

Date of Hearing: April 11, 2011

ASSEMBLY COMMITTEE ON BANKING AND FINANCE

Mike Eng, Chair

AB 597 (Eng) – As Introduced: February 16, 2011

SUBJECT: California Financial Literacy Fund.

SUMMARY: Establishes the California Financial Literacy Fund (CFLF) in the State Treasury. Specifically, this bill:

- 1) Requires the CFLF to be administered by the State Controller.
- 2) Authorizes the State Controller to deposit private donations into the CFLF from entities with no direct financial interest in any financial products.
- 3) Requires private donations to be made available upon appropriation in the annual Budget Act.
- 4) Allows the State Controller to convene a financial literacy advisory committee which may be comprised of the Superintendent of Public Instruction, the Treasurer, the California State Library, the Department of Corporations, the Department of Financial Institutions, the Department of Consumer Affairs, and the Department of Finance.
- 5) Requires state agencies to use existing resources to participate in the financial literacy advisory committee.
- 6) Requires the State Controller, beginning in 2013 to provide an annual report to the chairpersons of the Assembly Committee on Banking and Finance and the Senate Committee on Banking and Financial Institutions on the use of the funds, when appropriated. This report shall be submitted no later than August 30 each year.
- 7) Enables partnerships with the financial services community and governmental and nongovernmental stakeholders to improve Californian's financial literacy.

EXISTING LAW does not have an official statewide policy or educational plan for the teaching of financial literacy.

FISCAL EFFECT: Unknown

COMMENTS: California does not have a one-stop shop system for collecting and administering financial literacy funds and implementing programs. A number of financial institutions and non-profit organizations conduct their own events and workshops to promote financial literacy. AB 597 would provide an outlet for the Controller to deposit private donations into the financial literacy fund from entities with no direct financial interest in any financial products. Through the financial literacy fund, the Controller would have the ability to promote financial literacy events, create and distribute financial literacy documents and make the public aware of more serious issues related to scams. The bill also allows the Controller to convene an advisory committee allowing the appropriate stakeholders to gather and discuss financial literacy

priorities. The bill contains a reporting requirement allowing the Legislature to receive necessary information into how the funds are used and appropriated on a yearly basis.

More efforts aimed at promoting financial literacy can produce long-term, beneficial effects, onto California citizens. Promoting financial literacy allows consumers to make smarter financial decisions that reduce personal financial collapse and ease the corresponding burden on the state. The economic crisis demonstrates there is a vast need for people to become more financially literate. California does not require financial education which makes constituents more susceptible to scams and other forms of financial abuse. If California did have more education requirements in place, the overall impact of the foreclosure crisis may have been less. Although this bill does not place education requirements in schools, it does take a step in the right direction by establishing a fund in the State Treasury for the sole purpose of promoting financial literacy.

The Jumpstart Coalition for Personal Financial Literacy conducted a survey of college students in 2007 that found more than 75 percent of the respondents wish they had more help preparing for their financial future. Despite surveys and reports documenting Americans' poor knowledge of personal finance basics, financial education is currently only required learning in twenty states. California is not one of these states.

FINANCIAL STATISTICS:

In April, 2010, a survey created by Harris Interactive for the National Foundation for Credit Counseling found:

- One-third of adults (33 percent), or about 75 million people, do not put any part of their annual household income toward retirement.
- Though the proportion of adults who have non-retirement savings has increased over the years, three in ten (30 percent), or more than 68 million people, report that they have no savings.
- Nearly two in five (39 percent) Gen Y adults – more than any other age group – report having no savings. Of those with no savings, one in four say that, if faced with an emergency, they would charge that expense to a credit card (25 percent) or take out a loan (29 percent), thus adding to any existing debt.
- 28 percent, or nearly 64 million adults, admit to not paying all of their bills on time. Among minorities, this number is at 47 percent for African-Americans and 42 percent for Hispanics.
- Though a majority of adults (67 percent) say they pay for most purchases with cash or a debit card, about two in five (41 percent) report that their household carries credit card debt and more than 11 million people (5 percent of adults) say they carry \$10,000 or more in credit card debt from month to month.
- In spite of it being free, nearly two-thirds of adults (65 percent), or nearly 148 million people, have not ordered a copy of their credit report in the past year. And nearly one-third (31 percent) do not know their credit score.

- Though more adults now give themselves an A, 34 percent, or nearly 77 million people, gave themselves a grade of C, D, or F on their knowledge of personal finance, suggesting there is still considerable room for improvement, especially among younger adults.

OTHER STATES:

In 2009, Delaware enacted SB 108, which requires businesses making short-term consumers loans (e.g., title loans, payday loans, etc.) to pay an annual high-cost loan license fee of \$1,500 for each licensed office. The fees must be used to fund grants to or contracts with schools or other organizations that provide financial and economic literacy skills to adults and youth in accordance with guidelines and/or regulations to be established by the Commissioner and the Delaware Secretary of Education.

