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Testimony

Treasurer Dean Martin, State of Arizona
Building Successful Partnerships for Financial Literacy and Education
Before the House Committee on Financial Services, U.S. Congress
April 15, 2008

Chairman Frank, Ranking Member Bachus, and members of the Committee, I am honored to appear before you today as the State Treasurer of Arizona, to discuss the importance of building successful partnerships between the public and private sectors in advancing financial literacy and education.

Thank you for the invitation to be here today.

My Background & Experience

I am a small business owner. I previously served as a State Senator in Arizona and was chairman of the Senate Finance Committee responsible for all legislation related to taxes, retirement, banking, insurance, and other financial services. I was also a senior member of the Senate Appropriations Committee and vice-chairman of the Judiciary Committee.

I was a founding board member of the Arizona chapter of the Jump$tart Coalition, a national financial literacy organization. I have volunteered time to teach financial education classes in our community. I have conducted financial education classes for adults, focusing on credit scores and understanding credit risk, as well as home-buying for Habitat for Humanity of the West Valley.

I appear here today as an elected official, the State Treasurer of Arizona. However, as a citizen and a taxpayer, I have serious concerns regarding the state of financial literacy in America.

Where Is America Today?

The lack of financial literacy is a problem that spans every age group and every demographic. Our nation is only as prosperous as our citizens. Our government relies on the solvency and prosperity of our citizens so they can pay their taxes. So it is fitting that we come before you today, April 15th, tax day.

As the son of a math teacher and a small business owner, I learned the value of a dollar and how to manage it very early. Unfortunately not every American has the same opportunity. The current level of financial literacy in the U.S. is woeful.

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Statistical data has shown that financial literacy among high school seniors is in decline. In a 2008 study by Jump$tart, high school seniors could not answer even half of the questions correctly.

Among the findings in the 31- question survey[1]:

- Forty-eight percent correctly said that a credit card holder who only pays the minimum amount on monthly card balances will pay more in annual finance charges than a card holder who pays their balance in full;
- Seventeen percent correctly answered that stocks are likely to yield higher returns than savings bonds, savings accounts and checking accounts over the next 18 years even though there has never been an 18-year period where this wasn't true;
- Forty percent correctly answered that they could lose their health insurance if their parents become unemployed; and
- Thirty-six percent think a house financed with a fixed-rate mortgage is a good hedge against a sudden increase in inflation, compared with 45 percent in 2006.

Anecdotal evidence is just as frightening. Imagine the chaos if the next time you are at the store, the cash register went down and everyone had to make change manually.

My wife worked her way through college as a bank teller, and witnessed firsthand the poor state of financial education in the adult population. On a regular basis, customers would come into the branch to ask for help in balancing their checkbook. In some cases, they struggled with basic math and could not perform addition and subtraction correctly. Some of them didn't understand the difference between their debit card and their credit card, so they were not deducting their debit card purchases from their check register.

Why are we here?

This is not the Committee on Education and Labor. Why is an issue of education so important to the Committee on Financial Services? Because it is fundamental to the survival of the financial services industry.

The current housing crisis and credit crunch has hit Arizona hard. In 2005 and 2006, more than one-third of all mortgages issued in Arizona were high-rate or sub-prime loans. We are feeling the impact of this now, as foreclosures continue to mount, and tax revenues plummet. The slowdown is likely to continue for a while, as only half of the high-rate ARMs have reset, and the last will not begin to reset their rates until the first quarter of 2009.

[1] Jump$tart Coalition 2008 survey of 6,856 high school 12th graders in 40 states

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Our own state legislature and Governor have failed to fix the largest budget shortfall in Arizona history and the largest in the nation by percentage (over 16%). As of today, we are a matter of days away from having spent all the general fund revenues we expect to receive this fiscal year. The State of Arizona may not be able to make its May 15th payment to fund Arizona schools without some action soon.

Clearly the need for financial literacy is heightened by this crisis.

Education Before Regulation

This morning, I want to provide you with a specific example of a need that is repeated again and again, but in this case, it has global implications.

In the Valley of the Sun, we are honored to have America's premier F-16 fighter training base, Luke Air Force Base. Airmen and women, and their flight crews, must be certified at Luke before they can be deployed.

The Base Commander was concerned about the retention of new airmen. He was losing enlistees to high debt; either they could not afford to continue, or in some cases their high debts made them a security risk.

For many of these enlistees, this was their first time away from home with the biggest paycheck of their young lives. The temptation to rush out and buy a new sports car is very great. Many of these young enlistees wind up over-extending themselves and getting upside down on their loans.

If a member of the military accumulates too much debt, they are deemed a security risk and could lose their position.

So should these young airmen be prohibited from driving or owning sports cars? Sports cars are not inherently evil; they are simply products. The solution is not to ban the sports cars, because if it was not sports cars, it would be motorcycles, or stereo systems etc… The world is full of people who will gladly separate you from your money if you give them the chance.

Rather than trying to manage the personal finances of every airman on his base through regulation, the Base Commander chose to treat the disease of financial illiteracy, not just the symptoms.

