

Mandatory and Incentive-Based Adult Financial Education Programs: Opportunities for Consumer Educators

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This article describes financial education programs that are mandated by law or that include strong incentives to participate, often targeting individuals with limited financial resources. When mandatory financial education programs are discussed, it is often within the context of curriculum mandates for students in grades K-12 (e.g., whether a course in personal finance is included in state educational standards or required for high school graduation). According to a recent study by the National Council on Economic Education (2007), seven states make personal finance a requirement for high school graduation, nine states require testing in personal finance, and 41 states report having personal finance curriculum standards. It is widely acknowledged, however, that only a small fraction of young adults graduate high school or college having taken a comprehensive personal finance course that has covered topics such as budgeting, investing, and credit (Fetterman, 2005; Mandell, 2004). This has prompted some financial literacy advocates to call for mandatory financial and economic education courses and testing, especially in light of current political proposals for an "ownership society" that requires financial responsibility and economic literacy (National Council on Economic Education, 2005).

But what about educating the general U.S. adult population? Is mandatory financial education necessary for adults as well? Increasingly, the answer to this question is "yes." A growing number of non-profit organizations, financial institutions, and government agencies now require completion of specified financial education courses or provide attractive incentives for participation (e.g., interest rate discounts, matched savings, and certificates of completion honored by financial institutions and other entities). These financial education requirements and incentives are most often included in programs designed to

promote asset building or to help people overcome past financial difficulties. Many of those who enroll are financially distressed and have limited income and assets.

The proliferation of mandatory and incentive-based adult financial education programs provides new opportunities for consumer educators to earn additional income as trainers, secure much needed revenue for their employers, and provide unbiased financial information to "hard-to-reach" audiences that need it most. This article discusses four widely available mandatory or incentive-based adult financial education programs: (1) bankruptcy financial education programs, (2) credit certification programs, (3) homebuyer education programs, and (4) financial education programs for participants of individual development accounts (IDAs). The paper also includes a discussion of the *America Saves* program, a national financial education campaign that increases awareness about the importance of saving and encourages debt reduction and wealth building. For each type of program, information is included on how consumer educators can get involved.

Bankruptcy Financial Education

The Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 (PL 109-8 or BAPCPA), signed by President Bush on April 20, 2005, includes two significant requirements of interest to consumer educators. According to federal law, individuals filing Chapter 7 or Chapter 13 bankruptcy must receive mandatory credit counseling within 180 days prior to filing for bankruptcy. They also must complete an approved financial management course after they have filed but before they obtain a discharge (National Foundation for Consumer Credit, 2005). The mandatory credit counseling and financial education course must be obtained, at the consumer's own expense, from a provider approved by the U.S. Department of Justice's U.S. Trustee program. A list of approved providers is available at www.usdoj.gov/ust/eo/bapcpa/ccde/de_approved.htm. Limited

exceptions are allowed for those who are on active military duty, disabled, or incapacitated (Administrative Office of the U.S. Courts, 2006), as well as those residing in areas lacking sufficient providers of credit counseling or financial management courses (National Foundation for Consumer Credit, 2005).

The goal of the financial education requirement is to teach debtors basic financial concepts so they can avoid getting into financial trouble again. Not surprisingly, many consumer educators are particularly interested in the financial management course requirement. The Executive Office for U.S. Trustees developed an application form for interested parties to request approval as a course provider. Courses may be offered through classroom, telephonic, or Internet instruction, and approved providers must employ at least one individual holding either a state teacher's certificate or one of seven specified credentials, including Certified Financial Planner (CFP®), Accredited Financial Counselor, Certified Public Accountant (CPA), and Certified in Family and Consumer Sciences (CFCS). Applicants must submit their curricula to the U.S. Trustees, and approved courses must cover basic financial management topics such as financial goal setting, budget development, financial record keeping, and the wise use of credit.

Consumer educators interested in becoming an approved bankruptcy financial educator can obtain an application form online at www.usdoj.gov/ust/eo/bapcpa/ccde/index.htm. Any new or existing course that contains the required subject matter can be submitted. Approved providers are expected to: (1) require each participant to provide proof of identification, (2) collect completed evaluation forms from all participants at the end of the course, and (3) provide participants with an approved certificate of completion.

