

**Testimony of Christopher Cox  
Chairman  
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**“Improving Financial Literacy in the United States”**

**Before the Committee on Banking, Housing, and Urban Affairs  
United States Senate**

**May 23, 2006**

Chairman Shelby, Ranking Member Sarbanes, and Members of the Committee:

Thank you for giving me the opportunity to be here today to testify about the importance of financial literacy and the Securities and Exchange Commission’s efforts to protect and educate our nation’s investors. I commend each of you for raising awareness regarding this critical issue.

In my testimony today, I discuss the financial literacy challenges we face with various segments of our population and explain what the SEC is doing to get information into the hands of today’s investors – whether they are young adults, teachers, seniors, or the members of our armed services. Improving financial literacy is one of the keys to fulfilling the investor protection part of our mission. But it’s not just about pushing educational information out the door. It is not our job to tell people how they should invest. Critical to our efforts to improve financial literacy is actually putting investors in the driver’s seat so they can better make their own financial decisions. Putting them in the driver’s seat means giving ordinary investors the means to interact directly with companies’ information in a way that allows them to compare, contrast, and put that information into contexts that are meaningful to them. In the last part of my testimony, I explain why plain English disclosure and interactive data are key to getting investors into the driver’s seat.

**I. Financial Literacy for Young Americans**

Senator Sarbanes, when I last appeared before this Committee, you mentioned the particular challenge we face in educating our young people about personal finance and the benefits of savings and investment. Your concerns are well placed. Recently, the non-profit Jump\$tart Coalition published the results of a comprehensive financial literacy survey of 5,775 high school seniors.

On average, students answered only 52% of the survey questions correctly. In addition to the low average scores, I found several of the findings to be of particular concern:

Based on several questions in the survey, fewer than half of respondents demonstrated an accurate understanding of the impact of inflation on savings.

Perhaps as a corollary, while a large majority of teens in the survey appreciated the importance of safer investment vehicles for short-term savings, they struggled mightily when faced with questions about long-term investment. Specifically, 80% of the kids understood that for money that will be needed within a few months or years, a bank savings account is superior to stocks, corporate bonds, or locking cash in the closet—an encouraging result. Yet when asked which investment vehicle tends to have the highest growth over a period of 18 years – and given the choice of a US Savings Bond, a checking account, a savings account, or stocks, only 14% knew that the correct answer is stocks.

This is of great concern when we reflect on the wonderful news that Americans' life expectancy continues to increase – we expect the average baby born today to live 78 years. We expect that the average high school senior in the survey group will also live to almost 80, and a fair number will live past 100. It is essential that they get into the savings habit early and that they take advantage of the best opportunities to grow their wealth, allowing them someday down the road to cover the costs of a retirement that may last for decades. To put it another way, these kids will face the Mt. Everest of financial planning if their plans do not include exposure to the equity markets, especially when they are young. Just as we need to teach these kids that the stock market is no place for the summer job earnings that they need at college this fall, we also need to share with them the powerful role of stock investments in building wealth over the long haul.

Wharton School Professor Jeremy Siegel's research has shown that over the long-term – in fact over the last two centuries – investing in stocks has delivered average real growth of between 6 and 7 percent per year. We make it clear in our investor education efforts that stocks have historically had the greatest risk and highest returns among the major asset categories. While the volatility of stocks makes them a risky investment in the short term, I do believe that thanks in part to the reforms that bear your name, Senator Sarbanes, young people with long-term financial goals can invest in America's companies with confidence, taking advantage of all the financial tools appropriate to their circumstances. And we seek to address this gap in financial literacy by making sure that just as young investors understand the risks of equity investments, they also fully appreciate the rewards.

Funding their retirements will be a challenge, but of course the kids headed into the workforce or to college this fall will have many large expenses before then, for example their own kids' college tuition. The College Board reports that the average cost of attending a public college or university for just one year is now over \$12,000 and the average cost for just one year of private college is now more than \$29,000. Both continue to rise significantly faster than inflation. I

believe it is crucial that today's young people are encouraged to look a few years down the road and learn the greatest lesson of investing – start early! As a side benefit, if we can convince today's young people to contemplate the money that they will need to provide for their own families in the future, and perhaps reflect on the sacrifices already made to finance their educations, then perhaps they will also begin to appreciate and respect their parents.

For aspiring young investors and in fact for investors of all ages, we offer a range of informative publications. Our Office of Investor Education and Assistance routinely creates and disseminates neutral, unbiased information on saving and investing. The educational materials are all directed at helping people make wise investment choices and avoid fraud.

