R46441, *Saving for Retirement: Household Decisionmaking and Policy Options*, by Cheryl R. Cooper and Zhe Li.

[52] Board of Governors of the Federal Reserve, *Report on the Economic Well-Being of U.S. Households in 2019, Featuring Supplemental Data from April 2020*, May 2020, p. 51, at https://www.federalreserve.gov/publications/files/2019-report-economic-well-being-us-households-202005.pdf.

[53] Annamaria Lusardi and Olivia Mitchell, "The Economic Importance of Financial Literacy," p. 24; Maarten C.J. van Rooij, Annamaria Lusardi, and Rob J.M. Alessie, "Financial Literacy, Retirement Planning and Household Wealth," *Economic Journal, Royal Economic Society*, vol. 122, no. 560 (2012), pp. 449-478.

[54] Jere R. Behrman et al., "How Financial Literacy Affects Household Wealth Accumulation," *American Economic Review*, vol. 102, no. 3 (May 2012), pp. 300-304; and Annamaria Lusardi and Olivia Mitchell, "The Economic Importance of Financial Literacy," pp. 23-24.

estimates that financial literacy alone can explain 30%-40% of the observed wealth inequality in the United States.[55]

## Financial Education Program Best Practices

In a 2018 survey, 29% of respondents reported being offered financial education at a school, college, or workplace, and about 20% reported participating in the programs.[56] However, the effectiveness of these programs varies. For this reason, financial educators are generally encouraged to employ best practices when developing financial education programs in order to ensure their effectiveness.

The FLEC and the CFPB have published five best practices for effective financial education programs. Under the strategy, financial education programs should:

- Be tailored to an individual's circumstances and needs;
- Include actionable, relevant, and timely information (e.g., "just in time" education material when a consumer is making a financial decision);
- Help develop financial skills, rather than learning facts (e.g., how to locate information to make a financial decision);
- Build on individuals' existing motivations (e.g., leveraging faith-based communities or peer groups); and
- Make it easy to follow-through on decisions (e.g., integrating financial education into the places where people make financial decisions).[57]

The FLEC also recommends that financial education programs:

- Ensure that financial education providers know the material they are teaching and effectively present it to students;
- Provide ongoing support to individuals (e.g., one-on-one coaching); and
- Evaluate financial education programs to make sure they are effective.[58]

When evaluating a financial education program's effectiveness, the CFPB recommends measuring the following consumer outcomes of a potential intervention:

- Planning and goals;
- Savings;
- Bill payment;
- Credit profile; and

[55] Annamaria Lusardi, Pierre-Carl Michaud, and Olivia S. Mitchell, "Optimal Financial Knowledge and Wealth Inequality," *Journal of Political Economy*, vol. 125, no. 2 (2017).

[56] *The State of U.S. Financial Capability: The 2018 National Financial Capability Study*, FINRA Investor Education Foundation, June 2019, p. 37, at https://www.usfinancialcapability.org/downloads/NFCS_2018_Report_Natl_Findings.pdf.

[57] FLEC, *U.S. National Strategy for Financial Literacy*, 2020, pp. 7-8; For more information on CFPB's "Five Principles of Effective Financial Education," see CFPB, *Effective Financial Education: Five Principles and How to Use Them*, June 2017, at https://files.consumerfinance.gov/f/documents/201706_cfpb_five-principles-financial-well-being.pdf.

[58] FLEC, *U.S. National Strategy for Financial Literacy*, 2020, pp. 7-8.

- Financial well-being.[59]

The CFPB also recommends that financial education program evaluations should employ experienced researchers and robust research methodologies.[60]

## The Effectiveness of Financial Education Programs

Financial education programs can have mixed results with respect to improving financial literacy and financial well-being. While research suggests that financial education, on average, positively impacts financial literacy and financial well-being, the impacts of different programs may vary, and academics debate the size of the impacts linked to financial education programs.[61] Research suggests that program quality and design matters in improving the financial outcomes of participants. The rest of this section discusses research about the effectiveness of financial education programs for youth and adults.

