

**WRITTEN TESTIMONY OF
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**BEFORE THE
SUBCOMMITTEE ON FINANCIAL INSTITUTIONS
AND CONSUMER CREDIT
OF THE HOUSE COMMITTEE ON FINANCIAL SERVICES**

HEARING ON FINANCIAL LITERACY

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Chairman Bachus, Ranking Member Maloney and members of the subcommittee, I am Donald Kittell, Executive Vice President of the Securities Industry Association.¹ I appreciate the opportunity to testify on the challenge of financial literacy and the efforts of our industry and our member firms to meet that challenge. Investor education is a topic that the securities industry and I, personally, are deeply committed to addressing, and we are very proud of our accomplishments. Similarly, we support and applaud your efforts to improve Americans' financial literacy, as well as the many initiatives undertaken by the Administration and the organizations testifying here today.

¹ The Securities Industry Association brings together the shared interests of more than 600 securities firms to accomplish common goals. SIA's primary mission is to build and maintain public trust and confidence in the securities markets. SIA members (including investment banks, broker-dealers, and mutual fund companies) are active in all U.S. and foreign markets and in all phases of corporate and public finance. According to the Bureau of Labor Statistics, the U.S. securities industry employs nearly 800,000 individuals, and its personnel manage the accounts of nearly 93-million investors directly and indirectly through corporate, thrift, and pension plans. In 2005, the industry generated an estimated \$322.4 billion in domestic revenue and an estimated \$474 billion in global revenues. (More information about SIA is available at: www.sia.com.)

SIA will soon be merging with The Bond Market Association (TBMA) to form the Securities Industry and Financial Markets Association (SIFMA).² As a result, my testimony today will focus on the programs SIA conducts through our non-profit Foundation for Investor Education as well as the variety of educational projects undertaken by TBMA's charitable, non-profit Bond Market Foundation. I will also briefly describe some of the ventures we have participated in with the U.S. Department of Treasury's Office of Financial Education.

Importance of Financial Education

Unprecedented education reform has swept across America over the past decade as parents, teachers, legislators, and business leaders strive to improve instruction and curricula to help students learn. These efforts have resulted in new education standards, new performance indicators, and rigorous standardized testing that in most states will determine whether or not a student will be promoted or allowed to graduate. We fully recognize that classroom time is at a premium and that, above all, we must ensure that students learn, achieve, and gain the relevant skills to succeed in life.

America's strength lies in the cumulative knowledge of its citizens. And that knowledge must include a basic and thorough understanding of the economy and the role of the capital markets, particularly as individuals will increasingly bear more direct responsibility for building and managing their own retirement nest eggs. That is why the Foundation for Investor Education, The Bond Market Foundation, and our member firms support educational and skill-building programs that help teach children and adults about the importance of long-term saving and investing.

² http://www.sia.com/press/2006_press_releases/29100863.html

Foundation for Investor Education (FIE)

Nearly 30 years ago, a group of securities industry executives formed a non-profit foundation affiliated with SIA to foster a better understanding of the American economy and the role the securities industry plays in the economy. The Foundation for Investor Education has helped millions of Americans better prepare for their financial futures through various programs and vibrant partnerships with teachers, school administrators, and elected officials.

The Stock Market Game™ Program

The cornerstone of the Foundation is the Stock Market Game™ program, a simulation in which teams of students in grades four through 12 learn the fundamentals of investing through a hands-on experience investing a hypothetical \$100,000 in real securities. Teachers receive grade-level specific curriculum guides, lesson plans, and newsletters to incorporate into their activities. These materials help support core curriculum in mathematics, social studies, business, economics, and language arts. In addition, the team construct of the program helps students learn cooperation, negotiation, and leadership skills.

Since the program began in 1977 with 1,600 students selecting from around 2,400 listed companies, it has grown to half-a-million students a year picking stocks from more than 7,000 companies on the New York Stock Exchange, NASDAQ and the AMEX.

SMG has been correlated to the national standards in mathematics, economics, and business and marketing, and will correlate curricula to standards in all 50 states by year-end 2007. The Stock Market Game™ is not an add-on; indeed, we continually work with teachers, administrators, and parents throughout the country to develop an intensive standards-based curriculum that can be easily assimilated and fully integrated into a teacher's regular lesson plans.

We are very proud of the fact that each school year we have approximately 14,000 teachers that use the Stock Market Game™ and value the program as one that contributes to student achievement in a fun, interesting way. And we are proud that our efforts to reach out to traditionally underserved populations have been enormously successful. We partnered with the 100 Black Men of America's New York Chapter in 2004, for example, to establish The Stock Market Game™ at the then-newly founded Eagle Academy for young men in the South Bronx. And partnerships with the National Basketball Association, the Girl Scouts of America, the National Academy Foundation, Newspapers in Education, the National Council of Economic Education, the Future Business Leaders of America, and the Distributive Education Clubs of America have greatly increased the number of teams participating in SMG.

