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Financial Literacy: The Starting Point for a Secure Retirement

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Thank you, Chairman Enzi, Ranking Member Jones, and the members of the Subcommittee for inviting me today to discuss the importance of financial literacy and its role in planning for a secure retirement. This hearing could not be timelier as we are facing numerous debates over policies that will determine the future of economic equity and retirement readiness for millions of Americans. I am the Director of Federal Advocacy at the Center for Responsible Lending (CRL), a nonprofit, non-partisan research and policy organization dedicated to protecting homeownership and family wealth by working to eliminate abusive financial practices. CRL is an affiliate of Self-Help, a nonprofit community development financial institution. For thirty years, Self-Help has focused on creating asset building opportunities for low-income, rural, women-headed, and minority families. In total, Self-Help has provided over $6 billion in financing to 70,000 homebuyers, small businesses, and nonprofits, and currently serves more than 80,000 mostly low- and moderate-income families through 30 retail credit union branches in North Carolina, California, and Illinois.

This important hearing provides a timely discussion on financial literacy and its role in meeting the challenges faced by millions of Americans planning for their retirement. In my remarks, I will begin by briefly exploring financial literacy, its role in the financial marketplace, and in individual consumer lives as a tool for long term economic prosperity. Secondly, I will briefly discuss federal financial literacy initiatives that are currently being implemented. Lastly, and where I will spend most of the discussion, I will identify gaps and limits of relying on financial literacy as the primary solution for retirement planning needs— both as a consumer tool in its pragmatic application, but also where it lacks efficiency to empower millions of Americans as they struggle with systemic and historical inequity and face an increasingly complex financial system that requires them to make decisions that have implications for future generations. To be more specific, the complex interconnectedness of race, discrimination, and the emerging research of behavioral economics, specifically as it relates to predatory lending, all require a fundamental reassessment of the underlying narrative of personal responsibility, financial literacy and its role in retirement savings. Further, financial literacy is not a substitute for meaningful oversight of abusive lending practices, many of which target vulnerable individuals and push them into products using deception and misinformation. A

rigorous analysis of all these factors goes well beyond the scope and time allotment of this hearing, so I am in no way proposing a comprehensive discussion of these concepts, but it is my hope to present a starting point on how to rethink financial literacy and consumer savings, and their role in complimenting, but not replacing, policies that build the foundation for equity and inclusion.

Unfortunately, when it comes to financial literacy and its role in retirement planning, the first step is riddled with paradoxes – those that need a savings buffer are the ones that cannot afford to build one; the idea of a rigidly defined "level playing field" by definition excludes the realities of systemic historical disenfranchisement; and, in the age of big data, economic theories that do not reflect evolving research still dominate the policy narrative of many proposals for retirement reform. While these challenges can be quite overwhelming for policy makers, advocates, and employers as they try to formulate discrete collaborative policy solutions, I am sure this frustration pales in comparison to the fear, anxiety and despair facing millions of Americas as they look toward a financial future plagued with uncertainty and loss. Therefore, I am unreservedly committed to working with this committee, and the other participants here today, to begin the search for solutions, and provide a social and economic equity lens to this discussion.

I. <u>What is Financial Literacy?</u>

Financial literacy can be an overly broad term, but a helpful starting point is the Organisation for Economic Cooperation and Development's (OECD) definition of financial education: "the process by which financial consumers/investors improve their understanding of financial products, concepts and risks and, through information, instruction and/or objective advice, develop the skills and confidence to become more aware of financial risks and opportunities, to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being."[1] This general definition has been adopted by G20 leaders, and serves as an accurate overall conceptualization of financial literacy as it is commonly used. One of the agencies that provides the most extensive resources for financial literacy is the

[1] OECD (2014), PISA 2012 Results: Students and Money: Financial Literacy Skills for the 21st Century (Volume VI), PISA, OECD Publishing, at 32