### Youth Programs

Disparities in financial literacy appear before adulthood. U.S. students from lower-income households tend to have lower levels of financial literacy than students from higher-income households.[62] While most youth financial education programs are delivered in a school environment, other settings may be successful as well, such as through youth employment programs.[63]

The CFPB's research suggests that three factors are likely important components of youth development of financial capability: (1) executive function; (2) financial habits and norms; and (3) financial knowledge and decisionmaking skills.[64] These skills can be developed at different times during childhood. Often, financial education programs focus on the third component, financial knowledge and decisionmaking skills, which is generally developed during adolescence and young adulthood. These programs can cover general financial knowledge as well as help

---

[59] CFPB, Tracking Success in Financial Capability and Empowerment Programs: Suggested Set of Individual Financial Outcomes when Integrating Financial Capability and Empowerment into Human Services Programs, April 2017, p. 5, at https://files.consumerfinance.gov/f/documents/201704_cfpb_tracking-success-outcomes.pdf.

[60] For more background on best practices when conducting financial education program evaluations, see CFPB, *Rigorous Evaluation of Financial Capability Strategies: Why, When and How: Perspectives from the Field*, January 2014, at https://files.consumerfinance.gov/f/201401_cfpb_report_rigorous-evaluation-financial-capability.pdf.

[61] Tim Kaiser and Lukas Menkhoff, "Does Financial Education Impact Financial Behavior, and If So, When?" *World Bank Economic Review*, vol. 31, no. 3 (October 2017), pp. 611-630; Margaret Miller et al., "Can You Help Someone Become Financially Capable? A Meta-Analysis of the Literature," *World Bank Research Observer*, vol. 30, no. 2 (August 2015); and Daniel Fernandes, John G. Lynch Jr., and Richard G. Netemeyer, "Financial Literacy, Financial Education, and Downstream Financial Behaviors," *Management Science*, vol. 60, no. 8 (2014), pp. 1861-1883.

[62] CFPB, *PISA (Program for International Student Assessment) and Youth Financial Capability in the United States*, October 2019, p. 3, at https://files.consumerfinance.gov/f/documents/201910_cfpb_PISA-financial-literacy-brief_report.pdf.

[63] CFPB, *Developing the Financial Capability of America's Young Workers: Key Insights from the 2017 Youth Employment Success Roundtable*, December 2017, at https://files.consumerfinance.gov/f/documents/cfpb_YES-roundtable-report_2017.pdf; and CFPB, *Building Financial Capability in Youth Employment Programs: Insights from a Roundtable with Practitioners*, August 2014, at https://files.consumerfinance.gov/f/201408_cfpb_report_financial-capability-in-youth-employment-programs.pdf.

[64] CFPB, *Building Blocks to Help Youth Achieve Financial Capability: A New Model and Recommendations*, September 2016, at https://files.consumerfinance.gov/f/documents/092016_cfpb_BuildingBlocksReport_ModelAndRecommendations_web.pdf.

young adults access basic financial products, such as developing a relationship with a bank and entering into the credit reporting system.[65]

In general, financial education in schools positively impacts the financial literacy or knowledge of school children and young adults,[66] and to a lesser extent, future financial behaviors, although the impact of these education programs may decline over time.[67] More states have implemented personal finance graduation requirements for high school students in recent years and research studies have generally found positive results, although the quality and intensity of these requirements vary. Some research suggests that personal finance graduation requirements may reduce loan defaults and increase credit scores among young adults right after high school graduation,[68] and may reduce non-student debt at 22 years old.[69] However, research suggests that the impact of financial education mandates on credit management outcomes, such as credit score or loan delinquencies, may decrease over time.[70] In addition, high school financial education requirements may shift student loan borrowing from higher- to lower-interest loans,[71] and may reduce the likelihood and frequency of payday borrowing.[72]

