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President's message

Main Street connections

The role of Federal Reserve Banks—and the Federal Reserve Bank of Kansas City in particular—intersect with communities everyday across broad regions of the country. In founding the Federal Reserve more than a century ago, Congress recognized the importance of directly connecting the nation's central bank to the Main Streets of its many communities. And like many aspects of our economy, we too have had to come face to face with delivering on our 100-year-old mission in a rapidly changing world.

As I travel across the country, I'm often asked: "What exactly does a Reserve Bank do?"

Reserve Banks essentially serve as the operating arms of the Federal Reserve System: providing cash and other services to financial institutions in their regions, supervising and regulating banks, and providing input on monetary policy deliberations—all roles that aim to achieve economic and financial stability in the United States. In the case of the Kansas City Fed, for example, we employ some 1,600 staff to carry out those roles within a seven-state region with branch offices in Denver, Omaha and Oklahoma City, all of which help broaden and reinforce our connections to the region.

In their earliest days, the operations of a Reserve Bank looked very much like that of a traditional bank. When banks in the region needed money to meet cash withdrawals or to extend credit, they could turn to the regional reserve banks to get secured loans. Reserve Banks carry out that same function today. Also in those early days, the Federal Reserve Banks set up a national network for clearing paper checks. The Kansas City Fed, for example, employed hundreds of operating clerks to sort

and process paper checks and to handle the sale of government securities to the public.

Over the past two decades, as electronic payment methods have emerged and gained popularity, consumers and businesses have moved away from writing checks and those operating clerk jobs have gone away. Yes, you'll still find a vault full of cash at a Federal Reserve Bank. But even cash processing has become highly automated with high-speed sorting machines equipped with sophisticated sensors and unmanned, automated vehicles that effortlessly transport pallets of cash and coin in and out of our multi-level vault.

With the rapid rise of electronic payments, Reserve Banks have had to consider how to ensure these payments remain safe and available broadly. Today, nearly one-third of our 1,600 employees are IT professionals. Their skills are critical to developing and analyzing the flow of payments in our economy today and how consumers and businesses will pay for goods and services in the years ahead. Earlier this year, the Federal Reserve announced that it would work with the private sector to improve the speed, security and accessibility of payments in the United States. That effort involves more than five hundred organizations—banks, payment processors, networks, merchants and consumers—working together to identify and implement ways to improve the way we pay for things.





While Reserve Banks may handle less paper in its operations, the volume of data used by Reserve Banks to conduct research and analysis has exploded. The Kansas City Fed, for example, currently houses more than five terabytes of data on mortgage information alone—information used by bank examiners and research economists. Processing data on this scale requires a high-performance computing environment, and local universities and researchers partner with us to take advantage of these tools. In coming years, the focus on data curation and computing power will strengthen those relationships between the Fed and local researchers to understand economic data and analysis.

As a policymaker, I rely heavily on the research and analysis of the Bank's independent research department, staffed by economists who work to explain changes in the global, domestic and regional economy. Their research addresses important theories about how an economy works as well as measurement and analysis of important trends affecting economic growth.

The right setting for interest rate policy varies over time and in response to changes in state and local economies. The U.S. economy is a collection of diverse regional economies, and the recipe for growth in one city may not produce results in another. Home prices, employment and industry makeup vary significantly from region to region. And inherent in the Federal Reserve's decentralized structure, regional Federal Reserve Banks are positioned to gather this "street-level" intelligence and produce research and resources tailored to its region's profile.

At the Kansas City Fed, for example, agriculture, energy and manufacturing are some of our top research priorities, reflecting the character of the states and cities in our region. The large proportion of community

banks in our district drives our research in banking trends, and our economists produce research on regional unemployment and housing trends as well.

You will find a similar dynamic at work in other Reserve Banks. The Federal Reserve Bank of Chicago serves both the Chicago and Detroit metro areas. As a result, economists in that District focus heavily on the auto industry, hosting an annual Automotive Outlook Symposium to examine the forces shaping the industry and the role new technologies will play in the auto market. Economists at the Federal Reserve Bank of Dallas, on the other hand, explore the economic effects of immigration and cross-border trade.

Each Reserve Bank reflects the character of its particular region. Our expertise in local and regional economies helps connect these communities to the national policy decisions of the central bank. And Reserve Banks help ensure that policy deliberations reflect the broad perspectives of the public at large, not the interests of Wall Street or Washington alone. In fact, you will find me meeting with individuals across my region between each of the FOMC meetings to better understand and inform the judgments and decisions we make about interest rates for the nation.

The Federal Reserve has strong incentives and a responsibility to understand the challenges faced on a local level. Before each Federal Reserve policy meeting, the Reserve Bank presidents and economists at all 12 district Banks work to compile summaries of economic conditions in their districts and release them to the public in a report colloquially called the Beige Book.

These summaries paint a more nuanced picture of our shared economic health and help policymakers distinguish regional from national trends. For example, at a meeting of



the Federal Open Market Committee, you would find me talking about the economic performance of my region, drawing on the perspectives of local businesses, banks and other community leaders.

Research conducted by staff at the regional reserve banks informs monetary policy decisions and views, but it is also widely available to the public, including community and business leaders who must consider economic drivers and trends affecting them and their constituents. I'll offer one such example of how research coming out of the Kansas City Fed caught the attention of one of our cities.

Demographics play a large role in regional and local economies. Today, as city planners look to their downtowns, the focus is often on how to attract the millennial generation. Millennials have largely driven the recent rebound in apartment construction, and some anecdotal evidence suggests they prefer to live and work in vibrant urban cores. But research by one of our economists concluded that other generational dynamics would likely influence the demand for housing. That research found that baby boomers would be a greater source of apartment demand in the long term as they age into their senior years and begin to downsize from single-family homes. The implications are clear: developers who focus only on millennial tastes may risk overbuilding, or overlooking amenities that could draw baby boomers downtown and further revitalize these areas.

