Date of Hearing: April 19, 2010

ASSEMBLY COMMITTEE ON BANKING AND FINANCE
Mike Eng, Chair
AB 2457 (Salas) – As Introduced: February 19, 2010

SUBJECT: California Financial Literacy Fund.

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

1) Requires the California Financial Literacy Fund to be administered by the State Controller.

2) Authorizes the State Controller to deposit private donations into the California Financial Literacy Fund 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) Requires the State Controller, beginning in 2012 to provide an annual report to the chairpersons of the Assembly Committee on Banking and Finance and the Senate Committee on Banking, Finance and Insurance on the use of the funds, when appropriated. This report shall be submitted no later than August 30 each year.

5) Enables partnerships with the financial services community and governmental and nongovernmental stakeholders to improve Californian's financial literacy.

6) Makes findings and declarations regarding financial literacy.

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

FISCAL EFFECT: Unknown

COMMENTS:

Currently, 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 2457 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 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 purpose of 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.

According to the author, "Financial illiteracy and the consequences of uninformed financial decisions are a growing problem in California. A 2008 financial literacy survey revealed that only 59 percent of young adults, ages 18-29, pay their bills on time every month. Providing Californians more financial literacy tools is an important part of the solution. The creation of a financial literacy fund would provide a central funding source for organizations who with to partner with California on financial literacy efforts. In the long run, educating Californians would result in benefits to the economy by helping to prevent bankruptcies, foreclosures, and job loss."

According to the sponsor, the California State Controller, "This bill would express the state's financial interest in reducing unmanageable credit card debt, bankruptcy, and predatory lending misfortunes like those that contributed to the current economic meltdown. Importantly, this bill will ensure that the Legislature is notified of all sources and uses of the donated funds, allowing you and the other members to make more timely and informed decisions on financial literacy issues."

FINANCIAL LITERACY STATISTICS:
The 2008 Financial Literacy Survey of adults, conducted on behalf of the National Foundation for Credit Counseling, Inc. and MSN Money, revealed that:

- One in every 10 Americans with a mortgage reports being late or missing a mortgage payment in the last year.

- 7% of adults are either getting calls from collectors or seriously considering filing for bankruptcy.

- Only 59% of the young adults in Generation Y (ages18-29) pay their bills on time every month.

- More than one-third of adults say they do not have any non-retirement savings. And though a majority is currently saving for their retirement, more than one-quarter are not.

- Almost half of those who closely monitor their finances are more likely to say that they learned about personal finance from their parents or at home, underscoring the potential positive influence parents can have on their children financially.

- Only one-quarter expect their income to outpace inflation. And more than half of all Americans believe their income will shrink, not keep pace with inflation, or stay even.

According to a 2008 study of college students sponsored by the National Association of Retail Collection Attorneys:

- 31% of students polled do not worry about debt, believing that they can pay it back once they are out of school and earning a regular paycheck.

- More than 25% think it is reasonable to run up a debt to splurge on a special celebration with friends at a restaurant or to use a credit card as a way to "raise cash."

- An average of 23% chooses to ignore overdraft penalties and the prospect of months or years of paying off a debt incurred for a moment of fun.

- Less than half (46%) always keep records of their spending and receipts.

- 92% agree that bad debt - defined as failure to pay bills that extends so long that a debt collector has to contact the consumer - will have a significant impact on a person's ability to get credit in the future.

- 42% of those who already have been contacted by a debt collector would develop a payment plan to repay the debt over time.

A 2008 study by the Boys & Girls Clubs of America and the Charles Schwab Foundation of teens participating in the financial education program *Money Matters* revealed that:

- Teens who reported learning a great deal about goal-setting were significantly more likely to also report that they had saved money for something they wanted and then purchased it (79%), compared to those who reported they learned little or nothing about goal-setting (58%).

- Teens who reported learning about managing savings and checking accounts were more likely to report having opened both types of accounts (57% vs. 44% opened a savings account; 36% vs. 28% opened checking accounts).

- Those who reported learning about saving money were more likely to save regularly (72% vs. 57%).

- Teens who learned to track spending were more likely to report having developed a budget (50%) vs. those who learned little or nothing (29%) and also more likely to save money to purchase something (80% vs. 60%).

- Youth who reported learning to create and maintain a budget were more likely to report actually developing one (50% vs. 30%).

A 2008 Pew Research Center survey of adults revealed that:

- Three out of every four Americans say they aren't saving enough.

- Americans now save, on average, less than 1% of their incomes, and the savings rate has been in almost continuous decline for more than two decades.

- Fully six-in-ten adults (61%) with family incomes of $150,000 or more say they aren't saving enough money for the future. Among those earning between $100,000 and $150,000 a year, the proportion soars to 79% and stays roughly at that level among income groups farther down the scale.

- Three-in-ten (31%) college graduates say they save enough, compared with 19% of those with just a high school degree.

At the end of January, 2010, Americans were $2564 billion in debt, excluding home mortgages.

According to CardWeb.com, the average credit card debt per borrower (not per household) is $5,710 at the end of October, 2009, about 6% higher than one-year ago.

OTHER STATES: 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 opportunites 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: Recently, President Barack Obama named 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 president is currently looking into creating a new Consumer Financial Protection Agency, which has been stated, would give Americans "clear and concise financial information."

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 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

American Federation of State, County and Municipal Employees (AFSCME) , AFL-CIO
California State Controller John Chiang

California State Treasurer Bill Lockyer
The California Chamber of Commerce

Opposition

None on file.

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