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**Before the Subcommittee on Oversight of Government Management, the Federal  
Workforce, and the District of Columbia  
U.S. Senate Committee on Homeland Security and Governmental Affairs**

**Hearing on  
“The Federal Government’s Role in Empowering Americans to Make Informed  
Financial Decisions”**

**July 15, 2010**

Good afternoon, Chairman Akaka, Ranking Member Voinovich, and distinguished Members of the Subcommittee. Thank you for the opportunity to appear before you today to discuss what the U. S. Department of Education is doing to help Americans improve their abilities in making informed financial decisions, and thank you for your leadership on this important issue. More generally, the lack of financial literacy is a threat to our Nation’s economic security and a roadblock to the American dream for too many of our citizens. Financial education is part of the solution. The Department of Education is committed to doing its part to help elementary, secondary, postsecondary, and adult students develop the knowledge and skills to make sound financial decisions for themselves, their families, and their communities.

In my remarks, I’ll talk about our current financial literacy efforts, and I’ll highlight our work with other agencies as part of the Financial Literacy and Education Commission (FLEC).

Throughout, I will communicate how we are holding ourselves accountable by measuring student outcomes, not just emphasizing programs and activities. Across the board, we’re not only looking at what we are doing, but also asking ourselves if it is working.

I’ll start with our efforts for postsecondary education students.

In reauthorizing the Higher Education Act of 1965 (HEA) in 2008, Congress required that the Talent Search, Upward Bound, and Student Support Services programs, which are part of the Federal TRIO Programs that support college access and success, include financial and economic literacy activities for students. All new competitions for these programs will reflect this new requirement. Financial and economic literacy activities are allowable activities for the Educational Opportunity Centers and Post-Baccalaureate Achievement programs (also part of TRIO), the Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP) or the recently-expanded College Access Challenge Grant Program, and so we will coordinate across these programs and examine how we can track whether these program’s grantees use their funds for these activities (and to what effect).

Throughout the country, the Department's Federal Student Aid (FSA) program is ramping up its student aid outreach and awareness efforts to increase FAFSA submission and college enrollment rates, especially among students from underrepresented groups. FSA educates students and families about the costs and benefits of postsecondary education and the various Title IV, HEA programs that can help them afford postsecondary education, whether they are traditional students right out of high school, or older adults seeking additional training. The recent changes to direct lending ensure all students have access to reliable and affordable Federal student loans, and the same Act dramatically increased the funding available for Federal Pell Grants for our highest-need students. However, we can't help students pay for college if they don't apply for financial aid. While FSA does not currently track whether its outreach efforts – such as public service announcements, Web sites, conference attendance, and distribution of materials – increase FAFSA submission or college enrollment, we are discussing potential ways to measure their effectiveness.

Recently published research, supported in part with funds from the Institute of Education Sciences, demonstrated that helping people complete the FAFSA immediately after providing tax preparation assistance led to increased FAFSA submissions and increased college enrollment with no effect found for a control group that received only information on college costs and available financial aid<sup>1</sup>. It is unclear whether we would see similar results with our new simplified FAFSA form and our new tax-data exchange with the IRS. In addition, the Department is discussing with the IRS possible connections between Volunteer Income Tax Assistance sites and FAFSA assistance, recognizing that there may be important lessons from behavioral economics that should inform and complement our outreach approach and efforts.

Entrance and exit loan counseling presents another opportunity to provide borrower-focused financial education to the millions of students in the federal student loan program. While default rates have decreased substantially since loan counseling was first required in 1989, we don't have conclusive evidence on the effectiveness of the various types of loan counseling used by institutions to fulfill the requirement. The new regulations effective July 1 updated the minimum content loan counseling standards and aligned them with the Higher Education Opportunity Act of 2008 (HEOA) provisions. These new requirements can help borrowers better understand their repayment obligations.

We're also concerned about the lack of financial literacy among adult learners. Recent studies show that low financial literacy – in particular, the ability to understand and perform basic calculations related to interest rates and inflation – is correlated with unfavorable financial decision-making. According to the National Center for Education Statistics, 22 percent of adults lack even basic quantitative literacy skills and another 33 percent have only basic quantitative skills levels - that's more than 120 million American adults<sup>2</sup>. This may make them vulnerable to predatory lending practices, or to making

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<sup>1</sup> "The Role of Simplification and Information in College Decisions: Results from the H&R Block FAFSA Experiment," Eric P. Bettinger, Bridget Terry Long, Philip Oreopoulos, and Lisa Sanbonmatsu, National Bureau of Education Research Working Paper Number 15361: September 2009, Revised June 2010.