This research was used by some city officials within our region as they considered plans for revitalizing their downtown. Since then, developers there have announced two multifamily construction projects in that particular downtown targeted toward baby boomers.

The Reserve Bank's research also supports our focus on economic and community

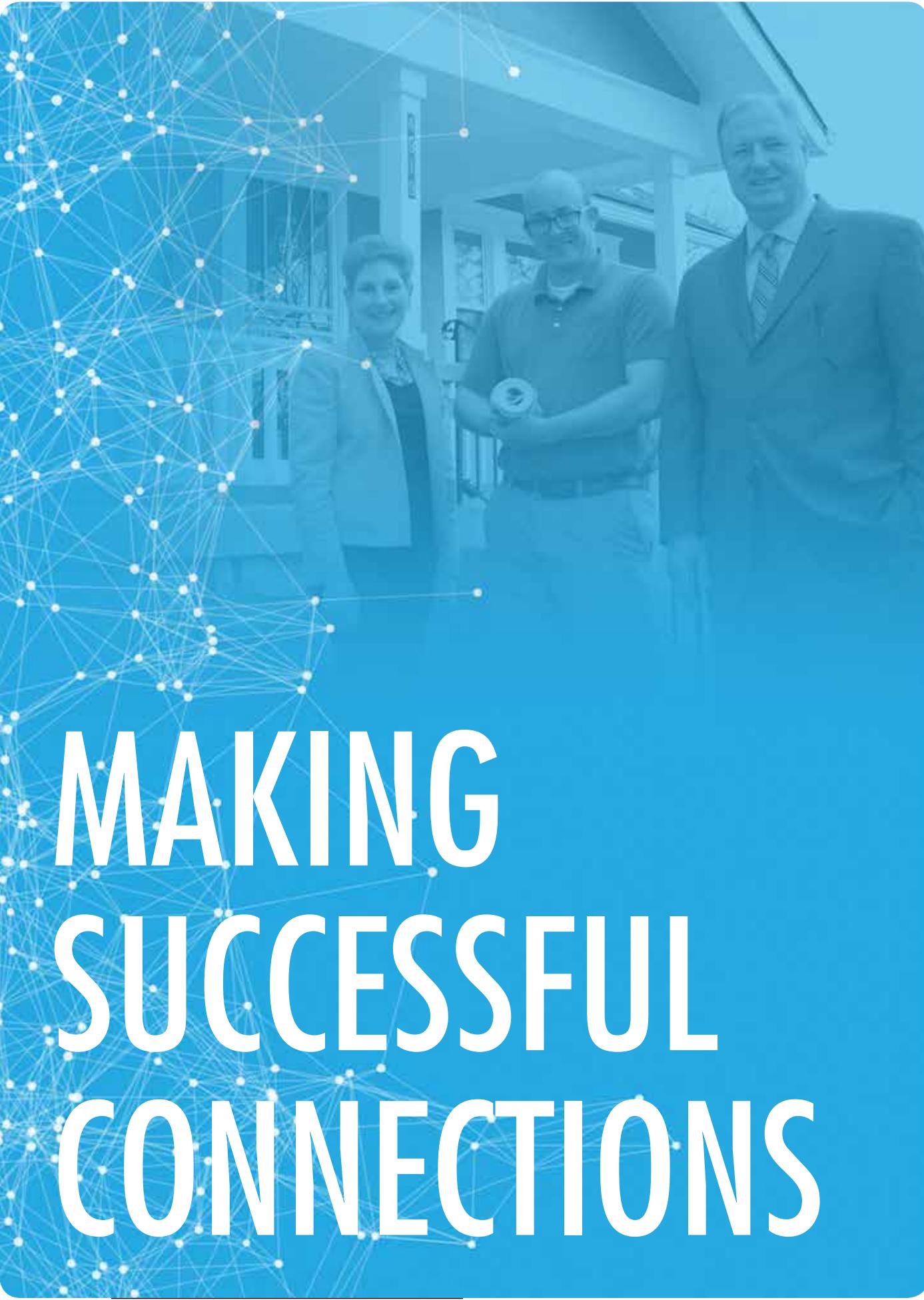
development, especially for low- and moderate-income communities. Each Reserve Bank has a Community Development function with staff dedicated to assessing community needs and implementing programs to address those issues.

Reserve Banks and their branch offices are well positioned to understand the challenges facing our regions and to identify the resources available to those working to address them. In this regard, Reserve Banks play a crucial role in facilitating connections between local leaders and the resources that can help get their ideas off the ground.

These regional, Main Street connections are carried out every day across the country by Federal Reserve Banks and their branch offices. Whether your Main Street is part of a bustling major city or a quiet rural town, the job of this 100-year-old institution is importantly connected to the region. Ensuring that the plumbing of our financial system is safe, that consumers and businesses can have confidence in the payments they make, and that policymakers are well informed when they make decisions about interest rates. Understanding those issues at the regional level positions us to better understand the dynamics of our nation's economy.



ESTHER L. GEORGE, PRESIDENT
FEDERAL RESERVE BANK OF KANSAS CITY



MAKING SUCCESSFUL CONNECTIONS



Development program provides community organizations an opportunity to find funding

Lutheran Family Services of Nebraska impacts more than 35,000 people a year through human care services, ranging from behavioral health to preventive education. The faith-based, nonprofit headquartered in Omaha has more than 30 locations across Nebraska and locations in Council Bluffs, Iowa, and Wichita, Kan.

Like most nonprofits, funding for programs or projects is not always easy to obtain, especially through traditional financial means. Recently, however, the organization's life-skills education program for immigrants received a \$32,000 grant from the First National Bank of Nebraska.

