

CERTIFIED FINANCIAL PLANNER
BOARD OF STANDARDS, INC.

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September 13, 2010

Department of the Treasury
Office of Financial Education and Financial Access
1500 Pennsylvania Avenue, NW
Washington, DC 20220

RE: Financial Education Core Competencies; Comment Request

Ladies and Gentlemen:

Certified Financial Planner Board of Standards, Inc. (CFP Board) appreciates the opportunity to comment on the financial education core competencies developed by the Financial Literacy and Education Commission (Commission) and released for comment by the Department of the Treasury (Treasury).¹ Treasury proposed a set of financial education core competencies with the goal of defining what consumers should know and educational providers should teach to establish baseline knowledge in the area of personal finances. The proposal defines five core concept areas—earning, spending, saving, borrowing, and protect—and identifies a baseline knowledge and set of behaviors associated with each. Treasury proposes putting the core competencies into a format and language that can be easily accessible and remembered by consumers, similar to the food pyramid.

We applaud Treasury and the Commission for their work in the area of financial literacy,² and for this important new consumer education initiative. We agree that more needs to be done to create a baseline of knowledge on personal finance topics for consumers and financial education providers. The development of core competencies represents a fundamental step in achieving this goal, and will serve as a foundation for financial education in America. CFP Board believes that Treasury's proposed concept areas correctly identify the primary areas in basic financial literacy. We have some suggestions for clarifying and expanding on the proposed knowledge and behaviors associated with each. We endorse Treasury's proposal to help consumers understand and remember the core competencies, and have proposed a visual model for consideration. Finally, we identify some additional considerations for Treasury as it builds upon and enhances core competencies for both consumers and educators in the future.

CFP Board Brings a Unique Perspective in Developing Financial Education Core Competencies

CFP Board is a non-profit organization that acts in the public interest by fostering professional standards in personal financial planning through setting and enforcing education, examination, experience, and ethics standards for financial planner professionals who hold the CFP® certification. Our mission is to benefit the public by granting the CFP® certification and upholding it as the recognized standard of excellence for

¹ Financial Education Core Competencies, 75 Fed. Reg. 52,596 (Aug. 26, 2010).

² With the publication of "Taking Ownership of the Future: The National Strategy of Financial Literacy" in 2006, the federal government has been executing a financial literacy strategy through a series of initiatives, including the MyMoney.gov Web site.



CERTIFIED FINANCIAL PLANNER™

CFP®

Certified Financial Planner Board of Standards Inc. owns these certification marks in the U.S., which it awards to individuals who successfully complete CFP Board's initial and ongoing certification requirements.

personal financial planning. We currently regulate 62,000 CFP[®] professionals who agree to comply with our competency and ethical standards and subject themselves to the disciplinary oversight of CFP Board.

Financial planning professionals provide services that integrate knowledge and practices across the financial services industry. Financial planning typically covers a broad range of subject areas, including investment, income tax, education, insurance, employee benefits, retirement, and estate planning. Financial planners work with their clients to determine whether and how they can meet their life goals through the proper management of their financial resources. CFP[®] professionals see themselves as educators and coaches to their clients, providing a holistic approach to personal finance that looks at an individual's complete financial picture and goals.

In addition to serving as the standards-setting body for CFP[®] professionals, CFP Board has an active Consumer Advocate program. Our Consumer Advocate, Eleanor Blayney, CFP[®], seeks to educate and inform the American public about the importance of financial planning and financial well-being through the media, speaking appearances, and public awareness initiatives.

Establishing Financial Education Core Competencies Is a Needed First Step in Developing Basic Financial Literacy in the United States

CFP Board strongly supports the establishment of financial education core competencies. There is lack of financial education in K–12 public schools in the United States and there is no uniform set of knowledge from which educators—or Americans themselves—work. This leaves a vacuum for myriad curricula and programs that may only focus on one specific factor of financial education. With many disparate programs to sift through and a lack of required financial education in K–12 public schools, it is no wonder that Americans do not know the “basics” of personal finance.

Identification of core competencies is an important and needed first step, but Treasury and the Commission should take a long-term approach to raising the level of financial literacy in this country. There will need to be an integration of the core competencies into our education systems and continuing adult education. CFP Board stands ready to support Treasury and the Commission in their efforts to foster an educated public that is able to embrace greater responsibility for preparing, planning, and protecting their financial well-being.

