**Financial Literacy in the Workforce Innovation and Opportunity Act:**

An Analysis of the Legislation and
Notice of Proposed Rule Making

# Background

In passing the Workforce Innovation and Opportunity Act (WIOA), Congress recognized that while employment is critical to attaining a stronger economic future for American workers, the development of financial capability strategies is vital in order for employment to increase self-sufficiency and promote financial security.

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| The purposes of this Act are…(6)… to “increase the employment, retention, and earnings of participants, and increase attainment of recognized postsecondary credentials by participants, and as a result, improve the quality of the workforce, reduce welfare dependency, **increase economic self-sufficiency,** meet the skill requirements of employers, and enhance the productivity and competitiveness of the Nation.” (PL 133-128 §2(6)) |

The relationship between economic stability and employment is circular. While employment can reduce financial instability, instability may make it more difficult for job seekers to get jobs. Employers are increasingly using credit reports as a means to screen job applicants; job seekers who cannot withstand a financial emergency may have difficulty staying on track with their career goals, including searching for or maintaining a job; job applicants who lack a stable address may be more difficult to hire; job seekers may be concerned that their earnings will be garnished; and job seekers may be concerned that any increase in their reported income will lead to a reduction in public benefits. Financial instability may also make it difficult for an employee to maintain employment. Financial insecurity and stress reduces worker productivity and increases absenteeism;[[1]](#footnote-1) Wage garnishments can put additional stress on the employment relationship; and lack of a bank account creates challenges for both employer and employee.

# Financial Literacy in WIOA

Because the purpose of WIOA is not only to support a comprehensive, accessible, and high quality workforce development system but also to increase the prosperity of workers and employers and increase self-sufficiency, the legislation includes several provisions that focus on financial literacy for youth and adults with and without disabilities. It allows for statewide activities as well as direct services to customers.

Under WIOA, each state receives a federal funding allotment out of which the state can reserve up to 15% for statewide activities allowable under the law and the remainder is distributed to local Workforce Development Boards (WDBs) based on a prescribed formula. The WDBs use the formula grants to contract for youth programs and AJCs which are, in turn, required to provide the set of services specified in the federal law and regulation. WIOA includes financial literacy as an allowable state-wide activity and as one of the services that youth providers and AJCs are required to offer:

* Statewide Activities:
* *Youth:* Section §129(b) describes “required” and “allowable” statewide youth activities using “funds reserved by the governor.” §129(b )(2)(D) specifies that financial literacy for youth is one of the five allowable activities and defines what is included in under the term “financial literacy” (see text box below).
* *Adults:* Section§134(a)(3) specifies that funds reserved by the governor may be used for “activities to improve coordination of employment and training activities with financial literacy activities.”
* Services
* *Youth Program Elements:* Section §129(c)(2) includes financial literacy education as one of 15 elements that youth programs shall provide “in order to support the attainment of a secondary school diploma or its recognized equivalent, entry into postsecondary education, and career readiness for participants.”
* *Adult Career Services:* Section 134(c)(2)(xii) includes financial literacy on its list of 11 specific services that should be provided “if determined to be appropriate in order for an individual to obtain or retain employment,” including, for example, specialized assessments, development of an individual employment plan, career planning and counseling, prevocational services, and financial literacy services.” (PL 133-128 §134(c)(2)(A)(xiii))

# Financial Literacy in the Notice of Proposed Rule Making (NPRM)

The **NPRM** provides regulations for implementing the financial literacy as a statewide activity and as a career service for youth and adults.

**Statewide Activities:**

The NPRM reiterates what was included in WIOA about allowable statewide activities. “The Department encourages States to develop and implement strategies for local areas to utilize to coordinate financial literacy services to participants under this authority and to provide financial literacy activities to youth under§ 682.210(i).” And in *“Discussion of § 681.500 What is financial literacy education,”* the NPRM says, “The Department recognizes the importance of equipping workers with the knowledge and skills they need to achieve long-term financial stability and solicits comments on how best to achieve this goal.”

**Services**

* *Youth:* Proposed paragraph (c) states that centers must provide programs for students to learn and practice employability and independent learning and living skills. These skills include job search and career development, interpersonal relations, driver’s education (as required by sec. 148(a)(1) of WIOA), study and critical thinking skills, financial literacy and other skills specified in program guidance issued by the Secretary. Learning these skills will enable long-term labor market attachment and are critical to the continuing success of enrollees after leaving the Job Corps program.
* *Adults:* Proposed Sections §678.430 (One-stop system) §361.430 (VR programs) and §463.430 (Adult Education and Family Literacy Act) of the NPRM describes three types of career services. Section (a) defines “Basic career services.” Section (b) defines “Individualized career services.” Section (c) describes follow-up services.