The effectiveness of youth financial education programs may vary based on the group of students, the intensity of program, and the timeliness of information.[73] On average, students from lower income families may have smaller benefits from financial education than students from higher income families do.[74] Financial education programs that are longer in duration, and cover information that is more relevant to students in the near future (e.g., financing higher education), rather than the more distant future (e.g., retirement planning), are generally most effective.[75]

---

[65] Access to basic financial products and services is generally considered foundational for consumers to manage their financial affairs, improve their financial well-being, and graduate to wealth building activities in the future. For more information on financial inclusion and credit access policy issues, see CRS Report R45979, *Financial Inclusion and Credit Access Policy Issues*, by Cheryl R. Cooper. For more information on racial, ethnic, and other disparities in access to financial products and services, see CRS Testimony TE10060, *How Invidious Discrimination Works and Hurts: An Examination of Lending Discrimination and Its Long-Term Economic Impacts on Borrowers of Color*, by Cheryl R. Cooper.

[66] CFPB, *A Review of Youth Financial Education: Effects and Evidence*, April 2019, p. 2, at https://files.consumerfinance.gov/f/documents/cfpb_youth-financial-education_lit-review.pdf.

[67] Tim Kaiser and Lukas Menkhoff, "Financial Education in Schools: A Meta-analysis of Experimental Studies," *Economics of Education Review*, vol. 78 (October 2020).

[68] Carly Urban et al., "The Effects of High School Personal Financial Education Policies on Financial Behavior," *Economics of Education Review*, vol. 78 (October 2020).

[69] Meta Brown et al., "Financial Education and the Debt Behavior of the Young," *The Review of Financial Studies*, vol. 29, no. 9 (September 2016), pp. 2490-2522.

[70] Meta Brown et al., "Financial Education and the Debt Behavior of the Young," pp. 2490-2522; and Shawn Cole, Anna Paulson, and Gauri Kartini Shastry, "High School Curriculum and Financial Outcomes: The Impact of Mandated Personal Finance and Mathematics Courses," *The Journal of Human Resources*, vol. 51, no. 3 (2016), pp. 656-698.

[71] Christiana Stoddard and Carly Urban, "The Effects of State-Mandated Financial Education on College Financing Behaviors," *Journal of Money, Credit, and Banking*, vol. 52, no. 4 (2019), pp. 747-776.

[72] Melody Harvey, "Impact of Financial Education Mandates on Younger Consumers' Use of Alternative Financial Services," *The Journal of Consumer Affairs*, vol. 53, no. 3 (2019).

[73] CFPB, *A Review of Youth Financial Education: Effects and Evidence*, April 2019, p. 13, at https://files.consumerfinance.gov/f/documents/cfpb_youth-financial-education_lit-review.pdf.

[74] CFPB, *A Review of Youth Financial Education: Effects and Evidence*, April 2019, p. 13.

[75] CFPB, *A Review of Youth Financial Education: Effects and Evidence*, April 2019, p. 12.

Teacher training and implementation also seem to be important factors.[76] Many policymakers continue to be interested in more research to improve financial education programs for students.[77]

## Adult Programs

Financial education programs for adults can occur in many settings, including though workplaces, non-profit organizations, and financial service providers. Some argue that employers might be well positioned to provide financial education to their employees though workplace financial wellness programs that go beyond the retirement planning and health benefits more commonly provided to employees.[78] Since financial stress may impact employee work performance, some employers have become interested in providing their employees with financial education programming focused on money management, debt management, and overall financial situation.[79] For economically vulnerable populations, non-profit organizations providing social services can directly deliver financial education programs and resources to clients, on topics such as managing debt, assessing banking or other financial services, and asset-building.[80] Some research suggests that financial education programs combined with financial institution collaboration can increase consumers' access to bank accounts.[81]

