

Elizabeth A Duke: The importance of financial education

Speech by Ms Elizabeth A Duke, Member of the Board of Governors of the Federal Reserve System, at the Jump\$tart Coalition Investing in Our Future: Financial Education and Washington Event, Washington DC, 8 April 2010.

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Good morning. I am pleased to be here with the Greater Washington chapter of the Jump\$tart Coalition for Personal Finance to kick off Financial Literacy Month 2010. And I would like to take this opportunity to applaud each of you here today for your commitment to revitalizing the Washington chapter.

The coalition is a national leader among organizations that work to improve financial education for students from kindergarten through college. Its programs provide students with the knowledge and skills they need to make informed decisions that will have a positive impact on their economic well-being. With a new leadership team and renewed enthusiasm, the Greater Washington, D.C., chapter of the coalition has joined forces with more than 100 individuals, businesses, and not-for-profit educational and government organizations – including the Federal Reserve Board – to increase knowledge about personal finance among students in our region.

The Federal Reserve System is made up of the Board of Governors here in Washington and 12 regional Federal Reserve Banks with branches across the country. Throughout the Federal Reserve System, we work with the Jump\$tart Coalition – locally with the Washington, D.C., chapter and through alliances between the Reserve Banks and other state chapters of the coalition – to achieve our shared goals. The partnership between the Federal Reserve and the Jump\$tart Coalition is a natural one. Jump\$tart's mission to develop a more financially literate population supports the Federal Reserve's goal of a stable and growing economy. In collaboration with partners like you, Jump\$tart enables students to make economically sound financial decisions in their personal and business lives. As students individually form households or start businesses, their collective decisions will shape the economy of our future.

I am especially pleased to be able to represent the Federal Reserve in this effort as my personal commitment to financial literacy has spanned more than 30 years. I have been involved with a number of initiatives including some that took me into the classroom to teach students directly and others that provided teachers with tools and training to better prepare them to teach economics and personal finance. The need in this country for financial education is so great that we must continue to tackle it at all levels and with all available resources. We need to imbed financial concepts in every K-12 curriculum in the country. While physical education and even driver education are part of nearly every curriculum, financial education is mandated by only a handful of states as a requirement for graduation. Alongside classes that prepare students to join the workforce we need courses that demonstrate how to use the financial compensation from their work to meet family necessities and build personal wealth in an era of complex financial products. Students will need to identify situations in which it makes sense to borrow and choose among loan products. They need to know how to budget and save and how to select the best investment vehicles for their savings. And as the recent financial turmoil has taught us, they must understand how to prepare for and deal with financial contingencies such as unemployment or unexpected expenses. Jump\$tart supports efforts to provide such an education.

The Federal Reserve is working on several fronts to promote financial education that will help prepare young people to take on the responsibilities of market participants and manage the risks that come with the opportunities to spend, save, borrow, and invest. Financial education that begins at a young age and extends through one's life is the most effective preparation

for making important financial decisions such as buying a car, purchasing a home, saving for retirement, borrowing for postsecondary education, and even choosing a career. In support of our efforts, the Reserve Banks have developed programming and curriculum to serve the needs of schools, educators, and students. Among them are:

- ***Katrina's Classroom***, a free video-based curriculum developed by the Federal Reserve Bank of Atlanta that uses the stories of victims of Hurricane Katrina to teach middle school and high school students and their parents the importance of being financially prepared;
- ***Great Minds Think: A Kid's Guide to Money***, a publication developed by the Federal Reserve Bank of Cleveland that helps families begin conversations about money; and
- several essay and creative writing contests for students sponsored throughout the Federal Reserve System, designed to promote students' development of savings goals or encouraging them to apply economic thinking to a social problem.

In addition to providing materials for financial education, the Federal Reserve has also begun to assess the effectiveness of the education programs it engages in, so that we can better evaluate the outcomes of our efforts. This research is intended to help us better answer the question, "What works in education?" so that we may allocate our resources in the best possible manner.

While financial education is an important first step in enabling consumers to make informed financial decisions, it is also important that consumers be presented with clear and consistent information about their financial products. The Federal Reserve is the primary government agency charged with writing rules governing consumer financial products. Historically, we have focused on disclosure as the best way to provide consumers with information to choose between products or to make decisions about using financial products. In recent years, we have used extensive consumer testing to gauge consumers' understanding of financial disclosures and to highlight practices that simply cannot be understood by consumers even with the best disclosures. If we identify practices that cannot be adequately explained through disclosure, we now prohibit those practices. Recently, the Federal Reserve has written strong new consumer protection rules for mortgages, credit cards, and overdraft charges. And we have improved our response time for drafting rules to address emerging trends that may pose new risks for consumers.

In closing, I would like to thank the educators here today for your dedication to Washington-area students. Your role is vital to preparing them with the skills they will need to grow into financially successful adults. I am pleased to be a part of this conversation among the private and public sectors, as well as the education community, about how best to empower students with the confidence and savvy to navigate their financial worlds.