In each of these sections, financial literacy services are one of the 11 individualized career services that “must be made available if determined to be appropriate in order for an individual to obtain or retain employment.” Each section refers to the description of financial literacy services in §681.500 (shown in the table below).

# Definition of Financial Literacy in WIOA and the NPRM

As shown in the table below, the WIOA legislation defines financial literacy with a list of five services. The NPRM adds three additional components, including education about identity theft, opportunities to put lessons into practice, and “other approaches to help participants gain the knowledge skills and confidence to make informed financial decisions.”

By adding these additional components, the Department of Labor moved the definition of financial literacy to a “financial capability” approach where the workforce system is directed to actively engage the consumer in addition to providing information and support.

**Definitions of Financial Literacy in WIOA and in the WIOA NPRM**

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| **WIOA-- §129(b)(2)(D)-Use of funds for youth workforce investment activities.** | **NPRM-- §681.500-Youth Activities Under Title I, What is financial literacy education?** |
| (i) supporting the ability of participants to create household budgets, initiate savings plans, and make informed financial decisions about education, retirement, home ownership, wealth building, or other savings goals; | (a) Support the ability of participants to create budgets, initiate checking and savings accounts at banks, and make informed financial decisions; |
| (ii) supporting the ability to manage spending, credit, and debt, including credit card debt, effectively; | (b) Support participants in learning how to effectively manage spending, credit, and debt, including student loans, consumer credit, and credit cards; |
| (iii) increasing awareness of the availability and significance of credit reports and credit scores in obtaining credit, including determining their accuracy (and how to correct inaccuracies in the reports and scores), and their effect on credit terms; | (c) Teach participants about the significance of credit reports and credit scores; what their rights are regarding their credit and financial information; how to determine the accuracy of a credit report and how to correct inaccuracies; and how to improve or maintain good credit; |
| (iv) supporting the ability to understand, evaluate, and compare financial products, services, and opportunities; and | (d)Support a participant’s ability to understand, evaluate, and compare financial products, services, and opportunities and to make informed financial decisions; |
|  | (e) Educate participants about identity theft, ways to protect themselves from identify theft, and how to resolve cases of identity theft and in other ways understand their rights and protections related to personal identity and financial data; |
| (v) supporting activities that address the particular financial literacy needs of non-English speakers, including providing the support through the development and distribution of multilingual financial literacy and education materials; and | (f)Support activities that address the particular financial literacy needs of non-English speakers, including providing the support through the development and distribution of multilingual financial literacy and education materials; |
|  | (g)Provide financial education that is age appropriate, timely, and provides opportunities to put lessons into practice, such as by access to safe and affordable financial products that enable money management and savings; and |
|  | (h)Implement other approaches to help participants gain the knowledge, skills, and confidence to make informed financial decisions that enable them to attain greater financial health and stability by using high quality, age-appropriate, and relevant strategies and channels, including, where possible, timely and customized information, guidance, tools, and instruction. |

# Recommendations

The inclusion of financial literacy in WIOA and its further development in the NPRM provides an opportunity for the asset development community to engage with the Workforce System.

1. Become involved with their Workforce Development Boards in order to advocate for two things:
	* The Unified State Plan should include statewide financial literacy activities in its description of how the state intends to use the funds reserved by the governor.
	* The local plan should have a robust set of services that can be offered to youth and adults as youth program elements and individualized career services.
2. Write comments to support the proposed regulations that expand the definition of financial literacy. You may submit comments at the Federal e-Rulemaking Portal: <http://www.regulations.gov>, identified by docket number ETA- 2015-0001, for Regulatory Information Number (RIN) 1205-AB73.
3. Respond to the Department of Labor’s request in the NPRM for comments on how best to achieve the goal of “equipping workers with the knowledge and skills they need to achieve long-term financial stability.” Submit comments via the Federal e-Rulemaking Portal.
1. Kim, Jinhee, Garman, E.T. (2003). Financial Stress and Absenteeism: An Empirically Derived Model. Financial Counseling and Planning 14(1):31-42 <http://www.afcpe.org/assets/pdf/vol1413.pdf> [↑](#footnote-ref-1)