

Testimony of Lynne Egan

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Before the

Subcommittee on Oversight of Government Management, the Federal
Workforce, and the District of Columbia

Senate Committee on Homeland Security and Governmental Affairs

“The Federal Government’s Role in Empowering Americans to Make
Informed Financial Decisions”

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Chairman Akaka, Ranking Member Voinovich, and Members of the Subcommittee,

I'm Lynne Egan, Montana Deputy Securities Commissioner and a member of the Investor Education Committee of the North American Securities Administrators Association, Inc. (NASAA).¹ Tung Chan, Hawaii Commissioner of Securities, chairs the Investor Education Committee and regrets that she is unable to be here today. I am honored to present the views of state securities regulators on how to empower Americans to make informed financial decisions.

State Securities Regulatory Overview

The securities administrators in your states are responsible for enforcing state securities laws, licensing firms and investment professionals, registering certain securities offerings, examining broker-dealers and investment advisers, and providing investor education programs and materials to your constituents. Ten of my colleagues are appointed by state Secretaries of State, five fall under the jurisdiction of their states' Attorneys General, some are independent commissions and others, like me, are appointed by their Governors and Cabinet officials.

Financial Education Role of State Securities Regulators

State securities regulators recognized long ago that education is a key weapon in the fight against investment fraud, and as a result, the NASAA Investor Education Section was created in 1997 by the NASAA Board of Directors to help support the financial education efforts of our members. The Investor Education Section, along with a network of professionals from across the NASAA membership, is responsible for developing,

¹ The oldest international organization devoted to investor protection, the North American Securities Administrators Association, Inc., was organized in 1919. Its membership consists of the securities administrators in the 50 states, the District of Columbia, the U.S. Virgin Islands, Canada, Mexico and Puerto Rico. NASAA is the voice of securities agencies responsible for grass-roots investor protection and efficient capital formation.

coordinating, delivering, and supporting financial education initiatives that can be utilized by state securities regulators in their ongoing endeavor to improve the level of financial literacy in their jurisdictions. Currently, the Section has six focus areas: Affinity and Military Outreach, Youth Outreach, Senior Outreach, Informed Investor Outreach, Research and Coordination, and a new area dedicated to women and their families called Women in Transition Outreach.

Most state and provincial securities regulators have established investor education departments or divisions within their agencies. The result is an effective network of dedicated professionals delivering financial education at the grassroots level. In 2009, NASAA members reached more than 250,000 consumers through more than 1,800 investor education presentations. Our financial education professionals can be found at work in such venues as the classroom, the workplace, senior centers, and at trade and professional organization events. They partner with teachers, employers, and peer-based volunteer groups to deliver financial education to our constituents of all ages.

Federal Financial Literacy Efforts

NASAA supported the creation of the Financial Literacy and Education Commission (FLEC), and continues to actively participate with FLEC at roundtables, summits, and conferences that have brought individuals and organizations together to discuss ideas and outreach. In the past, the FLEC suffered from a small number of staff and limited funding that provided constraints to its effectiveness.

While the FLEC has taken positive steps, the progress has been slow but deliberate in integrating the Commission's national strategy for financial literacy. One challenge to be addressed is how to organize the existing financial literacy programs of the FLEC's members and how best to reach a consensus on a harmonized message. Another challenge is disseminating the programs and information to the public from a centralized location in Washington, DC. In this regard NASAA members should be utilized by the

FLEC to mobilize their respective grassroots networks to reach more people in need of financial education.

Coordination of Efforts and Partnerships

NASAA was honored to be invited as a panelist in the inaugural meeting of the National Financial Education Network (Network) in 2007. At that time, the FLEC stated the Network is intended to create an open dialogue and advance financial education at the state and local level. Ongoing activity has been limited, and NASAA encourages the FLEC to move forward in establishing effective ways of connecting state and local parties both electronically and through face-to-face meetings throughout the year. This continuous dialogue and communication could be facilitated electronically through a listserv, website, quarterly conference calls, and in-person meetings.

Currently the structure of the Network is less formalized than the FLEC or the President's Advisory Council on Financial Capability (Council). This presents a constraint which doesn't afford the Network the same structure to officially notify the public of its meetings, facilitate in-person meetings and conference calls, and incorporate calls to action. We recommend the Network receive resources similar to their counterparts on the FLEC and the Council.

It is essential that the Network be fully integrated into the FLEC framework, thus utilizing and mobilizing the vast resources of both state, private, and nonprofit organizations and their extensive operations. This would ensure that events held across the nation include all members of the financial literacy community that wish to participate. Creation of a liaison from the Network to report and coordinate activities with the FLEC and Council could help facilitate this integration.

