

September 12, 2010

*Sent via Electronic Mail*

The Department of the Treasury  
Office of Financial Education and Financial Access  
1500 Pennsylvania Ave, N.W.  
Washington, DC 20220

Re: Financial Education Core Competencies

To Whom It May Concern:

The Financial Planning Association (FPA®) is pleased to submit comments regarding the proposed financial education core competencies for consumers and education providers.

The Financial Planning Association is the largest organization in the United States representing financial planners and affiliated firms, with approximately 24,000 individual members. FPA members have a combined client base of 2.75 million individuals and directly manage more than \$1.5 trillion in assets. FPA is incorporated in Washington, D.C., where it maintains an advocacy office, with headquarters in Denver, Colorado.

FPA is a strong advocate for greater financial literacy. FPA and its chapters have helped promote legislation at the federal and state level to integrate financial literacy into the school curriculum. Our chapters also organize free seminars, workshops and one-on-one counseling to the public throughout the year. In 2010 these efforts reached over 95,000 people that include low- to moderate-income individuals, military personnel and students.

And as a member of the Jump\$tart Coalition, FPA works with other organizations dedicated to improving the financial literacy of pre-kindergarten through college-age youth by providing advocacy, research, standards and educational resources.

### **Recommendations**

FPA recommendations:

- Elevate and emphasize the core concept of savings
- Add a separate core concept category for retirement planning
- Add a separate core concept category for taxes
- Provide internet-based delivery of content

Below we further discuss the core concepts as well as additional knowledge and action/behavior topics that should be considered.

### **Core Concept: Earnings**

We believe this core concept is better reflected by the term 'Income & Earnings'. Earnings are just one source of income. Americans should have a working knowledge of the other types including interest, dividends and capital gain income.

Under knowledge content, we would also expand the “understanding benefits” to “understand the value of work benefits, such as health, life and disability insurance; retirement; and vacation and leave.” An appreciation of the difference between obtaining the equivalent benefits before and after tax is also vital. According to the Bureau of Economic Analysis, the average private sector employee receives 16 percent of total compensation in the form of employee benefits. Clearly, the ability to evaluate a job’s benefits package is critical to evaluating a job advertisement or offer.

Financial planners increasingly encounter clients who fail to understand the limited benefits and additional tax filing requirements of being retained as an independent contractor versus an employee. As the outsourcing trend continues, it is critical for workers to be able to differentiate these categories. A greater understanding would also bolster efforts by the Departments of the Treasury and Labor to reign in abuses in this area.

Finally, we would encourage individuals to take action to explore and compare career choices.

### **Core Concept: Saving & Investing**

FPA feels strongly that the concept of Saving must be elevated above Spending. While the personal saving rate has risen in the last two years, it is imperative that this trend be fostered, especially if Americans are to meet their future financial needs. A 2009 survey by the National Foundation for Credit Counseling, Inc. found that 32% of adults have no savings and only 23% are now saving more than they did a year ago<sup>1</sup>. Clearly more work must be done.

Essential knowledge that should be conveyed with this concept is an understanding of compound interest and the time value of money. A better understanding of these terms would help consumers appreciate both the need to save as well as the advantages of starting to save earlier. Consumers should have knowledge of the principals of investing and the benefits of diversification and asset allocation. Consumers should also be aware of the costs associated with an investment account – such as investment management fees, advisor fees, product fees and tax cost – and how those affect the long-term growth of their assets.

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<sup>1</sup> <http://www.nfcc.org/newsroom/FinancialLiteracy/files/2009FinancialLiteracySurveyFINAL.pdf>

In addition, consumers should appreciate that there is a tradeoff between risk and potential return. Low risk and no-risk assets offer steady, if low returns. Consumers may hope that riskier assets such as stocks may have higher returns, but higher returns are in no way guaranteed.

We strongly advocate for the inclusion of a specific target savings rate. Common targets of 5 or 10 percent of the gross income are no longer realistic. There have been long-term trends toward greater individual responsibility and risk management – for example, a shift from pension to 401(k) plans and decreased job security – which necessitate a higher savings rate. Planners typically recommend that individuals save at least 20 percent of their gross salary, depending on their individual circumstances and participation in a work-provided retirement plan.

This core concept as drafted includes two concepts: saving – not spending all one's income – and investing – deciding what to do with one's savings. It should be considered whether these two concepts should be broken out.

### **Core Concept: Retirement Security**

We strongly urge that Retirement Security be a separate core competency. Americans are living longer in old age. They face greater individual investment risk as pension and defined benefit plans are phased out in favor of 401(k) and other defined contribution arrangements. And the personal savings rate had been falling or even negative until about two years ago. The consequence of these trends: Americans have failed to save adequately for their retirement needs.