In these publications, we emphasize factors investors should consider before they invest, and explain important questions to which they should get answers before investing. Many of our materials explain to investors how a small difference in fees can translate into a large difference in returns over time. We also repeatedly remind investors of the benefits of paying off high-cost credit card debt before beginning any investment program. After all, virtually no investment pays off as well as, or with risk less than, wiping out the balance of a credit card.

Since we serve on the board of the Jump\$tart organization, our information, which is available in Spanish and English, is incorporated into many, many K-12 curriculums. Anyone who can read a newspaper can understand our educational materials. Everything we produce is available free of charge and not copyrighted, so that the widest possible dissemination is encouraged.

While we cannot tell investors which products to purchase, we can and do arm them with the information they need to assess various products and investment strategies. For example, our “Get the Facts on Saving and Investing” brochure helps individuals create a basic financial plan, explains the differences between stocks and bonds, and highlights the “magic” of compound interest. Another brochure explains the basics of asset allocation, diversification, and rebalancing.

We also offer a wide range of publications on many financial products, including mutual funds, 529 plans, variable annuities, and equity-indexed annuities.

A dominant theme of the SEC's investor education materials is “*investigate before you invest.*” We encourage individuals to ask questions and to check out the background and credentials of any salesperson or financial professional they use. We make sure investors know how to find out whether their brokers or investment advisers have a history of complaints or fraud. Not only do we list the key questions every investor should ask, but we also provide investors with information on how to confirm whether a financial professional is, in fact, duly licensed. In addition, we give investors resources for researching companies and tips for avoiding fraud.

Overall, we have published hundreds of educational brochures, investor alerts, and short topics of interest to investors. While some of our most popular materials are available in print, all of our materials are available through the “Investor Information” section on our website ([www.sec.gov/investor](http://www.sec.gov/investor)). There, visitors can search for these materials using a targeted search engine, browse for information by subject matter, or view an alphabetical list of publications.

We have also begun beta testing of investor education delivered through “podcasting”. Podcasting is a method of publishing and syndicating audio broadcasts through the Internet. Podcasting allows individuals to listen to our broadcasts directly from their computers. Individuals can get started saving and investing by listening to our introductory podcast entitled “Welcome to Your Money,” or learn how to determine whether a hot stock tip is a good investment by listening to the episode called “Hot Stock Tips.” Users can also download these podcasts onto their iPods, or other handheld listening devices, just as they would their customized music playlists. That way, they have the flexibility to listen to them, or re-play them, wherever and whenever it suits their needs. If this outlet for dissemination is successful – and we believe it will be – we will expand the library of financial information podcasts available to the public.

## **II. Financial Literacy for Other Target Populations**

### **A. Seniors**

I’ve talked about today’s young people and their need to save and invest for the many expenses they will face, right up to and including a long retirement. But I’d like to focus now on the people who are already there – our nation’s retirees – the largest and fastest growing segment of our population. The statistics tell the story: No fewer than 75 million Americans are due to turn 60 over the next 20 years, more than 10,000 every day. Households led by people aged 40 or over already own 91% of America’s net worth. The impending retirement of the baby boomers will mean that, very soon, the vast majority of our nation’s net worth will be in the hands of the newly retired.

Older Americans, who have already worked and saved over the course of a lifetime, have different needs. As you know, I have spent a good portion of my time as SEC Chairman working to ensure that America’s seniors are protected against those who would cheat them out of their life savings. I have been so focused on this issue in fact that I have to be careful not to give the impression that this is all I do each day. But I think my focus is well placed given our aging population, and the fact that so much of America’s financial assets are held by seniors.

Sadly, some industry professionals target seniors for inappropriate investments. And we know that scam artists frequently prey on the elderly.

That's why I recently announced that I will convene a "Seniors Summit" of regulators and organizations that are vitally concerned with seniors, to publicly discuss what steps can be taken to better protect this precious segment of our society. I intend this to be a first step towards a nation-wide assault against securities fraud perpetrated against seniors.

I have also announced that we are working with state regulators and the NASD to evaluate the ubiquitous "free lunch" seminars aimed at convincing seniors to purchase complex and perhaps inappropriate financial products. Building on work we first started in Florida, we will be expanding our joint efforts to examine "free lunch" programs in other jurisdictions.

Throughout this nationwide effort, we will be coordinating the distribution of educational materials to senior investors, and reaching out to the local media to raise awareness of financial issues affecting seniors. This joint initiative also involves extensive information sharing among securities regulators with a common goal: to safeguard the financial well-being of our nation's senior citizens.