NASAA members provide unbiased, relevant, and timely information for anyone interested in the investment markets, which is critical in light of the notoriety of recent investment frauds. Our members also disseminate this information to the public at no

cost given our vast grassroots network of investment education coordinators across North America. One example of how the network could facilitate this outreach is to coordinate joint events with both Treasury and state officials as participants. That way, we could leverage resources, and members of the audience have a local point of contact for future questions and requests for information.

NASAA agrees with the GAO's assessment in 2006 that "greater collaboration by the Commission with state and local governments may be particularly important given the critical role that school districts can play in improving financial literacy."² Further consideration should also be given to the GAO's recommendation that "the Commission consider how the federal government can influence or incentivize states or school districts to include financial education in school curriculum."

The President's Advisory Council on Financial Capability also offers an opportunity to coordinate the efforts of NASAA's grassroots network with the initiatives undertaken at the national level. We recommend a state securities regulator be appointed by the President to serve on the Council to utilize the resources and experience of state securities regulators and their staffs at the local level to pursue new programs and partnerships.

Complete coordination with federal, state, and local government and private organizations should not be considered just a step in the national strategy, but viewed as a crucial and integral part of the FLEC's mandate. The existing grassroots network available to the Commission provides the entire picture of financial literacy efforts that we believe Congress intended when creating the FLEC. The many participants in the financial education community and the considerable amount of resources that they provide are remarkable. The FLEC has a unique opportunity to unite these groups, foster

² U.S. Government Accountability Office. (2006, December). *Financial Literacy and Education Commission: Further Progress Needed to Ensure an Effective National Strategy*. (Publication No. GAO-07-100). Retrieved from GAO Reports Main Page via GPO Access database: <http://www.gao.gov/new.items/d07100.pdf>

dialogue, and promote cooperation. Nothing short of complete cooperation with these groups will fully constitute a fully integrated National Financial Literacy Strategy.

Specific Examples of Successful State and Provincial Programs

To better frame the nature of our work in the area of financial education and why integration of the National Financial Education Network would prove mutually beneficial to the Financial Literacy Education Commission members, we share highlights of several of our financial education initiatives focusing on youth, pre-retirees, seniors, and the military.

Youth Outreach

Teaching youth the principles of sound investing and fraud prevention is the thrust of a NASAA-produced program targeted to high school students titled, “*FSI: Fraud Scene Investigator*.” *FSI* is an interactive online investor education program that teaches and empowers students how to detect and stop investment fraud. The *FSI* program is designed to help students learn how to fight fraud firsthand, by delving into newspaper stock tables, researching companies through online news, and deciphering the truth of an investment from fraudulent sales pitches. In the initial *FSI* program titled, “Suitable Investments,” students help uncover a million-dollar fraud in progress and put the mysterious con man, “Mr. X,” behind bars. NASAA’s grassroots investor education network is working with educators to integrate the *FSI* program into schools across the nation. Teachers from Arizona to West Virginia report students are getting hooked on the program, teachers like the curriculum, and students want to know what’s next in the interactive game.

Senior Outreach

In the area of Senior Outreach, state securities regulators have developed partnerships with adult protective services workers and leading medical associations to increase

awareness among doctors and medical professionals of elder financial abuse. The program educates professionals who provide front-line elder care about how to refer at-risk seniors to the appropriate authorities, whether it is to report investment fraud to securities regulators or suspected abuse to adult protective services workers. State securities regulators helped develop “*Pocket Guide on Elder Investment Fraud and Financial Exploitation*” for clinicians, which serves as a quick reference tool for medical practitioners outlining the red flags of investment fraud, tips for discussing financial capacity with senior patients, and resources for reporting suspected abuse. NASAA also assisted in the development of “*Elder Investment Fraud and Financial Exploitation*” a brochure for senior patients and their families highlighting ways to protect themselves from elder financial fraud and where to get help.

In Montana, a state that is vast in size and small in population, we have found the most effective way to reach our senior population is in face-to-face meetings. We have an investor education campaign entitled “Securities Fraud: How to Smell a Rat” that we take on the road each September and May, traveling thousands of miles to remote locations throughout the state. Events are held primarily in senior centers, and all include a free lunch or dinner, an hour presentation on securities fraud, and a wrap-up game of “Smell a Rat Bingo” that tests the seniors on our fraud presentation material. During the last year, our staff has driven nearly 4,000 miles and has provided to thousands of Montana seniors the tools necessary to protect themselves from financial fraud.