Consumer Financial Protection Bureau (CFPB), which has a broad collection of materials on its website for a variety of stakeholders.[2] These resources provide financial know-how and information for consumers as they face major life choices in the financial marketplace — whether buying a house, taking out loans to pay for college, or opening a credit card. The resources also provide materials for how to talk about money with children or older adults. In addition, the CFPB has engaged in extensive consumer research to ensure that its tools are useful and understandable for the typical consumer, and the insights the Bureau has generated have been valuable to the field. Financial literacy provides one tool for consumers to assess financial products, but there is a fair amount of debate as to how it can be the most effective for all consumers in influencing savings behavior, and whether or not it is sufficient to meet the challenges of financial inclusion and equity by itself.[3]

II. The Financial Literacy and Education Commission (FLEC)

One of the longest running and established financial literacy initiatives of the federal government is the Financial Literacy and Education Commission (FLEC), comprised of 23 federal government entities, that serves as the central driver of the federal government's efforts to promote financial literacy, financial capability, and individual financial well-being. According to its website, "[t]he FLEC members have pursued a variety of financial literacy and education approaches to provide information, instruction, and guidance to help American households meet their financial goals. The FLEC provides a platform for its member agencies to collaborate and share those approaches, as well as ideas, research findings, and experiences that inform financial education policies and practices." [4] The Commission was tasked "to develop a national financial education web site (MyMoney.gov) and a national strategy on financial

[2] See for example, *Measuring financial well-being: A guide to using the CFPB Financial Well-Being Scale*, available at https://www.consumerfinance.gov/data-research/research-reports/financial-well-being-scale/ (accessed 8/16/18); *Booklets to help talk about money*, available at https://www.consumerfinance.gov/practitioner-resources/your-money-your-goals/booklets-talk-about-money/ (accessed 8/16/18); *Book club discussion guides*, available at https://www.consumerfinance.gov/consumer-tools/money-as-you-grow/book-club/discussion-guides/ (accessed 8/16/18)

[3] See, William Gale and Ruth Levine, *Financial Literacy: What Works? How Could It Be More Effective?* Brookings Institute, October 1, 2010. https://www.brookings.edu/research/financial-literacy-what-works-how-could-it-be-more-effective/

[4] *Financial Literacy and Education Commission Website*, https://home.treasury.gov/policy-issues/consumer-policy/financial-literacy-and-education-commission

education."[5] The original 2011 FLEC goals were to "(1) Increase awareness of and access to effective financial education; (2) Determine and integrate core financial competencies; (3) Improve financial education infrastructure; and (4) Identify, enhance, and share effective practices."[6]

In the 2016 update to its national strategy,[7] the report insightfully notes "[a]s the country continues to emerge from the aftermath of the financial crisis, Americans are, on average, experiencing less financial stress and improved satisfaction with their financial condition. However, large segments of society continue to face financial difficulties […] In the years ahead this work will need to be responsive to trends shaping Americans' financial security, including inequality of financial status; increasing diversity; longevity and the need for long-term financial security; and the power of technology."[8] A significant note in the 2016 update is the recognition and alignment with a growing body of research[9] that concludes "factual knowledge alone is not sufficient to drive behavior or behavior change."[10] The report goes on to note "…the financial education field is increasingly focused on understanding the context in which people make financial decisions [...]" and "[r]ecent research suggests that interventions and support should be *appropriately matched to an individual's specific financial challenges, goals, background and circumstances in order to make a meaningful difference in their financial behavior and outcomes* […] to be most effective, financial capability programs and interventions must be designed and marketed with a clear understanding of the real obstacles blocking participants from achieving their financial objectives."[11] This statement is one that I wholeheartedly agree with. So, in the reminder of my remarks I would like to explore the history of these specific "obstacles blocking participants from achieving their financial objectives" that persist with