A strong emphasis should be placed on the need to start saving for retirement as soon as one enters the workforce if not sooner. According to a Hewitt study:

a 25-year-old employee who makes \$30,000 a year is expected to meet all of his/her retirement needs if he/she contributes, on average, 11 percent of his/her pay each year throughout their career (assuming he/she also receives an additional 5 percent employer contribution to his/her defined contribution account). If an employee waits until age 40 to join his/her defined contribution plan, he/she needs to save an average of 17 percent of pay per year<sup>2</sup>.

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<sup>2</sup> <http://www.hewittassociates.com/intl/na/en-us/AboutHewitt/Newsroom/PressReleaseDetail.aspx?cid=8397>

Again, knowledge of compound growth is critical to appreciating the benefits of saving early. This study also shows the importance of understanding one's employee benefits and participating in a defined benefits program.

Additional actions/behaviors for this concept should include: develop an estimate of retirement and medical needs, maximize your participation in your employer's 401(k) plan, or open or contribute to an individual retirement account.

### **Core Concept: Spending**

Two actions that are critical to long-term financial health are writing down a financial plan and sticking to it. This includes tracking all expenditures and critically living *below* one's means.

A piece of knowledge that many financial planners teach their clients is to group expenses into three broad categories. The first category represents on-going obligations that must be made every month, such as purchasing food, paying rent, or utility bills. These are essentially fixed in the short term. Other expenses come less frequently but still must be paid. These include purchasing a child's school supplies, an annual vacation, a future car purchase, or paying taxes. The final category is more discretionary and can be more easily controlled by the individual, such as lunch at work or clothe shopping.

Clients are better able to live below their means by putting their expenses into these three mental buckets. This makes it easier to conceptualize how much of their monthly income is already spent, how much must be saved for planned future expenses, and how much is left over to spend on discretionary items.

### **Core Concept: Borrowing & Liabilities**

An additional piece of knowledge that should be addressed is an understanding of mortgages, especially given the central role of the housing bubble in the current recession.

The public should also have a greater understanding of "good" debt that builds assets and "bad" debt that depletes assets. For instance, a loan incurred to fund an appreciating asset or to build skills, such as a home or student loan that are tax advantaged, are considered good debt when the consumer seeks out the lowest possible rates and terms for the debt. On the other hand, consumer debt depletes assets and can diminish the possibility of saving for financial goals. Bad debt also has a negative impact on the consumer's credit score, thereby causing them to pay higher interest rates and fees.

### **Core Concept: Protect & Risk Management**

Under Actions/behaviors, “building an emergency fund” should be a top priority for consumers and should be listed first under action/behaviors. Consumers should take action to evaluate appropriate insurance including disability and life, and choose the appropriate amount and type.

### **Core Concept: Taxes**

Most consumer wait until April 15 to consider the tax impact on their past financial and spending decisions, rather than considering taxes on a proactive basis. The concept of taxes also directly impacts the Income & Earnings, Savings & Investing and Spending concepts. As such, this topic warrants a separate concept section of its own.

Financial consumers should have a basic grasp of federal, state income taxes; payroll taxes; and sales and property taxes. A working understanding of key terms such as Adjusted Gross Income, Head of Household, marginal tax rates, and the difference between credit and deductions

Greater knowledge of the many tax credits would improve their uptake and improve economic efficiency of the tax code. Lower-income individuals would benefit from learning about the Saver’s Credit and Earned Income Tax Credit.

### **Internet-based delivery of content**

We understand that this is a first step toward developing the core financial competencies. However, we feel that it is important to consider the ultimate delivery of these materials to financial educators and the public. Rather than each educator developing a curriculum around the core concepts, a better approach would be to have a centralized distribution of recommended education materials as well as an easy-to-use interface for the public, similar to that provided by MyPyramid.gov.

Page 6  
September 12, 2010

## **SUMMARY**

We thank you for the opportunity to comment on the financial education core competencies. Financial literacy is critical to helping Americans reach their financial goals and an independent retirement. Helping individuals understand and manage their finances and investments is central to what our members do on a daily basis. We would be able to provide a panel of planners to further discuss these matters at the Department's request. Please do not hesitate to contact us at (202) 449-6340.

Very truly yours,

A handwritten signature in black ink, appearing to read "Phillips Hinch". The signature is written in a cursive style with a long horizontal stroke at the end.

Phillips Hinch  
Assistant Director, Government Relations