Financial education programs are offered in a variety of formats, including digital media, in-person classroom education, and one-on-one counseling and coaching. The traditional approach to financial education is in an in-person or online classroom setting, covering topics such as money management, credit repair, home buying, retirement planning, or other related topics. For example, the U.S. military is one workplace context where these types of programs have been rigorously evaluated, in part because the military is an important population of interest to policymakers. A study of the U.S. Army's personal financial management course for new enlistees finds that it reduced credit delinquencies and debt balances in the year after the course, but these impacts do not persist beyond that time period.[82] The course also increased retirement savings rates for at least two years afterwards.[83]

---

[76] CFPB, *A Review of Youth Financial Education: Effects and Evidence*, April 2019, pp. 36-37.

[77] For example, the CFPB describes its research priorities for youth education program in the following: CFPB, *Youth Financial Education Research Priorities*, April 2019, at https://files.consumerfinance.gov/f/documents/cfpb_yrp_report.pdf.

[78] U.S. Government Accountability Office, *Highlights of a Forum: Financial Literacy: The Role of the Workplace*, GAO-15-639SP, July 7, 2015, at https://www.gao.gov/products/gao-15-639sp.

[79] CFPB, *Financial Wellness at Work: A Review of Promising Practices and Policies*, August 2014, pp. 7-9, 12-21, at https://www.consumerfinance.gov/data-research/research-reports/financial-wellness-at-work/.

[80] CFPB, *Financial Empowerment Training for Social Service Programs: A Scan of Community-Based Initiatives*, September 2013, at https://www.consumerfinance.gov/data-research/research-reports/financial-empowerment-training-for-social-service-programs/.

[81] Corporation for Enterprise Development (CFED), *Research Brief: Financial Counseling & Access for the Financially Vulnerable*, Prepared by CFED for the U.S. Department of the Treasury, April 2014, at https://www.treasury.gov/resource-center/financial-education/Documents/Research%20Brief%20%20Financial%20Counseling%20and%20Account%20%20Access%20for%20the%20Financially%20Vulnerable.pdf; and U.S. Department of the Treasury, *Community Financial Access Pilot*, Office of Financial Education and Financial Access, at https://www.treasury.gov/resource-center/financial-education/Documents/Community%20Financial%20Access%20Pilot%20Report.pdf.

[82] William Skimmyhorn, "Assessing Financial Education: Evidence from Boot Camp," *American Economic Journal: Economic Policy*, vol. 8, no. 2 (May 2016), pp. 322-343.

[83] William Skimmyhorn, "Assessing Financial Education: Evidence from Boot Camp," pp. 322-343.

Financial educators have also experimented with other types of financial education approaches that might be more effective. One type of promising approach is financial coaching, in which coaches work directly with individual consumers, to support personalized financial goals that they set for themselves. Often, financial coaches meet regularly with consumers in one-on-one sessions to set goals and plan concrete steps to achieve those goals over time. Research suggests that well-implemented financial coaching for lower-income populations may help consumers pay bills on time, reduce their debts, increase savings, and increase credit scores.[84]

Another approach includes light-touch, low-cost, financial rules of thumb, which are "specific, actionable guidelines consumers can apply to their decisions" such as "pay yourself first" and "save 10% of your income."[85] These types of interventions may be easier for a consumer to recall and less costly to provide to many people at scale. One research study found that rules of thumb messages may help some consumers reduce their credit card debt, although the average reduction was small.[86] The CFPB suggests that further research should be done to study the effectiveness of these types of approaches.[87]

Research suggests that programs targeting specific groups are likely to be more effective than a one-size-fits-all approach to financial education programs.[88] In addition, focused outreach might be needed for hard-to-reach populations, such as immigrants or limited English proficient populations.[89]

# Policy Issues

This section of the report highlights two policy issues relating to financial literacy, financial education, and the federal government. First, this section discusses whether changes to FLEC could improve its effectiveness as a coordinator within the federal government and in its leadership role within the financial education field in general. Second, the section discusses the debate about whether the federal government should increase support for local financial education programs throughout the country.