The two entities came together through the Federal Reserve Bank of Kansas City's signature community development program, Investment Connection.

Investment Connection is designed to increase awareness about community and economic development programs, which are eligible under the Community Reinvestment Act (CRA). It also provides organizations an avenue to connect with funders for loans, investments and service opportunities.

The Kansas City Fed's Community Development Department piloted the first Investment Connection on May 12, 2011, in Denver. Eight organizations presented proposals at the event. Three of those organizations have received a total of \$695,000 in funding to date and have been promised more funding in the future, said Ariel Cisneros, a senior community development advisor with the Kansas City Fed's Denver Branch.

Community Development did not set a specific funding goal when they started the program, Cisneros said; however, about 30

percent of the organizations that have presented proposals at an Investment Connection event or submitted a request online since 2011 have received or been promised funding for a combined total of \$25.6 million.

The program coincides with the Kansas City Fed's efforts to promote economic development in local communities.

"Our overarching goal was to efficiently expose CRA eligible projects to potential funders," said Tammy Edwards, vice president of Community Development. "So far, we have been quite successful in helping nonprofits and funders make connections."

There are two ways for organizations and funders to make a connection.

Instead of an investor meeting one-on-one with an organization, the Kansas City Fed works as a mediator, coordinating an event that gives nonprofits the opportunity to showcase new and existing community and economic

development proposals to an audience of potential funders.

The organizations submit proposals to the Kansas City Fed more than 30 days before the event. Community Development staff reviews each proposal and determines whether the organization and proposal are eligible under CRA and fits program criteria, such as the organization is an established nonprofit and meets auditing standards.

A few weeks before the event, Community Development circulates the eligible proposals to potential funders, which include banks, philanthropies, community development funders and government agencies. The day of the event, organizations are given the opportunity to speak for 10 minutes and then take questions about their proposals.

Community Development also offers an online platform for organizations to submit proposals at any time. The proposals are

Erica Dobreff, from left, Kansas City Equity Fund, Cliff Pouppert, director of planning and development for Blue Hills Community Services, and Mark Parman, Equity Bank, review blue prints for an affordable home. Dobreff successfully secured funding through Investment Connection.



Photo by Gary Barber

reviewed to make sure the project and the organization are CRA eligible. Once approved, the proposal goes online for funders to view.

"We didn't want this to be an arduous effort on the organization's part," Cisneros said. "This is straight forward and easy to use."

The Kansas City Equity Fund, Young Americans Bank and Mi Casa Resource Center are just three of many organizations that benefitted from new funding relationships courtesy of Investment Connection Online.

Building affordable housing relies on combining multiple funding sources, or "capital stacking." Raising all the funding necessary to provide affordable housing to families who earn less than 60 percent of area median income is challenging.

"I am extremely pleased with the results from the program..."

Erica Dobreff, president of the Kansas City Equity Fund, posted a proposal for the Gateway Community Development Fund to Investment Connection Online and was selected to share information about the housing proposal and her organization to a group of funders in late 2014.

"The experience was terrific," she said. "I was pleased by the number of funders in the audience, some that I knew, but many were new. I was happy that it was a large audience—it was fun for me. The audience asked questions about the investment opportunity and the organization. Overall, it was a very cordial way to present the information."

Dobreff said the online platform was an easy and ideal way to promote an existing program that needed additional funding to grow.

Reinvesting one block at a time

Blue Hills Community Services has benefited from area partnerships over the years, such as the one it has with the Kansas City Equity Fund.

The Kansas City Equity Fund recently benefited from a funding connection it made through Investment Connection.

Blue Hills is a community development corporation (CDC) that has worked for years in the Blue Hills Neighborhood of Kansas City rehabbing homes or building new ones.

The organization uses a block-by-block strategy to focus neighborhood revitalization with new and renovated single-family and multifamily homes, home repair services to owner occupants, and community planning and organizing.

Blue Hills also administers supportive services to improve academic achievement of students, leadership development, policy improvement, neighborhood involvement and resident empowerment.

More than a year ago, the organization created a small business incubator for contractors. The 14,168-square-foot incubator, built to LEED Silver standards and also houses Blue Hills' headquarters, is one of several new developments along Prospect Boulevard, one of Kansas City's busiest urban roadways.

It's one of the first of its kind in the nation, said Randy Morris, director of member services for the National Business Incubator Association, which has 1,275 members in the United States. "Incubators serve the entrepreneurial spirit within a community, creating jobs and creating wealth," Morris said.

The building also serves as a community meeting space, community office space for service-based organizations, and a home repair, weatherization and single-family development center.

"I am extremely pleased with the results from the program; we reached new funders and secured a \$250,000 investment by Equity Bank; the return on investment was outstanding. I'm not surprised that (Investment Connection) is quickly approaching \$26 million in connections."

Dobreff found the online database so successful that she plans to submit a proposal for the St. Louis CDFI Fund that offers multiple funding opportunities.

"I would recommend Investment Connection to other community development organizations that are trying to reach funders and create awareness of their programs," she said.

Mark Parman, regional president-Kansas City for Equity Bank, said he knew there was a solid connection when he heard Dobreff's presentation.

Parman found Investment Connection to be a valuable program, adding that it was concise, well done and a good use of his time.

"The variety of programs available—with diverse geographic coverage and areas of focus—provided an opportunity to hear about many investment and lending opportunities in one meeting," he said. "It is beneficial when you are looking for CRA-eligible investment opportunities that make sense for your bank; you don't have to chase them down."

Cassandra Illich, assistant vice president, community reinvestment and fair lending, Colorado Federal Savings Bank, said attendance at the in-person Investment Connection program provided the impetus to work with Young Americans Bank and fund its Send-a-School program with \$10,000.

"Because of (the program) we were able to make strong funding connections," Illich said.

Illich added that organizations' websites often look the same and Investment Connection gave her a better understanding of the organizations and their proposals.

