

WRITTEN STATEMENT

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Certified Financial Planner Board of Standards, Inc. (CFP Board) is a 501(c)(3) educational/certifying body with a public mission. CFP Board owns the certification marks CFP[®], CERTIFIED FINANCIAL PLANNER[™] and federally registered CFP (with flame logo) in the U.S. and awards use of those marks to more than 50,000 people who have successfully completed initial and ongoing certification requirements designed to ensure that those certified are capable of providing competent and ethical financial planning services. CFP Board's mission also includes a public focus: to create awareness of the importance of financial planning and the value of the financial planning process and to help underserved populations have access to competent and ethical financial planning.

CFP Board's involvement with financial planning educators, financial planning professionals and the public that seeks financial planning information gives it a front-row seat in financial literacy and education circles. And it is clear there is a great need to increase Americans' understanding of and appreciation for financial literacy and financial planning and to encourage healthy financial actions across all sectors. So CFP Board thanks the Committee for the spotlight it is shining on these issues; their importance to the future of our country can hardly be overstated.

It is always nice to start with good news, and there is some good news to report. First, the bodies of knowledge described by the terms “financial literacy,” “financial education” and “financial planning” have developed so substantially over the past two decades they can fairly be described as mature. Billions of dollars and millions of person-hours have gone into defining and describing the content encompassed by these terms. And there is excellent material available capturing these bodies of information for a staggeringly wide array of audiences. Of course learning will continue, laws that affect these bodies of knowledge will change, and other developments will ensure gradual refinements and evolution, but the starting point is that we are not at the starting point. Information on financial literacy, financial planning, and financial education is high quality, wide ranging, deep and current.

That is the good news. The bad news is that we know this information is not having the impact it should. We know, for example, that Americans are spending more than they are making. Even in the very highest income bracket over 15% of households spend more than they make. We know that average personal debt is around \$10,000 a household and that income devoted to debt is at a record high, having almost doubled in only a decade. We know that half of all seniors are receiving annual income of \$15,199 or less, and seven out of ten of them get the majority of that from Social Security, with the average senior today receiving only \$1000 a year from personal savings. And we know Americans are aging and that numbers unprecedented in human existence will be heavily testing these frayed governmental, personal and familial safety nets very, very soon.

There is so much data and information about the serious issues related to Americans’ financial situations that it has become information overload that we tune out. The numbers involved—from the gigantic groups mentioned in the statistics to the large sums individuals need to save for comfortable retirement—are so large they lose significance to us as individuals, just as distances in outer space do.

So what does this mean should happen? First, government can address ways current laws make these problems worse. CFP Board does not officially support or oppose any law, regulation or piece of legislation, but various parties have suggested a number of ways governments discourage responsible financial behavior.

Some suggest tax laws discourage savings and encourage consumption. Some suggest bankruptcy laws make fools of individual who do *not* use them as a strategy to offload debt. Some say government guarantees in various markets encourage reckless investor behavior that comes back to haunt taxpayers. But these issues contain political dynamite that lawmakers are unlikely to pick up.

Are there other more achievable advances that government might encourage to enhance financial literacy and financial planning knowledge and expertise? The answer is yes.

That answer springs from relatively new developments. All around us a revolution in science is occurring that can help translate the excellent financial literacy and financial planning work that has already occurred into better results. As new technology enables us to obtain knowledge we never dreamed of before—whether by seeing inside living brains as people think or by collecting and crunching enormous data dumps—the edges between many once-distinct scientific disciplines are blurring. These disciplines include economics, biology, psychology, finance, math and many more. Neuro-economics and behavioral finance are obvious examples with immediate relevance to financial literacy, but there are many more.

Financial literacy and financial planning are at the epicenter of this convergence of disciplines. Thus one of the main consequences of this explosion is a rapid increase in our ability to understand why people do what they do and what can be done to influence that behavior.

What does this mean? It means that employers, learning from scientific studies confirming the human tendency to prefer choices require the least effort are changing retirement plan designs to tap this inertia by having employees opt out of, rather than into retirement plans. This science allows financial policymakers to turn something that might otherwise be a negative—apathy or a preference for inaction—and turn it into a plus.

This is but one example. The implications of behavioral finance and neuro-economics go much farther and some of the design suggestions they make, however unnerving they may at first seem, are exciting. Examples will be provided in oral testimony.

These advances in science tend, as a whole, to make clear that the reason financial literacy information has not had greater impact is more fundamental one and needs to be addressed as such.

The reason is as obvious as it is overlooked: the vast majority of behaviors that financial literacy encourages involve postponed gratification. To save today what you could otherwise spend is not a popular message. There is a reason, for example, banks often offer a prize to individuals who make deposits—they need to create an immediately gratifying experience to obtain a postponement-of-gratification decision. Policymakers need to wise up to this basic insight.

The effort to get Americans to slim down and get fit offers a perfect analogy. There is abundant and excellent information on exercise and diet. There is a real interest in losing weight and getting fit. But all this interest and effort are having frustratingly few effects—largely because the effects depend on postponing gratification or denying gratification. We know some people can improve their physical fitness; we know for most people it is extraordinarily difficult.

So admitting the nature and size of this difficulty is essential if we are going to have any hope of success. Our problem is not just how to get the necessary information to the right people in the right form for them to understand it. Our problem is how to get people to deny themselves instant gratification and replace it with difficult behaviors designed to achieve goals that may not be reached in decades. I doubt many of us would want our annual job reviews to depend on achieving such a goal.

Congress is not a body known for its ability to save—telling your constituents you are going to tax them more and provide them less but their children will benefit is not a popular re-election strategy. But Congress can encourage work that helps current and future financial literacy and financial planning initiatives have broader and deeper effects. Funding program and design changes can generate major benefits at minimal cost—a kind of financial elegance that financial literacy and financial planning initiatives deserve.