When I addressed this Committee last month, I described the Commission's three-pronged approach to combat investment fraud on our senior citizens: enforcement, examinations, and education. This morning I'd like to provide some more details about our educational efforts for seniors and how we are putting better information in their hands so they can make informed investment decisions.

We know that many seniors, and many children and caregivers of seniors, use the Internet to search for information on investing. That is why we created a page on our website (<http://www.sec.gov/investor/seniors.shtml>) aimed specifically at senior investors.

The information on this page can help seniors fend off high pressure sales pitches for legitimate, but arguably unsuitable products. After reading our materials on equity-indexed annuities, for example, seniors will know to avoid any salesperson claiming that individuals "can't lose money" in that product. Investors can lose money buying an equity-indexed annuity, especially if the investor needs to cancel the annuity early.

In addition to providing critical information on other investments commonly marketed to seniors, such as variable annuities, promissory notes, and certificates of deposit, the page also provides key information about how to detect and avoid fraudulent schemes.

Fraudulent schemes come in many flavors and fraudsters can turn on a dime when it comes to tailoring their pitches to capitalize on the latest trends, from hedge fund investing to charity schemes. But most frauds, like bad sit-coms, are not new. Instead, they're the same old material wrapped up in new packaging.

The frauds targeted at seniors mirror the frauds aimed at broader audiences: “Ponzi” or pyramid schemes – where money from new investors is used to pay off earlier investors until the whole scheme collapses; questionable debt instruments – which are often pitched as providing guaranteed income; and classic “pump and dump” market manipulations – when fraudsters drive up the price of a company’s stock (typically a microcap or penny stock) using false and misleading statements and then sell at the peak.

Our “Seniors” page warns against the dangers of listening to the sales pitches of cold-callers and alerts seniors to the very real threat of affinity fraud – scams that prey upon members of identifiable groups, such as religious or ethnic communities, professional groups, or the elderly.

Senior citizens and their adult children who love them can learn more by browsing through our “Senior Care Package,” a collection on our website of our most popular brochures for seniors (which are also available in hard-copy). Illustrative examples of brochures that we publish that might be of special interest to seniors include: “Cold Calling” and “Variable Annuities: What You Should Know.”

Our investor education publications are available through our website, [www.sec.gov/investor](http://www.sec.gov/investor), by writing us at SEC headquarters or by calling 1-800-SEC-0330.

We are continuously looking for ways to provide valuable information to our nation’s elderly citizens. Since last month, we’ve added two new investor education brochures to our page dedicated to seniors.

One new brochure can help individuals become more informed before they invest a lump sum payout, a common and often difficult decision for seniors who elect to receive their pension in a single payment. And because many financial professionals use designations that imply that they are experts at helping seniors with financial issues, we also added a brochure that can help investors understand the sets of initials that may follow the names of their financial professionals and the meaning of titles, like “senior specialist,” they use to market themselves.

But helping our nation’s seniors is not a task that can be undertaken solely by the Commission. Efforts by multiple parties play an important role in equipping consumers with needed financial skills. Coordinated actions can efficiently reach seniors with high-quality, unbiased information. That’s why the SEC works with others to leverage our efforts. I mentioned earlier our cooperation with the states, represented by the North American Securities Administrators Association, as well as with the NASD, in aggressive actions to prevent and respond to investment fraud against seniors, and we are also working cooperatively on the education side, giving seniors the tools to avoid being victimized.

## **B. Teachers**

Of course, our educational tools are not only geared towards seniors. When we noticed that our busy, dedicated public school teachers sometimes overlook their own financial needs, such as planning for a secure retirement, we created our “Just for Teachers” web page ([www.sec.gov/investor/teachers.shtml](http://www.sec.gov/investor/teachers.shtml)). The page helps teachers evaluate and select appropriate investments for employer-sponsored 403(b) retirement savings plans and other savings vehicles. Mindful of the need I discussed earlier to ensure that their students also benefit from financial education, we have also included on the site and resources for teaching personal finance in the classroom.

While all of the materials are available online, teachers can also contact the SEC from the “Just for Teachers” web page and request a free “Teacher Care Package,” consisting of SEC educational brochures on mutual funds, variable annuities, and other investing topics, which will be mailed to the investor. We have contacted teachers in every state to let them know of the resources we have to assist in financial education and we have mailed over four thousand teacher care packages to educational professionals all across America.

## **C. Military Personnel and their Families**

We are also committed to improving the financial literacy of our service members and their families. The SEC's Office of Investor Education and Assistance has teamed with the NASD Investor Education Foundation and the Department of Defense on a multi-faceted financial education program serving members of the military and their families. In addition, we have presented our educational materials to enlisted men and women on military bases and ships all over America.