"Investment Connection helped us establish new relationships with organizations

Patrick Fogerty, from left, senior vice president of Colorado Federal Savings Bank, Ashley Dunn, mayor of Young Ameritowne, along with Rich Martinez, Young Americans Bank, and Cassandra Illich, Colorado Federal, recognized Colorado Federal's investment in Young Americans Bank's program.



we may not meet, sped up the funding process, and provided an efficient way to learn about different activities around the state," she said.

In addition to funding Young Americans Bank, Colorado Federal Savings Bank also established a relationship with Mi Casa, making a \$25,000 investment for a new resource center. Illich said she thinks Investment Connection is a great way to spread the wealth.

Rich Martinez, president of Young Americans Bank, sees Investment Connection as a unique way to make presentations to funders intent on making investments in the community.

Martinez said securing two investments through Investment Connection was an excellent return on investment. In addition to the \$10,000 it received from Colorado Federal Savings Bank, Young Americans Bank received \$1,500 from Colorado East Bank and Trust for its On the Road Initiative for Pueblo and Greeley, Colo. Martinez added the bank is developing several new relationships with funders that are considering proposals for funding.

This is an example of how funders can invest in multiple organizations with only using one source to connect, Cisneros said. For example, First National Bank of Nebraska, which funded Lutheran Family Services in Omaha, Neb., also gave a \$1 million grant to Accion, headquartered in Albuquerque, N.M., for its service programs in northern Colorado. Accion is a nonprofit that provides microfinancing services to the lower-income and microbusiness owners who may not qualify for traditional funding methods. The organization also provides financial training and helps communities create services that bolster healthy small business practices.

Making these connections goes beyond funding, Cisneros said.

Many times organizations receive help through in-kind donations and services. For

example, one investor provided training to an organization's employees. There also are knowledge-based services, such as a funder becoming part of the organization's board of directors or providing expert consulting services.

"Besides bringing a new funder to your pool of funders, you may make a connection that could benefit you in multiple ways," Cisneros said.

And in many instances, once a funder has given once to an organization, the funder will give again.

"It's not always the case, but we've seen this happen many times," Cisneros said.

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KEVIN WRIGHT, EDITOR

F U R T H E R R E S O U R C E S

For more information about Investment Connection, or to use Investment Connection Online, visit www.KansasCityFed.org/community/investmentconnection.

COMMENTS/QUESTIONS are welcome and should be sent to teneditors@kc.frb.org.



Photo courtesy of The Insuring Our Future partnership

CREATING NEW TIES

Healthcare reform and the labor market

Debra Robinson's profession comes with many nonfinancial benefits—nurturing young minds and hearts, seeing children succeed, being a positive influence. What it doesn't provide is health insurance.

The Littleton, Colo., resident manages five child-care facilities operating at schools in Jefferson and Park counties.

Robinson, 57, didn't blame anyone for her lack of health insurance, and she didn't complain. She raised two children without steady health insurance coverage, but she had gone 13 years without a full physical or annual exams.

She knew most women, let alone men, wouldn't risk living without a medical safety net. Years ago she thought long and hard about getting a job that provided health coverage, dental and vision care, a pension plan, and other benefits that would have made things comfortable and secure.

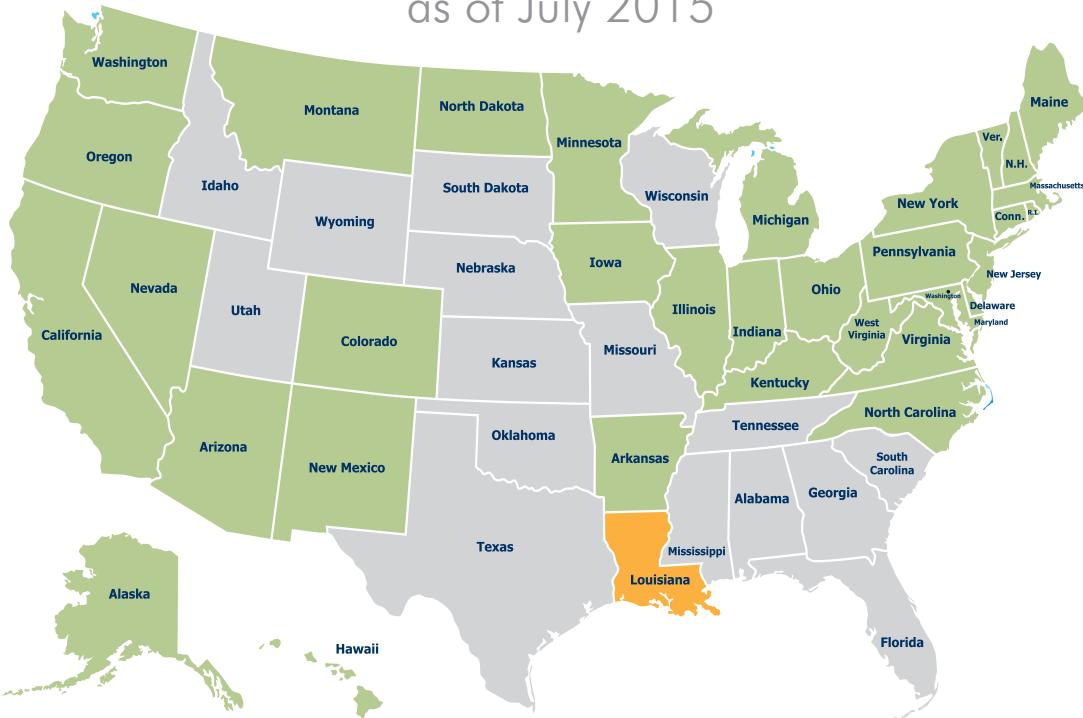
"That wasn't my path," she said.