The Proposed Financial Education Core Competencies Provide a Workable Analytic Framework

CFP Board agrees with the Commission's approach to articulate a set of core concepts for personal financial education. We also agree with the Commission's initial approach to articulate basic, simple concepts that our Nation's consumers can easily understand and relate to their personal lives. We believe that the proposed core concepts—earning, spending, saving, borrowing, and protect—address the most basic elements of financial knowledge in a simple and comprehensive manner. We would suggest

simplifying them further by expressing them consistently as five action statements: earn, spend, save, borrow, and protect.³

While we believe that the list of core concepts encompasses all basic elements of financial literacy, some of the “Knowledge” and “Action/Behavior” components can be clarified and/or expanded to identify more fully the elements of basic financial literacy. Our observations and suggestions are outlined below within each core concept.

Earn

Clarify what education means. One “Knowledge” component under the core concept “Earn” is “Education is important.” This is accompanied by the “Action/Behavior” “Invest in your future.” We believe the Commission was intending to reinforce the basic concept that getting an education (i.e., high school, college, graduate) is a way for Americans to increase their earning power and thereby “invest” in their future. However, it could also be interpreted as underscoring the importance of education in promoting financial literacy. We encourage the Commission to clarify its intent related to this concept.

Include understanding of basic tax withholdings and tax benefits. We recommend that additional detail be added to the proposed construct under “Earn” to identify basic understanding of taxes. We have found that many people do not understand the specific taxes that are taken from their paychecks, including federal and state income tax, Social Security, and Medicare. We recommend adding a section to “Action/Behavior” that identifies specific withholdings from a worker’s paycheck, as well as other voluntary elections, such as health insurance and life insurance.

Spend

Include the need to balance a checkbook. One of the most basic personal finance activities is balancing a checkbook. It is critical to anyone who has a banking relationship. Keeping a balanced checkbook provides a solid foundation for good financial habits. With a balanced checkbook people will be able to budget better, avoid overdraft fees, and more easily understand the concept of cash flow through simple “money in/money out” subtraction and addition. We recommend that “Balance your checkbook” be added as an “Action/Behavior” under the “Spend” concept.

Save

Distinguish between saving and investing. We believe that there are two very distinct and important concepts that fall under the core concept of “Save” that need to be defined and addressed separately: saving and investing. We recommend that the “Knowledge” and “Action Behavior” sections address both separately. Saving is typically accomplished by depositing money in a savings or other bank account. Some accounts may enjoy a small interest rate, allowing money deposited to experience modest growth over time. Saving is important in providing funds for short-term needs as well as emergency purposes. In

³ For consistency purposes, we use our proposed terminology in the remainder of our comment letter.

comparison, investing is typically accomplished by selecting and purchasing securities among multiple asset classes (i.e., stocks, bonds, mutual funds, etc.). While an individual can typically expect greater returns from investing in a security than depositing money in a savings account, investment returns are not guaranteed and additional risks must be understood. Investing is important to provide for long-term (i.e., retirement) security.

We believe that some basic understanding of the differences between “saving” and “investing” should be part of baseline financial literacy. We propose the following modifications to “Knowledge” under the “Save” concept:

- Know about transactional accounts (saving and checking)
- Know about investment assets (stocks, bonds, mutual funds)

Include understanding of the role of social security, Medicare, and health care. With Americans having more responsibility for their financial well-being, they should understand other factors that will impact their retirement stability, including health care costs and Social Security and Medicare benefits. Americans need to understand the importance of these programs to meeting their long-term goals.

Borrow

Understand the types of loans that are available. Many Americans do not understand the differences in the types of loans that are available. For instance, Americans should understand the difference between unsecured loans (e.g., credit cards) and secured loans (e.g., mortgages, auto loans). We recommend that understanding the basic concept of secured versus unsecured loans be included as an “Action/Behavior” under the “Borrow” concept.

Understand the impact of interest rates. To further drive home the point about the cost of borrowing, we recommend including a basic understanding of how interest rates function. Americans need to understand that interest builds up over time and can substantially increase the cost of purchasing an item.