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[5] *Id.*
[6] Financial Literacy and Education Committee, *Promoting Financial Success in the United States: National Strategy for financial literacy, 2016 update,* (2016), at 3. Available at https://www.treasury.gov/resource-center/financial-education/Documents/National%20Strategy%202016%20Update.pdf
[7] *Id.*
[8] *Id.* at 3
[9] See, Fernandes, Daniel and Lynch, John G. and Netemeyer, Richard G., Financial Literacy, Financial Education and Downstream Financial Behaviors (full paper and web appendix) (January 6, 2014). Management Science . Available at SSRN: https://ssrn.com/abstract=2333898; Ted Beck and Brent Neiser, Learning and Growing:
Lessons Learned in Financial Education, *National Endowment for Financial Education*. (2009) Available at https://www.frbsf.org/community-development/publications/community-investments/2009/august/financial-education-lessons/
[10] 2016 Update Report, supra n. 6, at 8
[11] 2016 Update Report, supra n. 6, at 10

communities that have been explicitly excluded from a financial system that provides tools to build a secure future. The history of these obstacles provides a substantial explanation for the current state of retirement readiness (or lack of), especially among communities of color and low- and moderate- income (LMI) families. Only by recognizing and understanding the context of individuals living in the economic legacy of this discrimination, can we show we are committed to ensuring all Americans can have a stable and dignified retirement, by implementing relevant, proactive and historically competent policies.

III. Why are so few people ready to retire? Financial literacy and the legacy of exclusion

The current economic picture is unequivocally a tale of two countries. Historical and growing equity gaps continue to persist as obdurate obstacles to the goal of creating a fair and equitable financial market place that provides broad access to affordable and wealth building financial products. When considering the empirical realties facing communities of color, immigrant communities and rural residents, as they plan and build their financial future, there are stark inequities when it comes to accessing opportunities to access financial products that build wealth, provide affordable credit, and construct a pathway to homeownership. Parsing out each element in a vastly interconnected financial marketplace will situate the starting point to identify and remediate the obstacles millions of Americans face when navigating the financial services marketplace and planning for their financial future.

Why are so few Americans ready to retire?

Many adults feel they lack a plan or are behind in savings for their retirement. Even among those individuals who have savings, many lack financial knowledge about investments and are uncomfortable making investment decisions.[12] Less than two-fifths of adults feel that they are on track to retire with adequate savings, and one fourth have no retirement savings at all.[13] Three-fifths of adults with self-directed

[12] Federal Reserve Board, *Report on the Economic Well-Being of U.S. Households in 2017*, (May 2018), at 2 https://www.federalreserve.gov/publications/files/2017-report-economic-well-being-us-households-201805.pdf,
[13] *Id.* at 2

retirement savings accounts (i.e. a 401(k) or an IRA) state that they have no or little comfort in their ability to make investment decisions.[14] Taken as a whole, these numbers are quite disheartening, and policy makers are still trying to determine root causes and possible solutions. However, it is critical to acknowledge that legacies of discrimination can account for a significant reason for this unpreparedness, especially for communities of color.

For African Americans, this lack of savings, or the historical lack of access to retirement plans has its roots in discriminatory policies implemented by the federal government. In 1935, the foundation of the nation's safety net and retirement plans were being built with the passage of the Social Security Act. Yet, at the outset, the Social Security Act of 1935 excluded almost a third of all American workers, including farmworkers and domestic workers from coverage.[15] The majority of workers in these sectors were people of color.[16] According to some estimates, this exclusion cost a cumulative loss of benefits totaling approximately $143 billion (in 2016 dollars).[17] The economic devastation carried forward by the lack of retirement savings, and its corresponding growth and transfer to the next generation, provides an explanation for the data showing such a stark gap in retirement readiness and a growing wealth gap.

The resulting retirement readiness gap that resulted from this exclusion, can account for part of the reason why Social Security is central to millions of Americans' financial well-being. Social Security provides slightly more than half of the income that sustains older couples of all races, and nearly three quarters of the income that sustains older individuals of all races.[18] Over one in five couples, and almost half of single seniors, rely on social security for the majority (90%) of their incomes, with almost a third of African American single seniors relying entirely on Social Security for their income.[19] And 37.3% of Latinx seniors get all of their income from Social Security.[20] This central reliance on Social Security is also the