Her job entails caring for kids who are dropped off at school at 6:30 in the mornings and wait to be picked up at 6:30 in the evenings. She does homework with them. She listens to their problems. She reminds them to cough into their arms, not people's faces, to use Kleenex and to wash their hands. She teaches them not to tattle on each other and to work out their own problems. She's big into personal responsibility.

This is what she loves—helping children. But some days she barely makes ends meet with her hourly wage of \$11. She's helping pay her daughter's tuition at Colorado School of Mines—a public research university in Golden, Colo., devoted to engineering and applied science. After accounting for her living expenses, Robinson can't afford private health insurance.

"My job is something I need to do for me," she said. "That's where I derive my biggest

Medicaid Expansion as of July 2015



- States that have expanded Medicaid
- States that have not expanded Medicaid
- States that have not made the decision on Medicaid expansion

pleasure, watching these kids. My choice to work with kids is more important to me than seeking benefits for benefits' sake alone. I have to be happy with what I do."

Robinson has used alternative medicine and home remedies in place of traditional healthcare.

"I've found ways not to need to go to a doctor every time I get a sneeze or a sniffle," she says.

Still, she has needed help from traditional medicine along the way, which included two hospital stays that cost her thousands of dollars.

The hospital experiences, prior to the passage of the Affordable Care Act, prompted Robinson to apply for Medicaid, for which she was denied because she earned slightly too much income.

As with many women her age, Robinson's hair is graying, her skin wrinkling and arthritis is creeping into her joints. She has given up high heels for sensible shoes and wears glasses to read and do paperwork at work. Knowing diabetes is likely, she monitors her blood sugar and manages the symptoms through diet and exercise. No matter how many herbs she takes or holistic ways she tries to keep herself healthy, she realizes she may require more and more traditional medical services in the years to come.

Robinson was prepared to live with the choices she had made—and aware that many may have considered her views naïve and irresponsible.

At least now she isn't just getting by. With the changes to healthcare coverage under the

Affordable Care Act, and new Colorado laws, Robinson became eligible for Medicaid and now receives the healthcare that she once thought was out of her reach.

The Affordable Care Act

The Affordable Care Act (ACA) was signed into law in 2010 with the goal of achieving near-universal health insurance coverage. The ACA not only has effected health insurance decisions of U.S. firms and individuals, but also the labor market due to the tight link between employment and health insurance. Thirty-three states have implemented provisions of the ACA, such as the expansion of Medicaid; however, the goal of providing or obtaining some form of health coverage still applies to firms and individuals.

Didem Tüzemen, an economist with the Federal Reserve Bank of Kansas City, and Makoto Nakajima, an economist with the Federal Reserve Bank of Philadelphia, say economists have debated the ACA's effect on the labor market since it was signed into law.

For instance, one ACA provision mandates firms with 50 or more full-time employees offer health insurance to full-time employees or face penalties. The concern was that firms could respond by cutting hours or replacing full-time employees with part-time employees.

An economist whom Tüzemen and Nakajima cite in their research as someone who estimates that healthcare reform will have a greater impact on the labor market is Casey B. Mulligan.

In his research, "The Affordable Care Act and the New Economics of Part-Time Work," Mulligan, a professor of economics at the University of Chicago, attributes a decline in labor demand and a reduction of 3 percent in total hours worked to the ACA.

The economists also denote the Congressional Budget Office's analysis, which also estimates a decline in total hours worked of 1.5 to 2 percent.

Tüzemen and Nakajima analyzed the macroeconomic and welfare implications of the ACA, focusing on the interaction between the health insurance market and the labor market. They estimated, based on the model they created, that the ACA achieves its goal of near-universal coverage. The effects are a welfare gain equivalent of 0.5 percent, and the uninsured rate drops from 22.6 to 5.6 percent, which is in line with the Congressional Budget Office's recent estimate of a drop of 7 percent among the nonelderly population.

The economists estimate the ACA will affect the allocation of part-time and full-time employment. Their model predicts the ACA will result in an additional 2.1 million part-time jobs, 1.3 percent of the labor force, at the expense of 1.6 million full-time jobs.

An important difference from Mulligan's study, however, is that Tüzemen and Nakajima find that the decline in hours worked in their model is primarily due to a decline in labor supply rather than labor demand.

"Workers do not need to cling to (full-time) jobs with health insurance when the ACA is introduced, and workers can work (part time) and still obtain subsidized health insurance through either the exchange or Medicaid."

The employer mandate for firms, on the other hand, does not appear to affect the share of full time versus part time jobs offered by firms.

Overall, the effect of the ACA on total hours worked, however, is a modest 0.36 percent decline compared to Mulligan and the Congressional Budget Office's estimations.

Their analysis also suggested there is still a "coverage gap" among workers.

Individuals fall into the coverage gap when their income level is below 100 percent of the federal poverty level, but they do not qualify for Medicaid. One of the ACA's main goals was to expand the federal poverty level line, making many ineligible workers eligible for Medicaid.

The expansion, however, relied on states adopting the expansion of Medicaid coverage.

"However, in many states that opted out of expansion of Medicaid, individuals in the coverage gap cannot receive health insurance subsidies even though their income is lower than 100 percent of the FPL," the economists said.

Because in some of those states Medicaid eligibility was as low as 50 percent of the poverty line and issues such as gender and pregnancy affected eligibility.

"Our experiments suggest that, if the coverage gap is left open nationally, 2.0 million more workers (1.3 percent of the labor force) end up uninsured."

The welfare gains of implementing the ACA become zero if Medicaid is not expanded and the coverage gap is left open.

“Although it is not straightforward to extrapolate our results to the actual situation in which only a subset of states decline expanding

Medicaid, our experiments are suggestive about the serious consequences of leaving the coverage gap.”