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He approached the local credit union on the base, Credit Union West for help. Highly specialized classes were developed specifically for Luke Air Force Base, to teach them how to manage their own personal finances.

Just as you would not hand a new enlistee an M4 rifle without training, the commander at Luke Air Force Base did not want to give an airman a paycheck without training. For our military, financial education has become a force readiness issue.

The solution is for the consumer to be armed with information and financial education.

As members of this committee, you are in many ways faced with the same dilemma as the Base Commander. Do you regulate and outlaw certain financial instruments or consumer products? Do you bar certain classes of people from mortgages or credit cards because they might misuse them? Do you outlaw certain types of investments because some investors over-leveraged themselves, which will ultimately limit the options of consumers? Or do you choose the more difficult, but more ultimately rewarding, path of emphasizing education before regulation?

The Private Sector Example

The financial industry is willing to step forward to help with this cause. It is in their own best interest; they do not want to see their customers go bankrupt, because they are the ones who do not get paid as a result.

Nearly every bank, credit union and financial institution has some sort of financial education program. Their goal is simple – they want customers to be able to pay back their loans. The financial world should be an ally in our cause to improve financial literacy.

This year, Arizona hosted one of the most exciting Super Bowls in recent memory. As the excitement began to build in the community, we decided to creatively promote financial education by tying the curriculum to the big game.

It is an example of a successful public-private partnership that did not cost taxpayers a dime. My office partnered with VISA and the National Football League (NFL) to produce the “Financial Football” game. With the help of another local Super Bowl sponsor, my office distributed this NFL-themed, interactive, money management video game to every public high school in Arizona, at no cost to taxpayers. It can be played for free online by visiting www.aztreasury.gov and clicking on “Financial Football.”

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Developed in cooperation with the NFL and PLAYERS INC, Visa's "Financial Football" is designed to help students tackle their financial futures in a fun and engaging manner. It incorporates lessons taught through VISA's Practical Money Skills for Life (www.practicalmoneyskills.com), a free, award-winning, teacher-tested and approved money management program. As the centerpiece of a national financial education initiative, "Financial Football" is accompanied by a classroom curriculum and can also be downloaded for free on cell phones.

The cell phone download is a particularly effective way to reach a demographic of high school and college students and young adults, many of whom use their cell phone as their only phone, and source for music, photos and games.

The "Financial Football" program was also rolled out in 14 other states (West Virginia, Indiana, Ohio, California, Pennsylvania, Colorado, Wisconsin, Nevada, Massachusetts, Rhode Island, New Hampshire, Maine, Vermont and Connecticut).

The "Financial Football" program has been well-received by teachers and students alike. The key to any successful financial education program is capturing the imagination of the participants, and making it available to them when it is relevant to their lives.

We are currently working with VISA to roll out a college-themed version. In addition, we have a timeline to roll out materials for senior citizens, women and other key demographics.

Where is the need?

One of the challenges of financial literacy initiatives is that there is so much work to be done, where do we start?

Only three states in the nation require financial education for high school graduation (Missouri, Tennessee, and Utah). Only fifteen other states require personal finance instruction to be incorporated into other subject matter[2].

As you know, we live in an increasingly mobile society. In Arizona, we consistently rank as a top state for population growth. We face a greater challenge than most states, since people are moving in from around the country and around the world. This mobility, combined with a lack of retention of financial concepts, makes it impossible to rely solely on the K-12 or university system for financial education.

[2] www.jumpstartcoalition.org

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The need for financial education is varied at different ages and financial education must go beyond K-12. A person's education should not end when they graduate from high school or college.

In elementary school, they should be learning about counting and cash handling. Sadly, as I observed in my inaugural address, too many of our young people entering the workforce do not know how to make change at a cash register.

In middle school and high school, they should be learning about checking and savings accounts. Into high school and college, they should understand debt instruments, especially credit cards. In college, they should begin to learn about investments and retirement savings.

Likewise, newlyweds and first-time homeowners grappling with mortgages need to learn to think in terms of "How much can I really afford?" rather than "How much are the monthly payments?"

Fresh out of college, people need to understand what a 401k is and the importance of planning for retirement, and of having a nest egg in case of emergency.

New parents need to learn about 529 accounts and begin saving for their children's college education.

In mid-life, people need to learn how to prepare for retirement and how to judge the value of investments, both short-term and long-term.

Widows, widowers, and some divorcees face a unique challenge. In some cases, after years of marriage, the spouse that took care of all of the finances is gone. For the surviving spouse, financial education has just become an immediate and vital need. The decisions made in the first few weeks will have a significant impact on the rest of their lives.

Yet the need doesn't end there. People's capacity to learn is governed by two things: 1. The relevance of the subject to the learner, and 2. The endurance of their seat.

Like any skill, if you do not use it, you lose it. And the worst time to learn about debt is when you are swimming in it. That is why we must provide ongoing financial education for people at all stages of life, and make it readily available to them at a time when it is relevant to their own lives. And with the help of the financial services industry, this can be done at no cost or limited cost to taxpayers.