In the same vein, SMG newsletters are published in English and Spanish and we are working on making SMG lesson plans and activities available in both languages. In addition, SMG can be found in schools all over the world.³

The true value of the Stock Market Game™ is its ability to capture the interest of students and teachers and bring the economy to life in the classroom while supporting core curriculum subjects. Events that occur in far-away places or neighboring states, cities, or towns take on a new meaning as students begin to understand how a decision at Daimler-Chrysler in Auburn Hills, Michigan may affect workers and their families in Tuscaloosa, Alabama.

The skills and knowledge that SMG students acquire are more relevant today than ever. In 1977, only 15 percent of the population owned equities. By 2005 that number had jumped to half of households, or roughly 91 million people owning equities according to the SIA/ICI

³ Department of Defense schools for the children of military personnel stationed in countries such as Australia, Vietnam, Canada, Egypt, Mexico, Singapore, India, Venezuela, Lithuania, Germany, and South Korea use the SMG.

Equity Ownership in America report.⁴ The new reality is that most people today must save to fund their retirement. As employers increasingly turn from a “defined benefits” to a “defined contributions” framework, workers are essentially becoming individual pension managers, and as such bear ultimate responsibility for their financial futures. Are they prepared to assume this new role? As importantly, will the millions of students preparing to enter the workforce be ready to handle this huge fiscal responsibility? We believe the Stock Market Game™ program helps them prepare for this new reality and are proud to contribute to this critically important effort.

Member-Firm Programs

Our member firms, too, are essential to the Stock Market Game™ program’s success.

For example:

- Merrill Lynch partners inner-city schools with local NBA teams as part of its *Investing Pays Off* program. The program started with the New York Knicks; was expanded to the New Jersey Nets; two more NBA team partnerships will be added next year. In addition to supporting the Stock Market Game™ program, *Investing Pays Off* combines Merrill Lynch’s financial resources with its people to create a potent combination. *Investing Pays Off* curriculum and volunteer guide cover 15 strategies for success in the essential areas of leadership, entrepreneurship, personal finance, and business savvy. Free to the public, *Investing Pays Off* can be presented in a variety of settings, from classrooms to community centers to living rooms.
- Another Merrill Lynch program, *Young Entrepreneurs*, aims to cultivate individual economic prosperity through business development and the pursuit of

⁴ *Equity Ownership in America, 2005*, Investment Company Institute and the Securities Industry Association. Available at <http://www.sia.com/research/pdf/EquityOwnership05.pdf>.

new and enterprising ideas. Minority entrepreneurs accomplish this through the support of a broad range of initiatives, such as creating mentorship opportunities between students and successful business leaders as well as sponsoring studies on the use of technology.

- Wachovia Securities partnered with the SMG program to launch *Financial Advisor in the Classroom*. This firm-wide initiative recruited teachers and expanded student participation by providing financial advisors for educational presentations in classrooms around the country.
- Morgan Stanley provides inner-city schools in Atlanta and Baltimore/Washington, D.C. with educational materials and access to The Stock Market Game™ program. Morgan Stanley sponsors team fees, teacher workshops, and awards ceremonies in underprivileged communities and Title One schools.
- A.G. Edwards sponsors team participation fees and teacher workshops for The Stock Market Game™ program for schools in St. Louis, Missouri, Denver, Colorado and Southern Illinois. A.G. Edwards also has a section on its Web site dedicated to teaching children about money and investing called *Big Money Adventure*.
- PNC Financial Services sponsored The Stock Market Game™ program for schools in New Jersey's Bergen, Passaic, and Hudson counties for the 2005-2006 school year. PNC's grant funded the SMG student-team participation fees, teacher workshops, and the InvestWrite essay contest and awards ceremonies. PNC also provides a fun Web activity for students called the *Christmas Price*

Index, which teaches them about saving and investing using the 12 days of Christmas.

- The Charles Schwab Foundation not only provides general operating dollars to the Foundation for Investor Education, but it also partners with the Boys and Girls Clubs of America to sponsor *Money Matters: Make it Count*. The program was created to promote financial literacy among teens by building basic money management skills through fun, interactive activities and exercises. Topics include using a checking account, managing debt, saving for college, and the basics of investing.
- Chicago-based Cabrera Capital Markets sponsors Stock Market Game™ teams in Chicago, New Mexico, and California.