They also compared their model's outcomes to the data from the 2006 Massachusetts Health Care Reform, upon which the ACA is loosely based.

Massachusetts' reform created a significant drop in the uninsured rate with only minimal effect on the overall labor market. The economists found their model's predictions were consistent with Massachusetts' data.

Yet, it's still too early in the implementation of the ACA to know the long-term economic effects on the labor market.

Healthcare reform in Colorado

Joe Sammen, executive director for the Colorado Coalition for the Medically Underserved, says with changes in the law—the expansion of Medicaid and state enacted health insurance marketplaces and incentives—

Individuals who qualify for Medicaid*

Family Size	Yearly Income	Monthly Income	Hourly Income
1	\$11,490	\$957	\$5.53
2	\$15,510	\$1,292	\$7.46
3	\$19,530	\$1,627	\$9.40
4	\$23,550	\$1,962	\$11.34

Source: Congressional Budget Office

*Could vary according to a particular state's laws

the labor force may see a resurgence of entrepreneurship.

Studies over the years have suggested many people don't take the risk of starting their own businesses because they are unable to find affordable health insurance, Sammen said. This situation often is described as "job-lock" or "entrepreneurship lock."

Sammen is familiar with the concept. His father worked two jobs. One was a full-time job with health insurance benefits. The other was the small business he created. He never quit his other job to expand his small business because he couldn't obtain affordable health insurance as a small business owner.

Sammen refers to a 2011 study by the RAND Corp. that concluded the lack of affordable health insurance options for self-employed individuals is a key reason individuals decide to stay in an unsatisfying job instead of starting their own business.

The Urban Institute in Colorado estimates 27,000 more Coloradans will decide to become self-employed as a direct result of health reform in that state, and under the ACA, access to high-quality, subsidized health insurance coverage no longer will be exclusively tied to employment.

Colorado and New Mexico currently are the only states in the Tenth District to adopt the Medicaid expansion provision under the ACA.

Before healthcare reform, there were 750,000 Coloradans in 2013 unable to obtain healthcare services.

"That number has been cut in half since the new healthcare reforms," Sammen said.

Since then, 50,000 young adults have obtained health insurance coverage and 1.2 million have gained preventive services. An estimated 500,000 Coloradans will be eligible for tax credits to defray the costs of health insurance through the state's Connect for Health Colorado marketplace.

A majority of Coloradans, however, was unaffected by federal and state healthcare reform.

"Many people already had coverage and access to care didn't change," Sammen said.

Some persistent gaps, however, remain among the uninsured and underinsured and those with insurance, which mainly fall along socioeconomic and racial lines, Sammen said.

Whites in the state experienced a bigger drop in the number of underinsured or uninsured than Latinos. About 5 percent of whites are uninsured compared to 12 percent of Latinos. Region also affects healthcare coverage and access. For instance, Douglas County, south of Denver, only has a 2.4 percent uninsured gap, while the gap in some communities in northwest Colorado are as much as 12 percent.

"What we've learned is that the reforms are starting point; it takes a community working together, collaboration, to make these reforms meet their needs," Sammen said.

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KEVIN WRIGHT, EDITOR

THE INSURING OUR FUTURE PARTNERSHIP
CONTRIBUTED TO THIS ARTICLE

The views expressed in this article are solely of the author and economists and do not necessarily reflect the views of the Federal Reserve Bank of Kansas City or the Federal Reserve System.

F U R T H E R R E S O U R C E S

"Health Care Reform or Labor Market Reform? A Quantitative Analysis of the Affordable Care Act" by Makoto Nakajima and Didem Tüzemen
<https://www.kansascityfed.org/~media/files/publicat/reswkpac/pdf/rwp15-10.pdf>

COMMENTS/QUESTIONS are welcome
and should be sent to teneditors@kc.frb.org.



THE GREAT PAYMENTS MIGRATION

From magnetic stripe to chip-technology and mobile payments



Many of the payments innovations in the United States have leveraged traditional payment methods and infrastructures. Growth in tablet and smartphone adoption and increased popularity of card payments has led to many payments innovations that seek to improve the ways in which payments are made. Now there is an innovation in card technology itself and it has the potential to spur adoption of mobile payments—something that has been speculated about for several years now.

In a 2015 analysis, Terri Bradford, a payments research specialist, and Jesse Leigh Maniff, a payments research analyst, both at the Federal Reserve Bank of Kansas City, explained that the shift away from magnetic stripe technology to computer chip technology based on a global standard called Europay, MasterCard, and Visa (EMV) in payments cards may not only affect the survival of current card-based payment innovations, but also may create opportunities for growth of alternative payment products, such as mobile payments.

Though some card brands began migrating to the EMV standard in the early 2000s, magnetic stripe payment cards are still the norm in the United States. Just this past October the United States began the implementation of chip-based cards. However, the shift is not mandatory and has been slow in developing.

Magnetic stripe card technology involves using static information stored on the magnetic stripe. Because some payment information—such as the primary account number—never changes, counterfeiters can use stolen card data captured through the transaction to commit fraud. In contrast, cards with an EMV chip technology use dynamic data: the chip creates a unique transaction code for each payment transaction. The ability to use dynamic data provides valuable security as a transaction is initiated and processed at the point of sale (POS).

So it would seem like a “no-brainer” to adopt the technology. But the implementation

faces several obstacles such as an aging universal payments system based on checks and magnetic stripe cards, cost effectiveness for merchants and the need for consumer education.

New innovations

Payments innovations for magnetic stripe cards typically target either merchants or consumers. EMV migration may affect these groups in different ways, Bradford and Maniff say.

“The proliferation of mobile devices, for example, led to greater innovation focused on merchant acceptance of magnetic stripe payment cards. Nonbank providers such as Square, PayPal, Heartland Payments Systems, and others offer products enabling mobile phones and tablets to accept magnetic stripe payment cards. These innovations have facilitated card acceptance by merchants of all sizes, including those that otherwise would have been unable or unwilling to accept such payments given the complexity of the associated fees.”