Credit Certification Programs

More people this year will file for bankruptcy than will graduate from college, and the fastest growing age group declaring

bankruptcy is young adults age 20 to 24 (Draut, 2005; JumpStart Coalition for Personal Financial Literacy, 2007). It is, therefore, not surprising to see credit certification courses becoming increasingly available to non-bankruptcy filers who have experienced financial difficulty. The objective of these courses is to help participants develop a better understanding of credit. Often these courses teach participants how to obtain new credit accounts and establish (or re-establish) a good credit history. The incentive for participation is that, upon successful completion of required exams, individuals are registered as program graduates and may subsequently be entitled to special consideration (e.g., loan approval or interest rate reductions) from participating lenders or other entities.

One of the best known credit certification courses is *Credit When Credit is Due* (CWCID), developed by the American Center for Credit Education (ACCE) (Strassels, 2002). CWCID is delivered in communities nationwide by a network of participating financial education organizations (e.g., credit counseling agencies). Individuals can participate in a course by attending classroom sessions, through self-study, or a combination of the two methods. The almost 300-page CWCID curriculum consists of twelve lessons, each with a corresponding 10 to 15 question exam, for which participants are charged a moderate fee. Topics covered in the curriculum include financial responsibility, budgeting and spending leaks, debt ratios, the credit application process, loan terms and fees, auto loans and leases, home mortgages, dealing with debt, and credit reports and scores.

Upon successful completion of the course, participants receive cards addressed to the three major credit reporting agencies (Experian, Equifax, and TransUnion), allowing them to add a positive statement to their credit reports. Their names also are recorded in a national registry which lenders can subsequently contact to confirm their participation. Consumer educators interested in delivering the CWCID course to help their clients improve creditworthiness and/or as a source of program revenue can obtain additional information at www.cwcid.com. Another

credit education program is *Mind Your Finances*, created by the InCharge® Institute of America. It, too, consists of lessons on credit and financial topics and short exams. Further information about *Mind Your Finances* can be obtained at <http://elearning.mindyourfinances.com>.

Homebuyer Education Programs

Another type of adult financial education that often provides a strong incentive for people to participate is a homebuyer education program. A home is the largest single purchase that most people will ever make. Numerous providers including non-profit and government agencies, real estate professionals, faith-based organizations, and lenders provide programs designed to assist individuals in understanding the complexity of the home buying process. Incentives to participate include access to special loan programs with favorable interest rates, terms or subsidies, one-on-one assistance by housing counselors, and down payment assistance. The goal of homebuyer education programs is generally twofold: (1) to assist people throughout the process of purchasing a home with “just in time” information and (2) to help them become long-term, successful homeowners (Tennessee Housing Development Authority, n.d.).

Topics of homebuyer education programs run the gamut from pre-purchase decisions to post-purchase maintenance. Topics typically include choosing to rent or buy, budgeting and saving for homeownership, cleaning up poor credit reports, choosing the best mortgage, choosing home buying professionals, finding a home and making an offer, home purchase contracts and inspections, homeowners insurance, the home closing process, and post-purchase budgeting (Tennessee Housing Development Authority, n.d.). Follow-up studies of homebuyer programs often use as measures of program success participants’ increased knowledge and confidence about housing choices and subsequent home purchases and home retention rates after completing a workshop.

Consumer educators with a background in housing finance may find their skills in demand as homebuyer education programs proliferate. With the imminent retirement of the baby boom generation, a growing area of demand for those with housing finance knowledge is reverse mortgages. Reverse mortgages allow homeowners over age 62 to take money from home equity to fund retirement living costs. They are complex and require a counseling session with a HUD-certified counselor before application (U.S. Department of Housing and Urban Development, n.d.).

One certification credential that can help improve educators’ knowledge and skills of homebuying is the Certified Housing Counselor® designation offered by the Association for Financial Counseling and Planning Education (AFCPE). For further information, see www.afcpe.org. Other certifications are offered by trade groups in the credit counseling industry, such as the National Foundation for Consumer Credit (NFCC). For information on these certification programs, see www.nfcc.org.