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[14] *Id.* at 2
[15] Prosperity Now and the Institute for Policy Studies, *The Road to Zero Wealth* (September 2017), at 15. Available at https://prosperitynow.org/sites/default/files/PDFs/road_to_zero_wealth.pdf
[16] Id. at 15
[17] Id. at 15
[18] Thomas Shapiro, *Toxic Inequality*, Basic Books (2017), at 115.
[19] Id. at 115
[20] Id. at 116

result of inequities in access to retirement plans when individuals are in the early years of joining the workforce. On average, only about half of the American workforce is enrolled in a pension plan, and while 57% of wage and salary employees, aged 25 to 64, work for an employer that provides a retirement plan, only 48% of them actually participate.[21] This access also varies by race, with 62% of White workers having access to employer provided retirement plan, while African American and Latinx workers have much less access — 54% and 38%, respectively. [22]

In addition to retirement plan access, another central contributor to retirement savings is homeownership, which continues to be the way that most middle-class families build wealth and secure a stable financial future. However, a brief review of homeownership rate data reveals a bleak picture, and an uncertain future for many.[23]

With no pathway to homeownership, retirement may be delayed or out of the question

Disparities in homeownership rates account for a large portion of the racial wealth divide.[24] Over many generations White families have benefited from access to wealth that has been denied for their African American counterparts. Between 1994 and 2017, White homeownership rates increased to 76%, while the homeownership rate for African Americans was at 49%.[25] Since 2006, the homeownership rate has declined gradually for everyone, losses have been larger for households of color. The homeownership rate among African American households fell from 48% in 2005 to below 42% in late 2016, while the Latinx homeownership rate declined from 50% to 46% during the same time period.[26] Meanwhile, White homeownership dropped from 76% to 72%.[27]

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[21] Id. at 116
[22] Id. at 116
[23] See Melissa Stegman and Pete Smith, *Repairing a two-tiered system, the crucial but complex role of FHA*, Center for Responsible Lending (2018). Available at https://www.responsiblelending.org/sites/default/files/nodes/files/research-publication/crl-repairing-two-tiered-system-fha-may2018.pdf
[24] *Road to Zero Wealth*, Supra n. 15
[25] *Road to Zero Wealth*, Supra n. 15, at 8
[26] *Id.* At 8
[27] *Id.* at 8

Turing again the recent history, the gap in homeownership rates can, at least in part, be explained by federally sanctioned housing discrimination carried out by the federal government. Between 1934 and 1968, the Federal Housing Administration (FHA), among other public and private sector actors explicitly shut out communities of color from access to subsidies for home purchases — known as redlining.[28] During the first 35 years of the FHA, only 2% of those receiving government-backed mortgages were people of color.[29] In cities like Chicago, where redlining was widespread, this discrimination stripped more than $500 million of wealth (about $3 billion in 2017 dollars) from families of color over a 30-year period.[30] As a result of redlining, homeownership disparities became one of the largest drivers of the racial wealth gap.[31] The harm of homeownership disparities is especially clear when considering that two thirds of the net wealth that is held by the middle 60% of families is in the form of home equity, resulting from, among other factors, invested wealth and appreciation.[32] Recent investigative reporting has shown that communities still live in the legacy of redlining, and that widespread discrimination is still prevalent in the current finical marketplace. [33]

Homeownership disparities are a main driver of the overall wealth gap. This growing wealth gap compromises the ability for millions of Americans to ever have the opportunity to have a stable and sufficient retirement. The next step is to consider the overall wealth gap in terms of its impact on retirement readiness.