Now the payments system is making a long-anticipated move by changing the payments technology from magnetic stripe to chip technology. One way payment networks are prompting merchants to make the switch to more secure chip cards is by shifting fraud loss liability for POS transactions to the merchant if the merchant has not invested in EMV technology and the card issuer has—otherwise liability remains the same, with the card issuer absorbing most of the loss. Banks and nonbanks also are issuing payments cards that use both an EMV chip and magnetic stripe to ease the public into an EMV marketplace.

But what does this mean to companies that have invested in magnetic stripe innovations?

The acceptance of EMV

Some payments innovation companies are not developing new software for EMV because of the associated costs, Bradford and Maniff said, while other companies, such as Square

Where EMV has been adopted

Eighty countries globally are in various stages of EMV chip migration. According to EMVCo, as of December 2014:

3.4 billion

chip payment cards are in use world wide

99.9 percent

of transaction terminals in Europe are chip-enabled

84.7 percent

of terminals in Canada, Latin America and the Caribbean are chip-enabled

86.3 percent

of terminals in Africa and the Middle East are chip-enabled

71.7 percent

of terminals in Asia Pacific are chip-enabled

EMVCo also reports the status of "chip-on-chip" transactions; one in three of all card-present transactions undertaken globally between June 2014 and June 2015 used EMV chip technology.

The EMV Migration Forum is the cross-industry organization that focuses on issues that require broad cooperation and coordination across many constituents in the payments space in order to successfully introduce secure EMV contact and contactless technology in the United States. As of the end of 2015, the Forum estimates that approximately 400 million EMV chip cards have been issued in the United States, with 675,000 merchant locations accepting EMV chip transactions.

and Inuit, re-engineered their software and hardware to be compatible with EMV.

As America continues the move to chip technology these U.S. companies could face stiff competition from European and Asian companies that have already been providing EMV technology to merchants and consumers for several years.

Bradford and Maniff said that although merchants are being encouraged to upgrade their POS equipment as fraud liability shifts from the issuer to them, considerations such as susceptibility to fraud, types of merchandise sold, and chargebacks factor into their investment decisions. If merchants find the benefits of upgrading their POS equipment do not outweigh the costs, providers of magnetic stripe acceptance devices are safe from being shut out of the market completely. However, to remain competitive in an EMV card environment, innovators will also have to decide whether upgrading their POS equipment offerings is cost effective.

Although the chip-technology migration may have a limited effect on the survival of magnetic stripe card innovations for merchants, Bradford and Maniff said, for consumers, it could make paying with cards more confusing because some EMV terminals include contactless or near-field communication capabilities (NFC), which allow for mobile payment devices.

As a result, consumers may choose the payment method—swipe, dip or tap—that is most convenient.

Mobile payments

A number of surveys and analyst assessments indicate that despite the excitement generated by mobile payments that use NFC-type payment devices and systems, such as Apple Pay or Google wallet, a majority of the U.S. public isn't excited about paying for merchandise from a phone or watch.

This doesn't mean the demand for mobile

payments isn't growing among merchants, especially those who serve a more technology-driven clientele. According to a report published in Compendium, 88 percent of the 18-to-29 age demographic in the United States is the fastest growing consumer group to use the smartphone for some type of financial transaction. And a Pew Internet & American Life Project survey found that a majority (65 percent) of respondents agree with the statement that by 2020 "most people will have embraced and fully adopted the use of smart-device swiping for purchases they make, nearly eliminating the need for cash or credit cards."

The conundrum analysts say is that other consumers groups, especially those with more disposal incomes, remain skeptical of mobile payments. They are worried the new technology is less secure and private than using a magnetic stripe card, even with the dynamic authentication process in NFC-based systems, which is more secure than the magnetic stripe. And many consumers also think the mobile systems are inconvenient—it's easier to swipe a card or pay with cash than fiddle with a phone or watch.

Consumers also face the lack of merchants capable of accepting NFC-device payments. Although Apple reported 700,000 merchants supporting its system in 2015—and receiving marketing support from card issuers and holding a two-thirds share of all mobile payments made—there are an estimated 10 million payment terminals in United States. According to research by the Aite Group, of the roughly 10 million U.S. POS terminals, only 59 percent were expected to be chip compatible by the end of 2015. Some of these terminals will have the contactless, or NFC functionality enabled, while others will not.

That's why Aquirer Systems, a test and validation solutions provider to the global payment industry, recently said in a company blog: "EMV is the way forward for a secure foundation for all future NFC/mobile

payments." EMV will provide a global format that will allow the acceptance of NFC-device payments in the future.

Whether this will result in full acceptance of smart-device swiping by 2020 in the United States, as mentioned in Pew Internet & American Life Project survey, remains to be seen, because reliable statistics on mobile wallet payments are difficult to obtain, according to 2015 Reuters report.

"Neither the companies offering payment systems nor credit card issuers will disclose detailed data about usage. But analysts agree that they are used for only a tiny percentage of U.S. retail transactions," the report said.

And industry analysts don't think there's going to be a sudden jump to EMV or mobile payments, but as more and more people use it and as the technology is more pervasive, it will happen, similar to the evolution of the ATM machine and debit card.