Affinity and Military Outreach

In times of heightened deployment, United States service members have become targets of financial scams. These scams can directly affect unit morale and readiness as well as military service members’ credit history and military career. In response to fraud among military service members and their families, our member in New Jersey created a fraud prevention guide tailored to the military called “*A Salute to Smart Investing*.” The 28-page guide acts as a one-stop resource for military members with information on safe investing, balancing risk and return, retirement planning, red flags for fraud, scams that

target the military, and a listing of state securities regulators nationwide. The guide has been distributed to more than 90,000 military members across four branches of the military at installations around the world by NASAA members. Many of our NASAA members continue to combat investment fraud with specialized military community outreach programs, a few include the Alabama *Protect Alabama Troops Program* (PATs); the California *Troops Against Predatory Scams* (TAPS), and the Pennsylvania *Armed Services Assets Protection Program* (Operation ASAP). NASAA has formed a specialized outreach project group with members from various states to continue, develop, and implement new military community outreach programs worldwide; actions include working as a non-profit partner with the Department of Defense Financial Readiness Campaign.

NASAA is ramping up efforts to reach out to ethnic communities that may lack access to financial education resources due to limited English proficiency and have a potential to become victims of affinity fraud schemes. NASAA worked with the Department of Labor on a Spanish-language version of our joint retirement planning workbook, “*Taking the Mystery Out of Retirement*.” NASAA will be distributing this guide and other Spanish-language investor education materials at the 2010 national conference of the League of United Latin American Citizens (LULAC).

Partnering Relationships/Collaborations

NASAA looks for opportunities to join forces with other members of the financial education community. NASAA believes it is essential to pool our resources and share our expertise on these joint ventures.

Recently, NASAA partnered with AARP to combat the rising investment fraud among seniors with the “*Free Lunch Monitor*” program, which seeks to empower seniors to fight fraud. This national campaign is designed to monitor whether senior investors are being pressured into purchasing inappropriate or unsuitable investments such as equity indexed annuities. The *FLM* program gives individuals an opportunity to fight back against

unscrupulous promoters by reporting to state securities authorities possibilities of questionable investment practices in their communities.

NASAA joined the Consumer Federation of America for the third year as a partner in their annual “America Saves Week” campaign bringing a fraud prevention and investor protection focus to the national saving initiative. During the 2010 “America Saves Week,” NASAA launched a new investor education program designed to bring retirement planning assistance to the workplace. The “*Planning Your Retirement with Confidence*” program helps prepare pre-retirees for the financial challenges they will face in retirement through workplace seminars that address the specific retirement planning needs of individuals at every stage of their working lives – early career, mid-career, near retirement, and retirement.

NASAA members utilize other avenues of educational outreach at events such as the Senior Olympics and the National Council on Aging Conference, and in presentations to the Military at the AFCPE conference and annual meeting of the Office of Personal Management (OPM) Federal Benefit Officers. On a regular basis, our members work with the American Savings Education Council (ASEC), the Councils for Economic Education, and are involved in state-level Jump\$tart coalitions.

State securities regulators meet annually with the financial education professionals from the Securities and Exchange Commission to engage in a dialogue about our respective programs and progress in the ongoing quest to improve financial literacy. This meeting gives us an opportunity to learn what’s new or under development, helps us identify gaps in financial education, leverage resources of our financial education colleagues, and further hone best practices.

Resources

The NASAA network of financial education professionals can be an excellent delivery vehicle for state/federal collaborative education programs.

NASAA offers a wide range of investor education resources on its website. Visitors to the site will find a wealth of information to help them build both financial knowledge and financial security. Among other educational experiences on the NASAA Web site, visitors can utilize the Senior Investor Resource Center and the NASAA Fraud Center, and locate state-specific resources available through individual NASAA members.

NASAA has developed a series of backgrounders containing information on complicated and topical securities matters. The new Informed Investor Series includes product briefs on headline-grabbing investments such as derivatives, variable annuities, and gold.

NASAA's investor education podcast series, "*The Alert Investor*," is a valuable resource for the public to learn about investing wisely, avoiding fraud and how to exercise their rights as investors. The series, available on iTunes, has grown in popularity and currently features 12 episodes and has been downloaded nearly 10,000 times by listeners. These resources, along with brochures, investor alerts and other financial education materials are available in the Investor Education Section of the NASAA website, www.nasaa.org. In addition, NASAA developed and funds the Investing Online Resource Center, www.investingonline.org.

Conclusion

State securities regulators have traditionally been and remain an extremely effective resource in the pursuit of greater financial literacy. They represent a nationwide network of highly trained, unbiased, non-commercial experts in financial services, products, and fraud avoidance. They are on the front lines of financial education initiatives in every state, translating Wall Street to Main Street for small investors throughout the country. NASAA and its members welcome the opportunity to work more closely with both the Financial Literacy Education Commission and Subcommittee members in their ongoing efforts to improve the level of financial literacy throughout the nation.