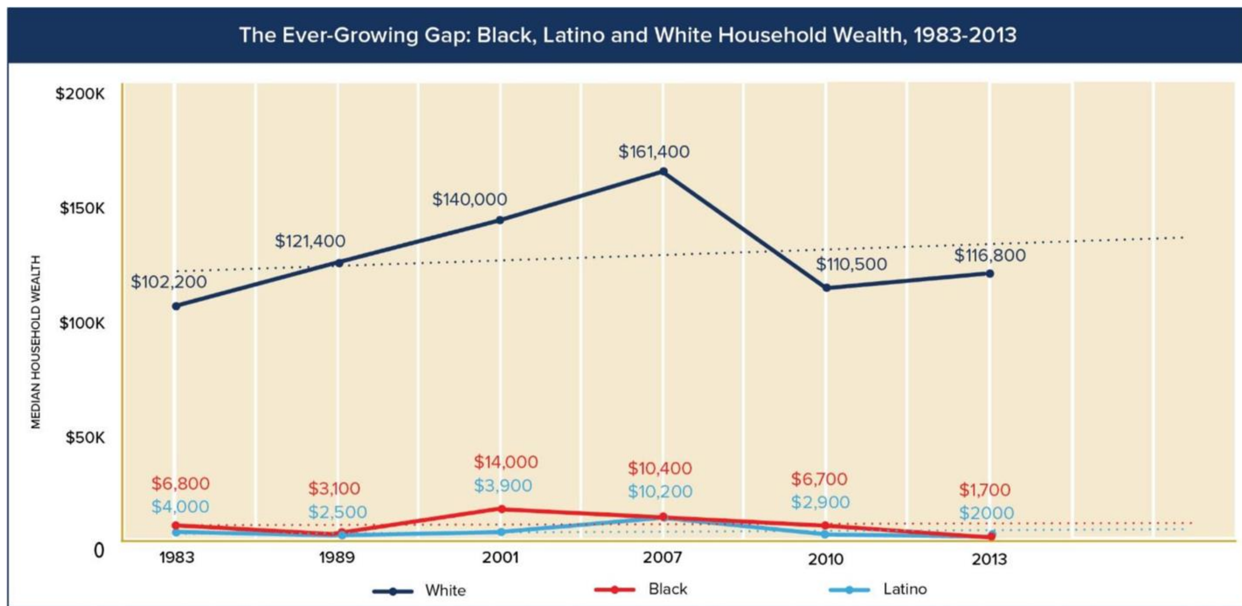
The growing wealth gap compromises the American Dream for millions of Americans

Housing disparities fuel wealth disparities. A recent OECD study found that while the top 10% of income earners in United States receive almost 30% of the nation's income, the wealthiest 10% own an

[28] *FHA Report*, supra n. 23, at 3-4; See also, Richard Rothstein, *The Color of Law: A forgotten history of how our government segregated America*, W.W. Norton and Co. (2017)
[29] *See, Road to Zero Wealth*, Supra n. 15
[30] *Id*. at 15
[31] *Id.* at 15
[32] Shapiro, supra n. 18, at 45
[33] See, Aaron Glantz and Emmanuel Martinez, *For people of color, banks are shutting the door to homeownership*, The Center for Investigative Reporting (2018) https://www.revealnews.org/article/for-people-of-color-banks-are-shutting-the-door-to-homeownership/

astounding 76% of the country's wealth.[34] This translates into a racial wealth divide where the median net worth of African American and Latinx families stands at just $11,000 and $14,000, respectively.[35] This is a small fraction of White family wealth —a median worth of $134,000.[36] When consumer durable goods such as automobiles, electronics and furniture are subtracted, median wealth plummets to $1,700 for African American families, and $2,000 for Latinx families.[37] This is in comparison to $116,800 for White households.[38] This troubling trend will have significant macro-economic effects, as the U.S. moves to a majority minority population.[39] An example of this impact (one that will increase in size) is that during the past 30 years, African American and Latinx median wealth has decreased, White wealth slowly increased.[40] The result was that the overall median wealth of Americans has decreased from $78,000 in 1983 to $64,000 in 2013.[41] These trends have persisted before the financial crash of 2008. The Great Recession exacerbated this trend of stagnation, and in fact, it disproportionately impacted households of color.[42] For households of color, the Great Recession erased the economic progress made over the past three decades in their entirety (see figure below).[43]

[34] *Road to Zero Wealth*, Supra n. 15, at 6
[35] *Id.* at 6
[36] *Id.* at 6
[37] *Id.* at 6
[38] *Id.* at 6
[39] William H. Frey, The US will become 'minority white' in 2045, Census projects, Brookings Institute (2018). Available at https://www.brookings.edu/blog/the-avenue/2018/03/14/the-us-will-become-minority-white-in-2045-census-projects/
[40] *Road to Zero Wealth*, supra n. 15, at 8
[41] *Id.* at 8
[42] *Id.* at 8
[43] *Id.* at 8