## Improving the Effectiveness of FLEC

How effective and efficient the FLEC is and whether its structure or activities should be changed to better achieve its statutory goals are debated topics. After the FLEC's creation, the Government

84 Diana Elliott et al., *An Evaluation of the $tand By Me Financial Coaching Program*, Urban Institute, October 2020, at https://www.urban.org/research/publication/evaluation-tand-mer-financial-coaching-program/view/full_report; and Brett Theodos et al., *An Evaluation of the Impacts and Implementation Approaches of Financial Coaching Programs*, Urban Institute, October 2015, at https://www.urban.org/sites/default/files/publication/71806/2000448-an-evaluation-of-the-impacts-and-implementation-approaches-of-financial-coaching-programs.pdf.

85 CFPB, *Consumer Voices on Financial Rules to Live By*, March 2016, p. 4, at https://files.consumerfinance.gov/f/documents/201603_cfpb_rules-to-live-by_consumer-voices-report.pdf.

86 Brett Theodos et al., *An Evaluation of the Impacts of Two "Rules of Thumb" for Credit Card Revolvers*, Urban Institute, September 7, 2016, at https://www.urban.org/research/publication/evaluation-impacts-two-rules-thumb-credit-card-revolvers.

87 CFPB, *The Power of Light-Touch Financial Education: A Demonstration with Credit Card Revolvers*, January 2017, p. 7, at https://files.consumerfinance.gov/f/documents/201701_cfpb_Financial-Education-Research-Brief.pdf.

88 Annamaria Lusardi and Olivia S. Mitchell, "The Economic Importance of Financial Literacy," p. 30.

89 CFPB, *Financial Education Programs Serving Immigrant Populations: Issue Brief*, July 2016, at https://files.consumerfinance.gov/f/documents/20160714_cfpb_report_fined_immigrant_May_20_2016_FINAL.pdf.

Accountability Office (GAO) issued a series of reports[90] that found that federal financial literacy efforts were not well coordinated, as they "are spread widely among many different federal agencies, raising concerns about fragmentation and potential duplication of effort."[91] While the creation of FLEC led to better coordination across the federal government, GAO argued that the FLEC continued to face "significant challenges in its role as a centralized focal point: it is composed of many agencies, but it has no independent budget and no legal authority to compel member agencies to take any action."[92] In addition, GAO argued that the FLEC needed to more clearly assign roles, responsibilities, and performance measures to agencies, and make recommendations about how to allocate resources across the federal government.[93] GAO recommended that the Treasury Department develop a plan to consolidate and streamline federal financial literacy and education activities.[94] GAO also suggested that FLEC should better coordinate and partner with state, nonprofit, and private sector organizations.[95]

In 2019, the Treasury Department released a report that largely agreed with the GAO's assessment about the opportunity for better coordination across the government and with outside partners.[96] The report argued that "the primary federal role for financial literacy and education should be to empower financial education providers as opposed to trying to directly reach every American household," including by developing and implementing policy, encouraging research, and developing educational resources as needed to advance best practices.[97] In addition, it found that "very few federal agencies appear to monitor the effectiveness of their programs and only a handful of these programs have been formally assessed or evaluated for impact."[98]

Therefore, the Treasury Department recommended that:

- FLEC should determine a governance structure that increases accountability; avoids duplicative activities; and leverages the work of other nonprofit organizations, the private sector, and state and local government in financial literacy efforts.
- FLEC should organize the coordination of financial literacy and education programs into five working groups: basic financial capability, retirement savings and investor education, housing counseling, postsecondary education, and the

---

[90] For example, see U.S. Government Accountability Office (GAO), *Financial Literacy: Overlap of Programs Suggests There May be Opportunities for Consolidation*, 12-588, July 2012, at https://www.gao.gov/products/GAO-12-588; GAO, *Financial Literacy: Overview of Federal Activities, Programs, and Challenges*, 14-556T, April 30, 2014, at https://www.gao.gov/products/GAO-14-556T; and GAO, *Financial Literacy: The Federal Government's Role in Empowering Americans to Make Sound Financial Choices*, GAO-11-504T, April 12, 2011, at https://www.gao.gov/assets/gao-11-504t.pdf.