Our “For Military Personnel and Their Families” web page ([www.sec.gov/investor/military.shtml](http://www.sec.gov/investor/military.shtml)) contains helpful resources for our service members. These resources include an online brochure explaining mutual fund contractual plans – also known as periodic payment plans – which generally impose a 50% up-front fee. As you know, some unscrupulous salespeople have used misleading scripts to sell these investment products to our military personnel.

## **III. Making Disclosure More Useful for Ordinary Investors**

I'd now like to address the elephant in the room when we talk about financial education, and I'm not talking about any of the Republican Senators on the majority side. We face a great challenge, even if we are able to provide robust

financial education to our young people, and an abundance of online tools and paper publications to Americans of all ages.

Even if investors know to start saving early, to appropriately use stocks and bonds depending on their needs and time horizons, to ignore promises of guaranteed sky-high returns, to disregard emails, faxes, and voice mail messages containing “hot” stock tips, to be wary of apparently free lunches, and to check out the advisers and brokers seeking their business, they will still have trouble getting the information they need.

Even armed with an outstanding financial education, very few investors are able to slog through the swamp of legalese known as corporate annual reports and mutual fund prospectuses. Based in part on the requirements we have placed on corporations and mutual fund firms, and in part on the desire of these firms to defend against potential lawsuits, current disclosures often do not give investors the chance to read the key facts about a potential investment in plain English, nor to easily extract the particular information they want from these cumbersome mounds of paper.

Watching TV or reading magazines, you have probably noticed an increasingly prominent theme in advertising and marketing. A recent New York Times piece described the trend this way: “My, my, my. Madison Avenue has become obsessed with using the word “my” — along with “your” and “our” — in advertising slogans, as well as in the names of brands, products and even a new television network. The trend is inspired by a desire by marketers to demonstrate that they understand changing consumer needs by, literally, putting the customer first.”

Madison Avenue is responding to consumers who increasingly demand personalized and customized products and services.

Unfortunately, when it comes to financial information, “Have it your way” is not a phrase that immediately comes to mind. “Take it our way” is what these documents seem to be saying to the individual investor, and the result is that even the most ardent students of our educational efforts run into a sometimes impenetrable wall of complexity, discouraging them from an informed examination of their financial assets.

But technology offers a way for average investors to create My Annual Report, My Prospectus, or My Quarterly Update – exactly the information they want, how they want it, when they want it, uncluttered by extraneous legal gobbledygook.

As I described last month, interactive data will let any user – anyone – take mountains of financial data and make it searchable and usable.



Until now, data has been held captive to the document where it was originally published. But that will change once each piece of information is given a unique label through data-tagging.

With interactive data, each investor will be able to focus on the disclosure they want to see with just a few clicks of the mouse. All of the information they seek is called up instantly to one page.

Since mutual funds are the investment of choice for retail investors, that's where we feel interactive data will make its first big splash. We already require mutual funds to disclose a great deal of information. With interactive data, we can help investors tame this mass of facts, statistics, and numbers, so it can serve the individual needs of each user. I am pleased that the Investment Company Institute, which represents the mutual fund industry, has recently volunteered its time and talent to completing the technical work necessary to allow mutual fund investors to enjoy the benefits of interactive data. I'm also pleased to report that earlier this month, the SEC received its first voluntary interactive data test filing from the mutual fund industry.

The goal of interactive data is simple – to supply investors with information they can use. The Commission is also working towards this goal by requiring clear and concise disclosures.

Since the day I began at the Commission, I've been focused on translating disclosures – that appear to be written by and for attorneys and accountants – into plain English that ordinary investors can read and understand. We can't continue to "let a short cut for the writer become a roadblock for the reader," as our own Plain English Handbook advises. That means eliminating legalese, defined terms, and, in most cases, the passive voice.

When I was here last month, I indicated that the Commission is committed to making disclosures more meaningful, and intelligible, to average investors. I described initiatives that would require plain language disclosure of executive compensation and reduce the complexity of accounting rules and regulations. But our plain English movement is intended to transform all of the disclosure documents sent to individual investors.

## **Conclusion**

Encouraging financial literacy is a high priority for my colleagues on the Commission and for me. We seek to accelerate our educational efforts and we believe that technology, combined with plain English disclosure, offers an unprecedented opportunity to give Americans the power to become the most informed investors in human history.

In closing, thank you for giving me the opportunity to be here today to testify about financial literacy. I can think of no more important topic for the future of the American economy and I am happy to answer any questions you may have.