If current trends continue, it will take 228 years for the average Black family to reach the level of wealth White families own today. For the average Latinx family, matching the wealth of White families will take 84 years.[44]

Ultimately, if current trends continue African American household wealth is on the path to hit zero by 2053, followed by a similar bottoming out of Latinx median wealth twenty years later —well after the country has become a majority minority nation.[45] Conversely, over the same period of time, White wealth will rise to $137,000 by 2053 and $147,000 by 2073.[46] This can partially be explained by not only the loss of wealth (subtracting durable consumer goods), but also by the fact that income gains for Whites and African Americans manifest in very different ways when it comes to wealth accumulation. Research has shown that every $1 increase in average income over a 25-year period, translated in to $5.19 of wealth for White

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[44] *Id.* at 5; ("White households in the middle-income quintile (those earning $37,201-$61,328 annually) own nearly eight times as much wealth ($86,100) as middle-income Black earners ($11,000) and ten times as much wealth as middle-income Latino earners ($8,600). This disconnect in income earned and wealth owned is visible across the entire income spectrum between these groups […] Between 1983 and 2013, the wealth of median Black and Latino households decreased by 75% (from $6,800 to $1,700) and 50% (from $4,000 to $2,000), respectively, while median White household wealth rose by 14% (from $102,200 to $116,800). If current trends continue, by 2020 median Black and Latino households stand to lose nearly 18% and 12%, respectively, of the wealth they held in 2013. In that same timeframe, median White household wealth would see an increase of 3%. *Put differently, in just under four years from now, median White households are projected to own 86 and 68 times more wealth than Black and Latino households, respectively*") *Id.* at 5 (emphasis Added)

[45] *Id.* at 5

[46] *Id.* at 5

households, but translated to only $0.69 of wealth for African Americans over the same time period.[47] This has been attributed to discrimination in hiring or promotions, training, and access to benefits that have made it much harder to African Americans to build assets.[48]

Without adequate savings for retirement, a pathway to homeownership, and a lack of wealth to sustain individuals through fluctuations of expenses, families are left solely relying on income to meet daily expenses and costs. A closer look at income trends and data provides a further step in appreciating the obstacles millions of Americans face.

Income inequality and income volatility leave millions of Americans on the edge of financial ruin

Income inequality has risen across the entire U.S., in every state, since the 1970s and, in most states, it has grown in years following the Great Recession.[49] A report from the Economic Policy Institute found that, "[f]rom 2009 to 2015, the incomes of the top one percent grew faster than the incomes of the bottom 99 percent in 43 states and the District of Columbia. The top 1 percent captured half or more of all income growth in nine states."[50] Disaggregating the general statistics, we again see the subgroup performance varies widely. For example, according to research by the Economic Policy Institute, in 2016 "the median black worker earned 75 percent of what the median White worker earned in an hour; the median black household earned 61 percent of the income the median White household earned in a year; and the value of net worth for the median black family was just 10 percent of the value for the median White family. […] the difference in median household income is tens of thousands of dollars ($39,490 for black households, $65,041 for White households), and the difference in median family net worth is hundreds of thousands of dollars ($17,600 for black families, $171,000 for White families)." [51]

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[47] Shapiro, supra n. 18, at 107
[48] *Id.* at 107
[49] Estelle Sommeiller and Mark Price, *The new gilded age*, Economic Policy Institute, (2018). Available at https://www.epi.org/publication/the-new-gilded-age-income-inequality-in-the-u-s-by-state-metropolitan-area-and-county/
[50] *Id.*
[51] Valerie Wilson, *Racial inequalities in wages, income, and wealth show that MLK's work remains unfinished*, Economic Policy Institute (2018) https://www.epi.org/publication/racial-inequalities-in-wages-income-and-wealth-show-that-mlks-work-remains-unfinished/