Even our smaller member firms are engaged in improving young people's understanding of saving and investing. American Century Brokerage, Inc., a regional firm in Kansas City, Mo., offers free, web-based, professionally designed, modular educational curricula for middle- and high-school classrooms. Today, more than 4,000 registered users representing all 50 states have registered to use Tips for Kids® (middle-school curriculum) and Tips for Life® (high school).

Many institutions in the financial community that are not members of our association also support the Stock Market Game™ program. The Investment Company Institute, for example, has supported the inclusion of mutual funds and mutual funds curriculum in the Stock Market Game™. In addition, ICI sponsors an *Investing for Success* program designed to strengthen investor awareness in the African-American community.

And last, but certainly not least, is the New York Stock Exchange. For more than a decade, the New York Stock Exchange has been a pillar in its financial support of the Stock

Market Game.™ The NYSE also holds free workshops every summer to help teachers learn how to teach about financial literacy.

The Capitol Hill Challenge

Another highly successful program with which many of you are familiar is SIA's Capitol Hill Challenge. In this national version of the Stock Market Game™ program more than 3,200 students from 136 schools have participated during its first three years. The winning students earn a trip to Washington, D.C. to meet their elected officials, and to see first-hand how our national economic policies are developed. I am pleased to note that the team representing Speaker Hastert's district won the 2004 competition, Chairman Bachus' district was victorious in 2005, and a team from Representative Bart Gordon's district took the honors this year.

I also am pleased to note that 10 members of this subcommittee sponsored teams in the competition this year, and an additional seven members of the full committee participated. I especially want to acknowledge Representative Biggert for her efforts to visit the students at school. We also congratulate her and Congressman Ruben Hinojosa for establishing and co-chairing the House Financial and Economic Literacy Caucus.

InvestWrite

Two years ago, based on teacher feedback, the Foundation created a national essay competition to complement the SMG program called InvestWrite. InvestWrite requires students to draw on logic, critical thinking, and writing skills to demonstrate how concepts learned in the classroom respond to a specific real-world investing situation. Students are judged on the depth of understanding of the market, as well as on how well they convey their ideas. National winners are chosen at the elementary, middle- and high-school levels. In the competition's first

two years, students submitted more than 32,000 essays. I am proud that this program earned us the inaugural Chairman's award of the National Council of Economic Education.

Path to Investing Web Site

For more than a decade, SIA has sponsored market and opinion research on what investors think about investor education. Many investors told us that they did not feel knowledgeable enough about investing and that they wanted our industry's help in educating them. But they also told us that the advice we provide must be objective, individually customized, entertaining, and easy-to-understand. In response, we launched an educational Web site for adults at all levels of investing experience in 2002. *Path to Investing* offers objective, timely, practical information from leading industry and academic experts to help build the knowledge needed to make sound investment decisions. Featuring more than 1,500 pages of content, topics include: a financial planning tutorial, preparing for retirement (more than 300 pages), investor protection, equities, fixed-income, futures, investment products, saving for college, life-cycle investing, and how markets work.

Beginning in 2003, adults and families could also access the *Path to Investing* Web site to participate in the SIA Investor Challenge – the adult version of the Stock Market Game™. Since its launch, the number of visits to the site has more than doubled – 26,000 monthly unique visitors viewing 140,964 pages of educational content – and it has earned awards from Barron's and a Webby Award. *Newsweek* magazine featured *Path to Investing* among five key sites it recommended for those who want to be smarter about money, and *On Wall Street* magazine said it “provides an objective tutorial that would fit into any advisor's introductory presentation to prospects.” I encourage you to take a look at this highly rated, informative site at <http://www.pathtoinvesting.org>.

Our Web site, though, doesn't mean that we've abandoned a far older technology – printed publications. Over the last decade, we have published a broad range of brochures to address specific investment issues. When online trading grew quickly, we published a brochure that outlined the issues that investors should keep in mind when investing online. Amid the bull market of the late 1990s, we published two brochures – *Understanding Market Risks* and *Managing Your Expectations For Long-Term Success In The Stock Market* – that cautioned investors about the potential risks and explained to them the historical performance of markets. Our most popular publication, though, remains *Your Guide To Understanding Investing* – an easy-to-read handbook that covers the basics of investing.

To make these resources available as widely as possible, we joined the Alliance for Investor Education – a group of financial services trade associations and regulators dedicated to facilitating greater understanding of investing, investments, and the financial markets among current and prospective investors of all ages. The joint Web site <http://www.investoreducation.org> serves as a clearinghouse of objective investment resources.