Understand the role of banks, credit unions and other lenders. Those individuals who do not have a relationship with a bank or a credit union may resort to payday loans, auto title loans, or other alternative loans when in need of short-term credit. Americans should understand how these types of loans operate, including the potential for higher borrowing costs. We recommend including the role of banks, credit unions, and other lenders as an “Action/Behavior” under the “Borrow” concept.

Protect

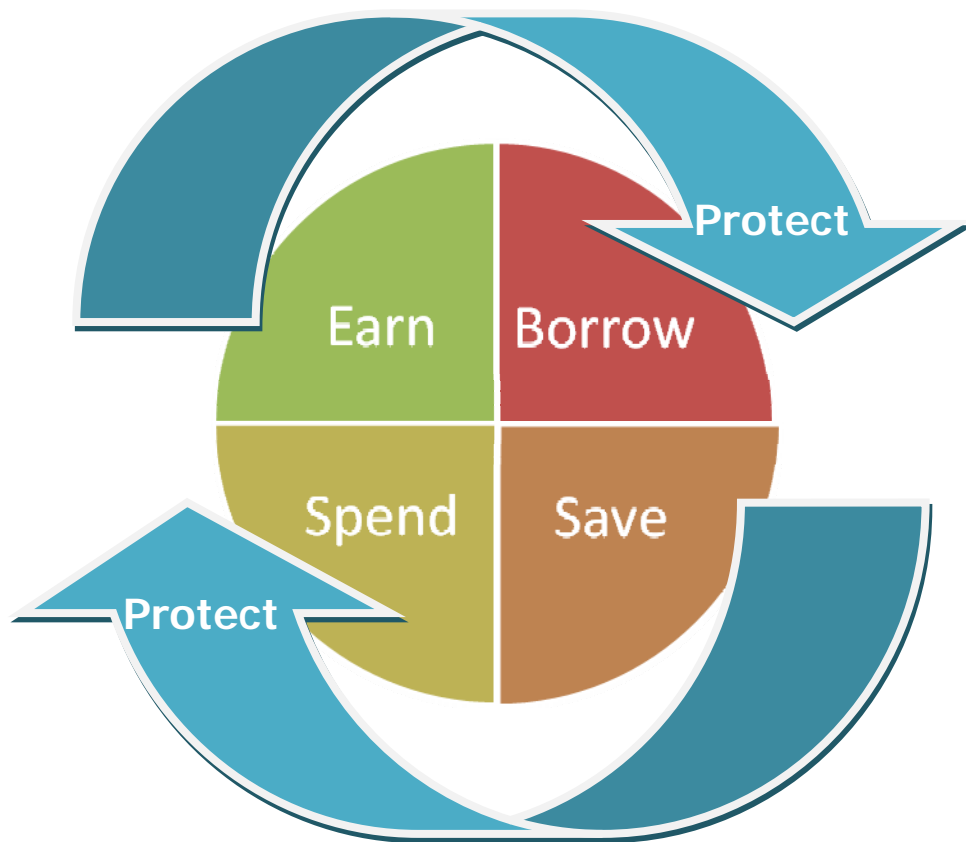
Understand tools available. There are many types of insurance products (e.g., term life, whole life, disability) that people can buy as a way to protect their assets and provide for their families in the event of death or critical illness. We recommend that the “Action/Behavior” “Choose appropriate insurance” include a reference to the basic types of insurance that people can purchase.

Understand the importance of professional help. One of the challenges in teaching financial literacy is the overwhelming amount of information available. Relying on someone to explain complex financial information in a simple, easily understood manner can be beneficial. While it may seem to be a more advanced concept, we recommend including in this section the need for people to seek competent and ethical professional advice when they need it.

Viewing Core Competencies as a Pie Chart May Be Most Helpful to Americans

We agree with the Commission’s goal to present the core competencies in a format and language that is easily accessible and understood. Like the well-known “food pyramid,” a visual representation of core concepts for personal finance would provide both a high-level overview of what people need to know as well as a starting point from which to provide additional information for each concept.