On top of this growing income gap between Whites and non-Whites access to banking services, one of the fundamental starting points to building financial literacy, is not uniform. Overall, access to bank accounts increased in 2017. However, substantial gaps in access to banking and credit products and services are prevalent among minority communities and those with low incomes.[52] Even though almost 95 percent of all adults had a bank account in 2017, this rate varies by race and ethnicity. One in 10 African-Americans and Latinx individuals do not have any access to a bank account, and an additional 3 in 10 have a bank account but also use alternative credit products such as money orders and check cashing services.[53] Many individuals that are without access to a bank account, and broader banking relationship, are left without access to financial mainstream products that provide affordable credit, so the income they do have is often targeted by predatory lenders.

Predatory lending has siphoned billions of dollars from LMI and middle-class Americans.[54] Communities of color, LMI communities, servicemembers, are among a few of the groups that predatory lenders target and ensnare in debt traps.[55] This is particularly important because financial strain stems from both inadequate income *AND* financial volatility. Research has shown that the growth of income over a life cycle is not a smooth upward glide but a series of spikes and dips.[56] This volatility is a fundamental challenge when matching cash flows with expenses, and this plagues many families.[57] One way to calculate volatility and income swings is to take the difference in income between the highest month and the lowest month as a percentage of average household income. The average swing for a poorer household was as high as 126% (meaning that if average month income was $1,000 families saw at least one month with income of $1,730 and one month with income of $470).[58] According the same research, among households

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[52] *Report on the Economic Well-Being of U.S. Households in* 2017, supra n. 12, at 2
[53] Id. at 2
[54] See *The State of Lending: The Cumulative Costs of Predatory Practices*, Center for Responsible Lending, (2015) https://www.responsiblelending.org/state-lending/cumulative
[55] See, *Shark-Free Waters: States are Better Off without Payday Lending*, Center for Responsible Lending (2016) https://www.responsiblelending.org/research-publication/shark-free-waters-states-are-better-without-payday-lending
[56] Jonathan Morduch & Rachel Schneider, *The Financial Diaries*, Princeton University Press (2017), at 9
[57] *Id.* at 12
[58] *Id.* at 28

earning less than $25,000 for the year, almost 20 percent experienced extreme income volatility.[59] Instability of family income has actually risen faster than inequality over the last few decades, topping out at 30%.[60] This partially explains why nearly 40 percent of American families would have to resort to selling assets or taking short term loans to obtain $400 quickly.[61] Individuals cannot simply save and borrow as necessary to smooth dips and spikes without access to affordable and wealth building credit. Predatory lending ensnares families already in emergency situations.[62] This dynamic is particularly important when considering traditional narratives of consumer choice in a financial literacy context. Emerging studies in behavioral economics demonstrate that "even in life's most important decisions, [people's choices] are influenced in ways that would not be anticipated in a standard economic framework."[63] This decision making at the consumer level also must be understood by the economics of microfinance, that requires a closer look on the lending market when it comes to small dollar loans and how competition works in relation to price and incentive.[64]

Policy narratives used to understand consumer choice, the goals of financial literacy, and the best way to protect consumers from predatory lending must consider the emerging research on the growing complexity of consumer decisions in the financial marketplace.[65]

Without adequate retirement savings, limited access to homeownership, decreasing wealth, and volatile incomes, communities of color have traditionally looked to higher education as the pathway to economic prosperity that will lead to a future of financial security. Unfortunately, even with documented increase in lifetimes earning from a college degree, students of color still face numerous obstacles, including over burdensome student loan debt and limited job prospects because of degrees from unscrupulous institutions.

