

Statement of Senator Daniel K. Akaka  
Senate Committee on Banking, Housing, and Urban Affairs  
“Improving Financial Literacy in the United States”

Thank you Mr. Chairman. I am delighted to be here because we share a common purpose of improving financial literacy for all Americans. Mr. Chairman, I have appreciated your interest in this issue, your efforts to make Americans financially literate, and your including me in this hearing today. I want to thank Sherry Little and your entire staff for all of their contributions on this issue. I also want to convey my deep appreciation for all of the work that my good friend, the ranking member, Senator Sarbanes, has done for many years on financial literacy. I want to take a moment to thank Steve Harris, Aaron Klein, and your entire staff for their tireless work to help make Americans more financially literate. I understand that Aaron Klein will be leaving his post as the Minority Chief Economist shortly, but I expect that he will continue to serve the people of Maryland remarkably well in other capacities. In addition, Senators Enzi and Stabenow have been leading advocates on this issue whose efforts I have greatly appreciated.

I also want to thank Chairman Bernanke and the staff of the Federal Reserve, along with Chairman Cox and the staff of the Securities and Exchange Commission, for all of their efforts to help improve the financial decision making of Americans. In April, the SEC participated, along with the National Association of Securities Dealers, in an event in Honolulu intended to help our Armed Services personnel be better equipped to invest, manage their resources, and avoid predatory lenders.

Mr. Chairman, we are all here because too many Americans lack basic financial literacy. A sample of economic statistics present some disturbing realities. In 2005, one bankruptcy petition was filed for every sixty households, which was a twenty-three percent increase from the previous year. According to the Federal Reserve, revolving debt for American consumers totaled \$805 billion in March. The personal savings rate was negative last year. Millions of working families are susceptible to predatory lending because they are left out of the financial mainstream. The unbanked rely on alternative financial service providers to obtain cash from checks, pay bills, send remittances, utilize payday loans, and obtain credit. Many of the unbanked are low- and moderate-income families that can ill afford to have their earnings unnecessarily diminished by their reliance on these high-cost and often predatory financial services. In addition, the unbanked are unable to save securely to prepare for the loss of a job, a family illness, a down payment on a first home, or education expenses.

In 2005, only forty-two percent of workers or their spouses calculated the amount that they needed to save for retirement, down from fifty-three percent in 2000. The 2005 Retirement Confidence Survey found that a majority of workers believe that they are behind schedule on their retirement savings and that their debt is a problem. A lack of preparation for retirement is of particular concern since more workers are more dependent on defined contribution rather than defined benefit pension plans and need to be better stewards of their financial futures. People are living longer, thanks to advances in health research and technology. Reductions in employer-provided retirement health benefits demand that we come up with more retirement dollars. Only one in every ten companies nationwide is expected to offer retirement health

coverage by 2031, and nine in ten companies will be increasing what retirees pay for health insurance. Clearly, there is a great need for larger nest eggs, smarter investing, and better debt management. People need to be much more aware and involved in personal financial management and long-term planning. Employees must be encouraged to participate in employer savings plans where, in many cases, matching contributions can provide immediate returns on investment. Many younger employees fail to capitalize on this benefit and fail to fully understand the importance of planning for retirement and participating in tax-advantaged plans and options, such as Individual Retirement Accounts.

Without a sufficient understanding of economics and personal finance, individuals will not be able to appropriately manage their finances, evaluate credit opportunities, and successfully invest for long-term financial goals in an increasingly complex marketplace. It is essential that we work toward improving education, consumer protections, and empowering individuals and families through economic and financial literacy in order to build stronger families, businesses, and communities.

Mr. Chairman, I fought successfully to include my Excellence in Economic Education Act in the No Child Left Behind law. The EEE supports teacher training, evaluations, research, and other K through 12 activities, in the No Child Left Behind legislation. Despite severe resource limitations, I am pleased that I, along with bipartisan advocates, have been able to obtain approximately \$1.5 million a year for the program in the last three appropriations cycles. If our schools effectively teach economics and personal finance, students can be prepared for the

challenges they will face as business leaders, workers, heads of households, parents, and voting citizens. There is no better time than in childhood to instill the knowledge and skills individuals need to make good decisions throughout their lives. I am also working to include provisions of my College LIFE bill, which addresses financial literacy needs for the college population, in the Higher Education Act. I look forward to continuing to work with my colleague from Wyoming, Senator Enzi, to make this possible.

Economic education and financial literacy are a vitally important component of increasing financial literacy. We must also take steps to attack predatory lending, bring people into mainstream financial institutions, and encourage the dissemination of improved, personalized, and relevant financial disclosures.

Too many Americans are taken advantage of by unscrupulous lenders through refund anticipation loans, payday loans, and other predatory loan products. For example, an estimated \$1.9 billion of Earned Income Tax Credit benefits intended to assist low-income families was received by commercial tax preparers and affiliated national banks to pay for tax assistance, electronic filing of returns, and high-cost refund anticipation loans (RALs). We have an obligation to do more so that working families can keep more of their earned tax credits. I have worked to restrict refund anticipation loans and provide additional opportunities for taxpayers to receive their refunds without fees by establishing their own bank or credit union deposit account.

We also need to develop more mainstream financial products and services that will

provide viable alternatives to fringe financial services such as payday loans. That is why I introduced S. 1347, the Low-Cost Alternatives to Payday Loans Act, which would encourage the development of consumer friendly, small loans at credit unions and banks. This demonstration program will have a maximum interest rate of eighteen percent and must include financial literacy opportunities for participants. Several credit unions have developed similar products. I am very proud of the Windward Community Federal Credit Union in Kailua, on the island of Oahu, which has developed an affordable alternative to payday loans to help the Marines and the other members that they serve. We need to further encourage the development of these alternatives so that working families have access to affordable small loans.

We must also ensure that consumers receive improved, personalized, and relevant disclosures, so that they may make better debt management decisions. S. 393, The Credit Card Minimum Payment Warning Act, which I introduced with several of my colleagues, would mandate that credit card billing statements include how many years and months it will take to pay off the full balance if consumers only make the minimum payments. I also want to include a toll-free number on statements to help people find reputable credit counseling services. A recent Government Accountability Office report confirms that providing credit card users with detailed, personalized information is possible and would help consumers make better debt management decisions.

Again, I want to thank the Chairman for allowing me to participate today. We have a lot of work left to do to help improve the financial skills and well-being of our nation. This is a

daunting task and I look forward to continuing to work with all of you. Thank you  
Mr. Chairman.