We believe that a pie chart would be the most helpful and accurate visual to depict the core financial competencies. There is a strong inter-relationship among the first four core concepts—earn, spend, save and borrow. We view the final core concept—protect—as an umbrella concept that works to enhance and preserve consumers’ ability to earn, spend, save, and borrow. With this in mind, we propose the following pie chart as a visual depiction of the core concepts. We believe this graphic captures the relationship between the earn, spend, borrow, and save concepts, as well as safeguarding role of the protect concept.



We believe a pie chart would be most effective because financial concepts, unlike food choices, are not necessarily hierarchical. Rather, financial concepts should be viewed collectively and integrated as one concept affects another. For example, how much money someone earns affects the ability to spend, borrow, and save. If someone spends too much, he will have to borrow more or save less (or both). In other words, a pie chart reflects how the core concepts are interconnected.

We recommend the protect concept be wrapped around the pie chart. We believe the “Knowledge” and “Action/Behaviors” the Commission recommends in this core concept are associated with protecting the ability to earn, borrow, spend, and save. For example, reviewing a credit report and protecting one’s identity is a way to protect the ability to borrow and earn, which in turn affects the ability to save and spend.

Additional Considerations

We believe Treasury and the Commission have done an admirable job of proposing a construct that is simple, largely comprehensive and easily understandable. We have attempted to limit our observations and recommendations to only those concepts that we believe are essential to a basic understanding of personal finances. We have included some additional recommendations for consideration by Treasury and the Commission at a later stage in the process as they continues their efforts to increase awareness of financial literacy and a core set of standards for financial education.

Glossary of Financial Terms

Consumers are often confused by the many financial terms that are used. We recommend developing a core glossary of commonly used terms (such as APR, finance charge, compound interest) that would serve to help Americans better understand their own personal finances and increase their financial literacy by creating a knowledge base of terms.

Look for a Competent and Ethical Financial Planner

Different from simply seeking advice, we believe that Americans should be aware of the role of financial planners. These are individuals who can provide holistic financial advice and help educate consumers about budgeting, debt management, and other key personal finance concepts. CERTIFIED FINANCIAL PLANNER™ professionals are educators and financial coaches who want to help people achieve their life goals through understanding and proper management of their finances. We believe CFP® professionals can play a key role in enhancing the financial well-being of Americans in the same way medical professionals protect our health. Understanding the role of financial planning and the benefit of CERTIFIED FINANCIAL PLANNER™ professionals is an aspiration that should be included as a long-term financial literacy goal.

Understand the Need for Lifelong Financial Strategies

While we believe that the financial education core competencies proposed by Treasury and the Commission create a baseline financial literacy construct, it does not capture many of the complexities of financial knowledge. As Americans move through the stages of life, the specific “Knowledge” and “Action/Behaviors” change and evolve to reflect their specific life stages. Financial knowledge, actions, and behaviors can and should be tailored for each stage of an individual’s life—from the time a young adult enters the job market to when he retires. We believe Treasury and the Commission should consider how the stage of an individual’s life can require different financial knowledge, actions, and behaviors as they work to increase our Nation’s financial literacy.⁴

Conclusion

CFP Board appreciates the opportunity to comment on the proposed financial education core competencies. If you should have any questions regarding this comment letter, CFP Board, the financial planners it certifies, or the CFP® marks, please contact Marilyn Mohrman-Gillis, Managing Director, Public Policy and Communications, at (202) 379-2235, or visit CFP Board’s Web site at www.CFP.net.

Sincerely,



Kevin R. Keller, CAE
Chief Executive Officer

⁴ We have included in an Appendix to this letter two documents that may provide useful background information to Treasury and the Commission on core elements of a comprehensive financial education. The “CFP® Certification Examination Principal Topics” are based on the results of CFP® Board’s 2009 Job Analysis Study and serve as the curricular framework for qualified financial planner program providers. The “CFP® Certification Examination and Job Task Domains” are based on CFP Board’s 2009 Job Analysis Study and will serve as the blueprint for the CFP® Certification Examination as of March 2012. These documents reflect the most current analysis of core financial competencies required for CERTIFIED FINANCIAL PLANNER™ professionals. While these reflect a level of complexity and sophistication well above the financial education core competencies proposed by Treasury, they may provide a useful frame of reference going forward.