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[59] *Id.* at 35
[60] *Id.* 10-11
[61] *Id.* at 72
[62] *Id.* at 45; See also https://www.responsiblelending.org/sites/default/files/nodes/files/research-publication/crl-finfairness-payday-jul2017.pdf
[63] Richard H. Thaler and Cass R. Sunstein, *Nudge*, Penguin Press (2009) at 37
[64] For a comprehensive summary of this research see, Beatriz Armendariz de Aghion and Jonathan Morduch, *The Economics of Microfinance*, MIT Press (2005), 1-57; 128-129
[65] For a summary of these developments see, Sanjit Dhami, *The Foundations of Behavioral Economics*, Oxford University Press (*2016*), Introductory Chapter; pp 1-65

Is higher education the great equalizer? Not always the case for students of color

Generally, economic well-being rises with higher levels of educational attainment, and the majority of adults who completed a postsecondary degree think their college degree was worth it.[66] However, the benefits of education are less apparent among adults who did not complete a post-secondary degree or attended for-profit schools.[67] Two-thirds of individuals who completed a bachelor's degree felt that their investment paid off, but less than one-third who started a bachelor's degree but did not finish felt the same way.[68] In fact, more than half of those adults who attended a for-profit institution say that they would attend a different school if they had a chance to choose again.[69]

Even when students graduate they face an uphill battle to save for retirement. Student loans continue to present a growing impediment to financial success and long term wealth growth.[70] In 2017, more than half of college students under age 30 took on some type of debt to pay for their tuition.[71] Generally, most borrowers are current on the repayment of their loans, however adults who did not complete a degree and those who attended for-profit institutions are more likely to have defaulted or fallen behind.[72] Almost 25% of borrowers who attended for-profit schools are behind on their payments, compared to less than one-tenth of adults who attended public or private not-for-profit schools.[73] Research from the Center for Responsible Lending has found that "students of color enroll more frequently in for-profit colleges than other students, graduate at lower rates, and are left with more debt. Some schools have been accused of deliberately targeting students of color for enrollment in their predatory programs."[74] This not only compromises student

[66] *Report on the Economic Well-Being of U.S. Households in* 2017, supra n. 12, at 2
[67] *Id.* at 3
[68] *Id.* at 3
[69] *Id.* at 3
[70] Judith Scott-Clayton, *The looming student loan default crisis is worse than we thought*, Brookings Institute (January 2018) https://www.brookings.edu/research/the-looming-student-loan-default-crisis-is-worse-than-we-thought/
[71] *Report on the Economic Well-Being of U.S. Households in* 2017, supra n. 12, at 2
[72] *Id.* at 2
[73] *Id.* at 2
[74] *Drowning in Debt*, Center for Responsible Lending (2017) https://www.responsiblelending.org/research-publication/drowning-student-debt

success during matriculation, but also forecloses on a future of gainful employment, increased wages, and retirement readiness.

Generally, educational attainment is often considered the "great equalizer" between wealthy and low and moderate income (LMI) families, and between families of different races and ethnicities. However, White families whose head of household hold a high school diploma have almost enough wealth ($64,200) to be middle class.[75] In contrast, African American and Latinx families, similarly situated, own just $37,600 and $32,600, respectively.[76] Only the median of African American and Latinx households with an advanced degree have enough wealth to be defined as middle class, while every White household education groups except those without a high school diploma, can be considered middle class.[77]

The burdensome debt that many students of color end up taking on by enrolling in for profit schools, is usually what pushes the first domino over that leads to limited job prospects, stagnant income and wealth, with no pathway to homeownership, and results in an extremely vulnerable position when they have to start planning for retirement.

IV. Conclusion: Building a more comprehensive and equity-based retirement plan

The scope of the obstacles and inequities outlined above require a multi-stakeholder and collaborative approach to target disparities with effective and comprehensive solutions. This is a full agenda to say the least. For the purposes of this hearing, I want to underscore that financial literacy cannot, by any means, solve everything. But this is perhaps asking too much in the first place. Rather, what I hope to have accomplished by outlining the challenges faced by millions of Americans, is to outline an accurate and honest context that can drive financial literacy *AND* access to financial products aimed at specific historical and pervasive inequities. Furthermore, the limits of financial literacy, in the context of the above discussion, require that strong regulators and sound consumer protection policy remain at the root for retirement readiness.

[75] *Road to Zero* Wealth, supra n. 15
[76] *Id.* at 10
[77] *Id.* at 10

I look forward to a productive discussion, and I hope that this perspective in the dialogue on retirement readiness will provide the starting point for collaborative and comprehensive solutions.