As the son of a math teacher, I would be remiss if I did not include testimony from my Mother's experience as a Title I teacher at Stewart Indian School, a Native-American school in Carson City,

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Nevada from 1973-1974. Her objective was to teach high school level math to a group of students (some in their twenties) who could not add or subtract. Her main obstacle was finding a way to capture their attention long enough to teach them.

Some of them flat-out told her that they didn't need to bother to learn math as they received a check from the government each month. At this point, she asked them, "How do you know if you're getting the right amount in your check? If you don't understand the numbers, the government could be cheating you." On the reservation, there was still a healthy distrust of the federal government, so this got their attention. They eagerly brought in their check stubs and for the first time, math and financial education became relevant to them. They eventually learned math by reading their own check stubs, and counting change.

Although Stewart Indian School has closed, the lesson remains very relevant today. People are continually bombarded with information and visual stimuli. The challenge is to break through and reach them on a personal level so they can become financially literate.

What the Federal Government Should Do

As a founding member of Arizona's Jump$tart Coalition and as the CFO for the State of Arizona, I have worked with non-profit organizations, government agencies, schools, private sector financial service companies, banks and credit unions to tackle this problem.

However, until I was called to testify before this committee; I did not have any communication with the Financial Literacy and Education Commission or any assistance in my efforts to help citizens in my state.

I had only learned of its existence a few weeks ago at the National Association of State Treasurers annual meeting here in Washington, DC.

There are resources available to teach financial education. We need only a little assistance to help with distribution. In short, postage, fuel, and people are needed.

We need incentives for the financial sector to continue to expand their financial education materials and offerings and to encourage them to partner with local officials to help distribute the materials.

We also need incentives for those who understand the various aspects of financial literacy to donate their time as teachers. At the end of the day, it will take a teacher and a student (no matter the age)

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to learn any subject. Much can be accomplished with technology, but there still is no substitute for a human that can answer questions.

In addition, we need a concentrated effort to educate our existing teachers at the K-12 level, so they can incorporate financial literacy into the classroom.

In fact, on Friday, April 25, 2008 the Arizona Jump$tart Coalition will be hosting its annual conference for teachers.

The conference for teachers is divided into two tracks:

1. Lessons, activities and financial education for their classrooms
2. Personal financial education for the teachers

The second track has actually proved to be more popular, because many of the teachers are not comfortable enough with their own level of financial literacy to begin teaching it to others. The conference allows the teachers to gain continuing education (CE) credits while gaining personal financial knowledge and free curriculum for their classrooms. Attendance generally averages between 150-200 people, with teachers *paying* to attend from all around the state (to cover the cost of the facility rental and lunch).

As someone who has taught the classes and is on the ground in the local communities working on this issue, I can tell you that we don't need a new federal program. We don't need to reinvent the wheel. The raw materials, the curriculum, already exist and it is free or nearly free from the financial world. What we really need from you is a central distribution point of contact to connect people to those who can help them in their state, such as the State Treasurer, Comptroller, or State Auditor. Many State Treasurers already have begun this process on their own; but assistance from the federal government would be greatly appreciated.

Conclusion

Whenever there exists a disparity or inequity in understanding, there will be abuse. Do we blame the sports car, and outlaw sports cars? Do we blame the lenders, and outlaw loans? This would make sports cars toys for just the rich and powerful. Not a very American concept. Our nation has always been successful because of capitalism, the freedom for people to take risks, and to be rewarded for them when they pay off, but also to be responsible for the consequences.

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My fear during this crisis is that Congress might try to regulate risk out of the system, and limit financial services and instruments to the lowest common denominator of financial literacy. This approach would be quick to grab headlines, but will harm our global competitiveness as a nation.

There are times when certain financial instruments make sense. Complex and sophisticated financial tools have their place. We should not dumb-down our financial system; we should elevate the literacy of our citizens to match.

Rather than regulating to the lowest common denominator of financial literacy, Congress should work to elevate the financial understanding of the public. In this way, Congress can help level the playing field by helping consumers recognize that if a financial deal sounds too good to be true, it probably is.

One of my greatest concerns for our nation is the same one Thomas Jefferson had: the accumulation of debt by our citizens and federal, state, and local governments. He feared, as I do, that if we continue on a path of spending that exceeds our income, we will become slaves to foreign banks. Freedom is not expressed only at the ballot box or by speaking our minds in a town square; freedom is also expressed when we make sound financial decisions that leave us independent, self-reliant and in control of our own future.

We are at a crossroads. During the last century, the launch of Sputnik shocked this nation into action. We began a period of intense focus on science and engineering education to make sure we could compete. We are in a similar place now in terms of global finance. Brazil, Russia, India and China are quickly becoming modern first world economies; the European Union is a strong economic rival. It is possible that the United States will not be the world's largest economy in my lifetime. We need to start thinking about how our economy will grow and remain strong, and it starts at the grassroots with our citizens. I do not want to wake up one day and find out that our government, and our people, have unknowingly hocked their future for a new iPod or sports car.

Thank you for the opportunity to address the committee today. I would be happy to answer any questions.

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