In Vermont, during the 2008 Legislative session, legislators authorized the establishment of a trust fund to finance financial literacy in Vermont. According to the legislation, "The purpose of the fund is to promote the adoption of fiscally sound money management practices by Vermonters through education and outreach efforts that raise awareness of the need for and benefits of practicing such skills; and to create opportunities to build and encourage the development of new financial literacy activities and educational products for Vermont citizens." The Treasurer's Office is authorized to accept funding from a variety of sources to support these activities.

In 2008, Ohio established the financial literacy education fund in the state treasury, administered by the director of commerce. (The Ohio Department of Commerce is one of the state's chief regulatory agencies.) The fund is used to support various adult financial literacy education programs developed or implemented by the director of commerce. The director of commerce requires that at least one-half of the financial literacy education programs developed or implemented, and offered to the public, be presented by or available at public community colleges or state institutions throughout the state. The director of commerce shall deliver to the president of the senate, the speaker of the house of representatives, the minority leader of the senate, the minority leader of the house of representatives, and the governor an annual report that includes an outline of each adult financial literacy education program developed or implemented, the number of individuals who were educated by each program, and an accounting for all funds distributed.

According to the Jumpstart Coalition, Tennessee and Iowa have used their partnerships with state and local business leaders and the financial sector to establish Financial Literacy Funds. These funds are gathered as partners are asked to donate when participating in discussions regarding curriculum, teacher trainings, and classroom tools. The Funds are then used to ensure teacher training and materials are available to educators delivering financial education.

FEDERAL ACTION:

In February, 2011, Rep. Andre Carson, D-Ind., introduced HR 300, which would create a federal grant program intended to increase financial literacy among teens and young adults. Called the Young Adults Financial Literacy Act and calls for grants to be funnelled to organizations that could develop and implement financial education programs for students 15 through 24. The program would include teaching skills such as financial planning, budgeting, saving and managing debt.

President Barack Obama named the month of April, National Financial Literacy Month. The President said in a proclamation that a better understanding of the financial system can help prevent another economic crisis. He called on Americans during April to recommit "to teaching ourselves and our children about the basics of financial education."

The Federal Government established The Financial Literacy and Education Commission under Title V, the Financial Literacy and Education Improvement Act which was part of the Fair and Accurate Credit Transactions (FACT) Act of 2003, to improve financial literacy and education of persons in the United States. The FACT Act named the Secretary of the Treasury as head of the Commission and mandated the Commission include 19 other federal agencies and bureaus. The Commission coordinates the financial education efforts throughout the federal government, supports the promotion of financial literacy by the private sector while also encouraging the synchronization of efforts between the public and private sectors.

PREVIOUS LEGISLATION:

AB 2457 (Salas) 2010 Legislative Session. Would have established the California Financial Literacy Fund in the State Treasury, administered by the Controller, to support partnerships with the financial services community and other stakeholders, to improve Californians' financial literacy. Vetoed by Governor Schwarzenegger

AB 550 (Lieu) 2009 Legislative Session. Would have established the California Financial Literacy Fund in the State Treasury and enable the California State Controller to administer the Fund. Held in the Assembly Appropriations Committee. Appropriations determined, "Unknown costs, presumably in excess of 150,000, to the controller to administer the new initiative and prepare annual reports."

ACR 113 ((Niello & Lieu) Res. Chapter 32, Statutes of 2008) declares the month of April, 2008, as Financial Literacy Month, in order to raise public awareness about the need for increased financial literacy.

AB 2123 (Lieu), 2008 Legislative Session. Would have established the California Financial Literacy Initiative for the purpose of improving financial literacy by offering instructional materials to citizens of California. Vetoed by Governor Schwarzenegger.

AB 150 (Lieu), 2007 Legislative Session: Would have required the Superintendent of Public Instruction to administer a California Financial Literacy Initiative (CFLI) as a program for improving pupil financial literacy. Vetoed by Governor Schwarzenegger.

AB 1950 (Lieu), 2006 Legislative Session: Substantially similar to AB 2435. Vetoed by Governor Schwarzenegger.

AB 2435 (Wiggins), 2004 Legislative Session: Would have permitted school districts to provide instruction in economics courses related to the understanding of personal finances including budgeting, savings and credit. Vetoed by Governor Schwarzenegger.

The Assembly Banking and Finance Committee conducted an informational hearing on Financial Literacy on February 20, 2007. The Committee found through this hearing that numerous

programs exist in California from the financial community and from non-profit organizations but no central authority determines what materials or programs are best suited for Californians.

REGISTERED SUPPORT / OPPOSITION:

Support

California State Controller, Sponsor
American Federation of State, County and Municipal Employees (AFSCME), AFL-CIO
California Credit Union League (CCUL)

Opposition

None on file.

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