<sup>2</sup> U.S. Department of Education, National Center for Education Statistics, 1992 National Adult Literacy Survey (NALS) and 2003 National Assessment of Adult Literacy (NAAL), A First Look at the Literacy of America's Adults in the 21st Century; and supplemental data retrieved July 6, 2006, from [http://nces.ed.gov/naal/Excel/2006470\\_DataTable.xls](http://nces.ed.gov/naal/Excel/2006470_DataTable.xls). (This table was prepared July 2006.)

seemingly small mistakes with major financial consequences for themselves and their families. The Department is investing \$2.3 million to increase numeracy levels in adults through an effort known as the Adult Numeracy Instruction Project.

Now I'd like to turn to our financial literacy efforts for elementary and secondary education students.

The Excellence in Economic Education program, which received \$1.4 million in fiscal year 2010, will strengthen teaching and learning in personal finance, economics, and entrepreneurship. Also, under the Civic Education program, the Department has supported the development of instructional materials and teacher professional development programs in economic literacy in elementary and secondary classrooms both in the United States and in developing democracies and other countries to strengthen democracy abroad. For fiscal year 2011, we have proposed to enhance States and high-need school districts' ability to promote financial literacy by consolidating these programs into a new Effective Teaching and Learning for a Well-Rounded Education program, which would provide \$265 million to support innovative practices in a range of subjects, including financial literacy. This amount is \$38.9 million, or a 17 percent increase over fiscal year 2010 levels.

Also in fiscal year 2010, the Department will devote \$1.7 million of funds appropriated for the Fund for the Improvement of Education to support a grant competition called Financial Education for College Access and Success. There is mounting evidence that a lack of financial literacy and poor financial decision-making prevent students from starting and completing college and that each year more and more college graduates end up with more debt than they can reasonably handle. Through this competition, the Department will provide one State with funds to develop, implement, and evaluate personal finance instructional materials and related teacher training to increase rates of personal finance understanding and to help students with completing the FAFSA and enrolling in college. This grant will be for four years to allow sufficient time to determine effectiveness. This competition will send a signal to States and school districts about the importance of the connection between financial literacy and college access and completion.

In addition, over the past year and a half, the Department has developed relationships with several other FLEC member agencies, and we look forward to expanding and deepening those relationships.

Our most significant partner is the Department of the Treasury. It is an outstanding partner, and we're all fortunate to have Treasury's leadership and support. I'll share just a few examples of our combined efforts. First, the Department worked closely with Treasury over many months to carry out the 2010 National Financial Capability Challenge, a voluntary online personal finance exam administered by over 1,500 teachers in every State— plus several Department of Defense schools overseas – to over 76,000 high school students. We are committed to working with Treasury on this annual activity to increase the number of teachers and students participating and to increase support to teachers. We are very interested in working with you and your colleagues in Congress to encourage participation in the Challenge in your States and districts.

We are also working with Treasury on the report on postsecondary financial literacy programs, as required by section 1042 of the HEOA. In addition, President Obama named Secretaries Duncan and Geithner to the newly-established President's Advisory Council for Financial Capability.

Finally, we have some upcoming efforts that I'd like to share. Financial literacy is only one aspect of financial capability, which also encompasses financial access. We are planning a senior-level meeting with our colleagues at Treasury, the Federal Deposit Insurance Corporation (FDIC), and the National Credit Union Administration (NCUA), to discuss how the Department might support the Administration's economic inclusion strategy. We're also planning back-to-school events with the FDIC and the NCUA which will highlight schools that connect financial education and financial access by linking with local banks and credit unions. And, FSA is helping the FDIC on the redevelopment of its Money Smart for Young Adults financial education modules to keep the "Paying for College" section as current and helpful as possible.

We look forward to our continued work with these agencies, and we will identify additional ways to work together.

Thank you Mr. Chairman and Members of the Subcommittee for your attention to this important issue, and I would be happy to answer any questions.