Individual Development Account (IDA) Programs

Individual development accounts (IDAs) are matched savings accounts designed to help limited resource individuals save money for goals that enhance long-term financial security such as post-secondary education or job training, homeownership, or small business capitalization. Conceptualized in the book *Assets and the Poor* (Sherraden, 1991), IDAs are designed to promote saving and asset accumulation by the working poor. Prior to the introduction of IDAs, those who received public assistance were often penalized for saving because doing so could jeopardize eligibility for benefits. However, in recent years, public policy changes have mitigated these concerns and IDAs have become a popular means for low-income families to begin saving. IDA programs typically have five key components (McKenna & Owen, 1999; McKenna, Owen, & Blansett, 2001; O’Neill, 2006):

1. A goal-focused savings account started by participants with earned income, maintained at participating financial institutions, and administered by community-based programs that recruit participants and provide ongoing case management.
2. Regular deposits made by participants to a custodial IDA savings account over a specified period of time, generally one to three years.
3. A targeted savings goal designed to enhance participants' long-term financial security.
4. A structured and supportive learning environment provided by a series of training classes on financial planning and asset building topics (e.g., home ownership).
5. Matching funds for savings accounts, at varying rates, by third parties, such as businesses and government.

One of the most comprehensive evaluations of IDAs has been the American Dream Demonstration (ADD), which was a pilot project of IDAs in 14 programs across the United States (Sherraden, 2000). The findings from this evaluation found that IDAs were an effective means for helping the poor save and accumulate assets. Results further showed that financial education led to increased savings for IDA participants. Specifically, IDA participants who completed one to eight hours of financial education experienced a significant and positive increase in savings. The effect was insignificant for nine or more hours of education (Schreiner, Clancy, & Sherraden, 2002). Another study using the ADD data found that financial education significantly increased average monthly net deposits, with the effect becoming insignificant after 12 hours of education (Center for Social Development, 2001).

Consumer educators interested in providing financial education to IDA program participants can contact sponsoring non-profit organizations (e.g., community action groups) to develop partnerships and apply for grants to fund this work. Further information about IDAs can be found at

www.idanetwork.org and www.cfed.org (Corporation for Enterprise Development).

America Saves

America Saves is a nationwide campaign in which a broad coalition of non-profit, corporate, and government organizations help low-to-moderate income individuals and families save and build wealth. Through information, advice, and encouragement, *America Saves* assists those who wish to pay down debt, build an emergency fund, and save for a home, education, or retirement. Throughout the country, many Cooperative Extension agents and other consumer educators are involved in city, county, or state *America Saves* campaigns. They also participate in events during *America Saves Week*, which focuses on raising awareness and increasing consumers' knowledge about the importance of saving and investing. The *America Saves* campaign is sponsored by Consumer Federation of America. Organizations and individuals who are interested in participating can register in person through a local campaign or online at <http://www.americasaves.org/>.

Summary

Financial literacy is becoming increasingly essential in an "ownership society" where individuals must take personal responsibility for securing their financial future as governmental and employer supports steadily erode. In recent years, the federal government, numerous educational providers, and the financial services industry have recognized the need for financial information on a broad range of topics. Among the most important topics for financial education are basic skills such as budgeting, planning, managing money, saving for retirement, investing, and credit management (United States Government Accountability Office, 2004). To encourage widespread participation, especially among hard-to-reach populations, a

growing number of financial education programs are being mandated by law or contain strong incentives for participation.

This article described five different types of adult financial education programs. Four of these are mandatory or contain incentives. Consumer educators can get involved by developing relationships with government and community agencies and other providers that serve individuals in need of financial education. An advantage of mandatory and incentive-based programs is that there is a large and recurring audience that is motivated (although not necessarily eager) to participate in order to fulfill a legal requirement or receive a reward. Financial educators are increasingly charging a fee for these programs to create a revenue stream which can help educators recover costs and sustain programs when traditional funding sources are reduced or eliminated. Some educators have been able to generate enough revenue through mandatory and incentive-based programs to pay for operating expenses, including educators' salaries.

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