[91] GAO, *Financial Literacy: The Federal Government's Role*, p. 3.

[92] GAO, *Financial Literacy: The Federal Government's Role*, p. 4.

[93] GAO, *Financial Literacy: The Federal Government's Role*, p. 5; GAO, *Financial Literacy: Overlap of Programs Suggests There May Be Opportunities for Consolidation*, pp. 21-37.

[94] GAO, *Financial Literacy: Overlap of Programs Suggests There May Be Opportunities for Consolidation*, pp. 9-21.

[95] GAO, *Financial Literacy: The Federal Government's Role*, p. 6; GAO, *Financial Literacy: Overview of Federal Activities, Programs, and Challenges*, p. 8.

[96] Department of the Treasury, *Federal Financial Literacy Reform: Coordinating and Improving Financial Literacy Efforts*, July 2019, pp. 12-13, at https://home.treasury.gov/system/files/136/FFLRCoordinatingImprovingFinancialLiteracyEfforts.pdf.

[97] Department of the Treasury, *Federal Financial Literacy Reform*, July 2019, p. 4.

[98] Department of the Treasury, *Federal Financial Literacy Reform*, July 2019, p. 1.

military and their families. Each working group would be responsible for developing an agenda for programs, research, and outreach.

- The federal government should encourage evaluation of agency programs, and agencies should consider elimination or modification of programs that do not lead to greater financial capability or changes in financial behavior.
- The federal government should identify future challenges and opportunities associated with technology and financial education.[99]

In 2020, FLEC publicly adopted many of these recommendations into its national strategy for financial literacy. Its report describes a new structure to organize the FLEC, including a new executive committee and the five working groups that the Treasury Department recommended.[100] Working groups are to coordinate federal government outreach, communications, and the development of research and learning agendas.[101] The report also mentioned that the FLEC is working to identify outcome measures to demonstrate the impact of federal activities on American consumers,[102] and that the FLEC will coordinate with participants outside of the federal government in the financial education field.[103]

## Federal Government Support for Local Financial Education Programs

As described earlier in the report, the federal government's role in financial education has generally focused on policy development and research coordination, rather than directly administering or funding most types of financial education programs. Many state and local governments, nonprofits, and financial institutions provide financial education programs directly to consumers. Other organizations actively fund these initiatives. For example, many city governments have financial empowerment offices that provide financial education services. Many organizations, such as the Cities for Financial Empowerment Fund, can provide both funding and focused technical assistance to mayors and their teams.[104]

Some policymakers have been interested in increasing the federal government's role to directly fund and administer more financial education programs in local communities. Others argue these activities should be outside of the scope of the federal government, especially given the active role played by local institutions, which may be more responsive to financial education needs in a local community.

---

[99] Department of the Treasury, *Federal Financial Literacy Reform*, July 2019, pp. 3, 16.

[100] FLEC, *U.S. National Strategy for Financial Literacy*, 2020, p. 11.

[101] FLEC, *U.S. National Strategy for Financial Literacy*, 2020, p. 15.

[102] FLEC, *U.S. National Strategy for Financial Literacy*, 2020, p. 14.

[103] FLEC, *U.S. National Strategy for Financial Literacy*, 2020, p. 16.

[104] For more information on the Cities for Financial Empowerment Fund, see https://cfefund.org/.

## Author Information

Cheryl R. Cooper
Analyst in Financial Economics

## Disclaimer