Joint Efforts with Administration, Regulators

We have often collaborated with the Securities and Exchange Commission, self-regulatory organizations, the North American Securities Administrators Association, and the Administration on our educational activities. We know that by working together, our impact is far greater than if we were to work alone. Our relationship with the Treasury Department's Office of Education, for example, continues to deepen. On July 1, Treasury officials invited two Stock Market Game™ students to walk the floor of the New York Stock Exchange with Secretary Paulson on his inaugural visit as Secretary. The purpose was to highlight student financial education.

Likewise, U.S. Treasurer Anna Escobedo Cabral was the keynote speaker at the Foundation's California Tribute Dinner in Los Angeles on September 26. The event was designed to raise awareness about the Stock Market Game™ in particular, and investor education in general, and to honor local dignitaries.

The Foundation and 2006 InvestWrite champion Melissa Chan were invited to be among four featured speakers at the September 19 meeting of the Financial Literacy and Education Commission at the Treasury Department.

We are working with Treasury and the Office of Management and Budget to identify ways that the retirement content on our *Path to Investing* Web site might be included in their recommended and distributed resources.

One of the results of the recent global research settlement was the designation of \$80 million to be targeted to investor education. The SEC, NASD, and state regulators are charged with the oversight of these funds, and we are extremely interested in how the money is invested and what that return yields. Although the securities industry is not eligible for any of this money due to perceived conflicts, we are very concerned that the funds be used to further investor education to the greatest extent possible.

Activities of The Bond Market Foundation and The Bond Market Association

I mentioned at the beginning of my testimony that SIA is merging with the Bond Market Association to become the Securities Industry and Financial Markets Association. We are very excited about the opportunities presented by even more closely connecting and leveraging our various activities, serving more people even better. Like SIA and FIE, the Bond Market Association and its non-profit educational and charitable partner, the Bond Market Foundation,

have a rich history of commitment to financial and investor education and literacy programs aimed at adult audiences.

The Bond Market Foundation works in three areas. I will focus on the first area – the unique, research-based skill-, confidence- and motivation-building financial literacy and education programs. These activities are targeted at: young people aged 18-34; women and their families; Spanish-speaking Americans; people facing financial decision-making related to unexpected life changes such as change in marital status, job loss, sudden disability; as well as people needing accessible basic information on personal finance, economic, and consumer concepts to begin to save and invest.

The demand for the Bond Market Foundation's programs has grown significantly since its launch in 2001.

- Between 2001-2005, the Web-driven program grew from two Web sites with 60 sections of content to five Web sites with more than 700 sections, including: www.tomorrowmoney.org for women; www.tomorrowmoney.org for young people; www.ahorrando.org for Spanish-speaking Americans; and, www.unwantedchange.org/www.cambiosinesperados.org for people facing financial decision making related to unwelcome change. Annual traffic continues to increase to all sites – largely through viral marketing and partnerships – including increases in the number of unique visitors, repeat visitors and average time per session per site.
- TBMF programs are successfully reaching Spanish-speaking Americans: 40-45 percent of Web site traffic is to the Spanish-language sites. Foundation programs

are available in Spanish and English with a toggle feature so users can shift between the two.

- TBMF works with key partners that reach people who need and want the information. By year-end 2006, more than half of State Treasurers will partner with TBMF through the National Association of State Treasurers (NAST) Foundation-TBMF Gateway Initiative of Web sites and educational programs. This network of partnership Web sites and customized content, conferences, and outreach creates additional traffic and demand for TBMF content, programs, and expertise nationwide. This Partnership has taught us a tremendous amount about what financial information target audiences need and gives us an extraordinary opportunity to direct future initiatives.
- TBMF works with non-profit partners serving communities across the country, including in extraordinary circumstances. The Foundation conducts training and educational programs directly to individuals and through partners such as the American Red Cross, United Service Group (helping families of victims of 9/11/01), and Hurricanes Katrina and Rita recovery and rebuilding organizations. The Foundation is asked repeatedly to assist in “train the trainer” situations and to train community-based organization staff to use the Web sites, particularly in post-disaster settings.

The Bond Market Foundation has focused on core financial literacy skill building for underserved adult audiences. Recently, the Foundation lent its expertise in financial literacy and education to the Bond Market Association in overseeing the redesign of the Association’s non-commercial, award-winning www.investinginbonds.com site. For the first time, individual

investors can see – free of charge – real-time municipal and corporate bond price data on the Web. The www.investinginbonds.com Web site is the only place on the Internet where this information is available free to individuals. This site now has about 75 market data feeds and real-time price information that serves a wide range of investors.

Along with the site, BMF investor education initiatives include print guides of the basics of investing in fixed-income products.

Conclusion

We believe that in much the same way that compound interest brings great returns over time, so too does establishing quality educational programs that provide a solid return for our children. Thank you for your efforts to advance the goal of improving Americans' financial literacy and we look forward to working with you to achieve this essential mission.