

The Honorable Allyson Schwartz  
United States House of Representatives  
1227 Longworth Office Building  
Washington, D.C. 20515

February 7, 2011

Dear Representative Schwartz:

We applaud your efforts, on behalf of all Americans, to promote financial literacy as an essential part of your work with the House Ways and Means Committee through your sponsorship of the H.RES. 1481, National Save for Retirement Week. We are equally proud of the Administration for considering the objective of financial literacy a vital part of national economic policy. To further the advancement of financial literacy, we urge you to propose a bill in Congress which would incentivize this education by offering a \$100.00 United States Savings Bond to individuals who successfully complete a federally-sanctioned financial literacy course administered through the Volunteer Income Tax Assistance program (VITA). Those Americans with low to moderate income who seek the help of trained, dedicated volunteers with VITA for help with their federal taxes are the most vulnerable with respect to personal fiscal responsibility. They would likely suffer most egregiously if the US economy would ever again experience so significant an economic downturn as from which we are just emerging.

As economics majors at Swarthmore College and VITA volunteers for two years, we have witnessed the effects of this sobering recession on the most financially fragile of people in Chester, Pennsylvania. This community has fared even worse than the average American city, with a limping economy offering few jobs since manufacturing shuttered its doors there more than 30 years ago. Nearly one quarter of the residents live below the Federal Poverty line and nearly three quarters of the children in the Chester Upland School District are eligible for free or reduced-price lunches. This school district is also the lowest performing district in the state.

Yet the citizens of Chester remain resilient and hopeful that the present federal leadership, along with economic visionaries like the President and you, are beginning to turn the United States economy around via aggressive policy and regulations. Even in Chester there are glimmers of renaissance since the city government, bolstered by the Chester Economic Development Authority and the state of Pennsylvania, have succeeded in bringing new business enterprises (such as a national league soccer stadium, casino, and growing health center) to the city, along with new jobs.

However, another problem looms for Chester, and the nation as a whole, regarding the financial health of its citizens. As a result of the recent financial crisis, far too many dismal anecdotal stories have surfaced about Americans not understanding how to effectively manage their own personal finances. From taking out loans they could not afford, running up enormous credit card debt, not putting away money for a bout of unemployment or retirement, and blindly relying on investment companies to handle their life savings, Americans suffered considerable loss of personal wealth. Add into the mix an endemic tendency to engage in irrational spending behavior fueled by the relatively prosperous previous two decades, and the result is a compounded problem of individual financial freefall.

The positive impact of secondary school financial literacy education is evidenced in studies conducted by Bernheim, Garret and Maki in 2001 which compared the aptitude of students living in states mandating financial literacy programs in the public schools with those who did not live in “mandated” states. Their research indicates there is a “positive effect on savings rates and net worth during the peak earning years of 35-49 in mandated states.”<sup>1</sup> Proponents of money-management courses have lobbied states such as New Jersey, Kentucky, Ohio and Illinois to add these types of classes to their public school curriculums. These students are the lucky ones. Yet there is an entire adult population in the United States who has had little to no financial education. The realized consensus indicates that most Americans lack adequate knowledge about concepts related to personal finance and basic economics including home expense budgeting, credit use skills and loan defaults, comprehension of credit reports, understanding the terms of a mortgage or vehicle loan, balancing a checking account, and best practices toward saving for retirement.

One study has shown that people who believe that financial outcomes are due to chance or influences out of their control will be less likely to take steps to manage their own finances effectively.<sup>2</sup> The subject matter of financial literacy is dry and confusing for the majority of adults. Studies show that sociopsychological needs as well as practical ones drive beliefs and behaviors related to financial literacy. The key to long-term financial literacy retention may not be the information presented, but the *motivation to actualize that information into daily life*. And as our increasingly complex financial system becomes more difficult to navigate for those without the education, or the economic resources to hire others to make sense of it for them, it is paramount that we reach these individuals within an effective venue and method best suited for them. The populations most in need of personal fiscal instruction tend to be the low-income and financially fragile, which remain underserved in many locations.<sup>3</sup> Even more specifically, women, African-Americans, and Hispanics exhibit lower levels of literacy than the general population.<sup>4</sup>

Therefore, we believe that the best way to reach those citizens most in need of financial literacy is through the VITA program venue. We would like to see The Office of Financial Education partner with VITA volunteers to offer federally-sanctioned classes for patrons who come to the various community organization offices for help with their income taxes. And, in addition, we would like to reward them with \$100.00 United States Savings Bonds for successfully completing the course. We believe in addition to being a motivational tool, a grant of these bonds fosters confidence in America’s financial future and encouragement to continue to invest in the government. Our patrons come to us because they want to be good citizens. We have personally

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<sup>1</sup> Fox, Jonathan, Suzanne Bartholomae, and Jinkook Lee. "Building the Case for Financial Education." *Journal of Consumer Affairs* 39.1 (2005). Print.

<sup>2</sup> Perry, Vanessa, and Marlene Morris. "Journal of Consumer Affairs." *Who Is in Control? The Role of Self-perception, Knowledge, and Income in Explaining Consumer Financial Behavior*. 39.2 (2005). Print.

<sup>3</sup> Mandell, Lewis. "Financial Literacy: If It’s So Important, Why Isn’t It Improving?" *Networks Financial Institute* (2006). Print.

<sup>4</sup> Lusardi, Annamaria, and Peter Tufano. *Debt Literacy, Financial Experiences, and Overindebtedness*. Tech. Boston: Harvard Business School, 2009. Print.

advised, explained, calculated sizable refunds and assured low-earning individuals and families that the federal tax code is designed to accommodate their plight of limited income and offer them help with their civic duty of paying taxes. We have also found our patrons to be eager to learn how to best utilize, budget and safely invest their refunds for a better economic foundation for themselves, and their families. Such a financial literacy course will not solve the overarching problem spanning years of influence from commercial and social pressures, which causes poor purchasing decisions, but it is a start toward empowering people with knowledge and skills about how to hold onto, and grow, their hard-earned incomes.

Congresswoman Schwartz, we respectfully thank you for your time and attention to our plea and look forward to more good work from you, the House Ways and Means Committee, the U.S. Department of Treasury's Office of Financial Education, and the President's Advisory Council on Financial Literacy toward educating Americans for a healthy financial future.

Sincerely,

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