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KEVIN WRIGHT, EDITOR

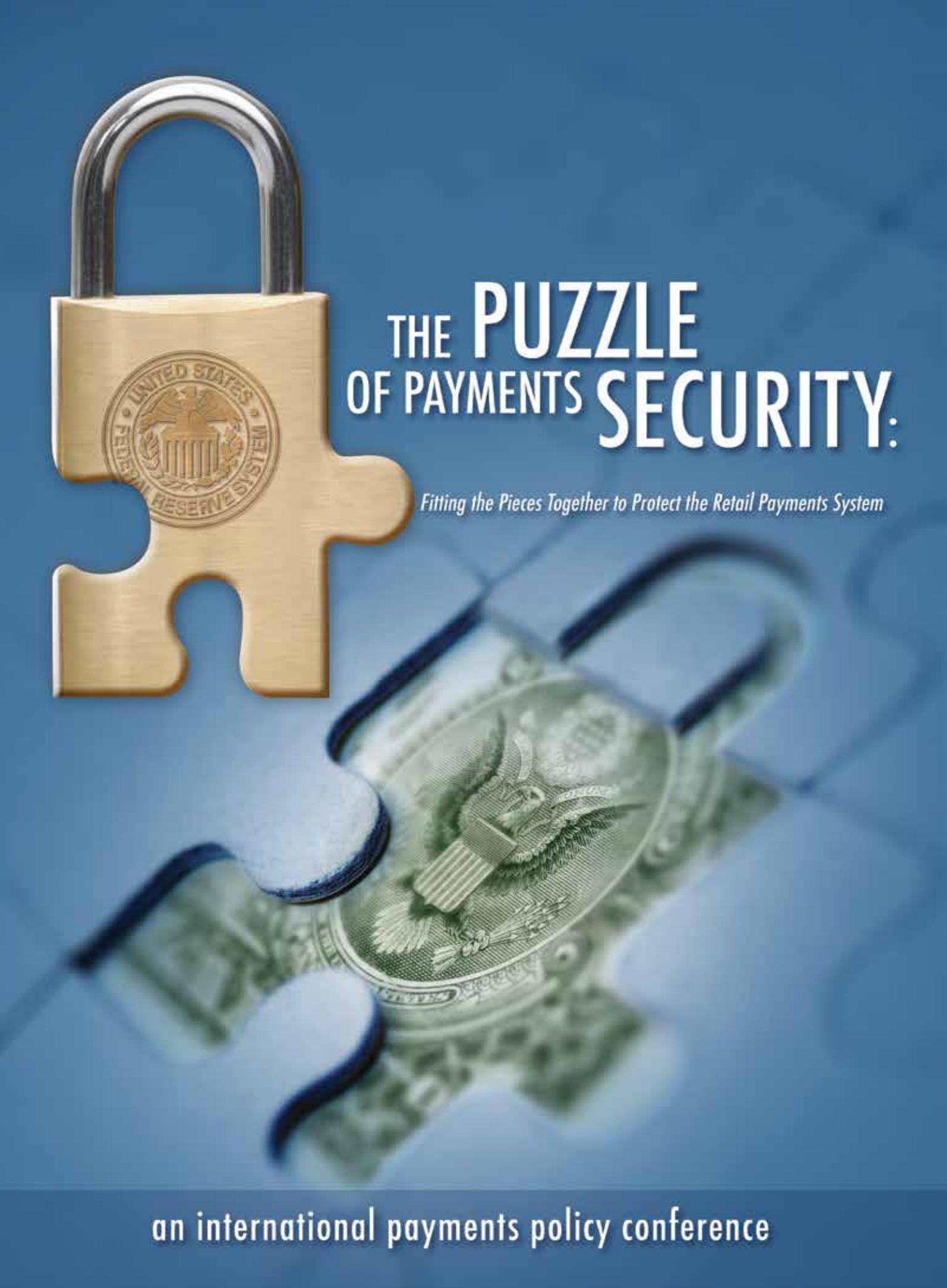
FURTHER RESOURCES

"Change Is Coming: What the EMV Migration May Mean for Payments Innovation"

By Terri Bradford and Jesse Leigh Maniff

www.KansasCityFed.org/~media/files/publicat/prs/briefings/prs-briefingapr2015.pdf

COMMENTS/QUESTIONS are welcome and should be sent to teneditors@kc.frb.org.



THE PUZZLE OF PAYMENTS SECURITY:

Fitting the Pieces Together to Protect the Retail Payments System

an international payments policy conference



PRESIDENT ESTHER GEORGE spoke about the importance of the Federal Reserve's payments system initiative during the 2015 Payments Policy Conference.

Payments security is a forefront issue today with incessant cyberattacks, large-scale data breaches that expose millions of consumers' sensitive information and billions of dollars of fraudulent payment transactions.

More than 120 payments system participants, academics and policymakers attended the 2015 International Payments Policy Conference entitled "The Puzzle of Payments Security: Fitting the Pieces Together to Protect the Retail Payments System," June 25 and 26, at the Federal Reserve Bank of Kansas City.

Conference attendees exchanged thoughts and views on payments security and fraud as matters of importance for preserving public confidence in worldwide retail payment systems. Some of the topics presented at the conference included applying an economic perspective or game theory to payments security; the importance of collecting data on incidents of fraud and payment security to help reduce fraud rates, the incidence of data breaches and the amount of money spent to protect payments transactions; and how the defense against fraud and data vulnerabilities requires a multipronged approach.

"The conference has offered me some encouragement as I look at what can be a

very thorny issue for us," said Esther George, president of the Federal Reserve Board of Kansas City, in her closing remarks.

Participants also spoke about information sharing and collaboration efforts taking place to ensure the usability and security of the payments system.

"But I think as we all know it's also reminded us of some of the sizeable challenges that remain," George said.

George is the chair of the Federal Reserve's Financial Services Policy Committee and serves as executive sponsor of the Fed's payment system improvement project. In this role, George leads a Federal Reserve System initiative to improve the U.S. payments system through a collaborative effort with the private sector and others, including large and small businesses, emerging payment firms, card networks, academics, government regulators, payment processors, consumers and financial institutions.

This has involved the study of the Fed's financial services and the broader payment system, focusing on end-to-end speed, safety and efficiency. It also includes the establishment of two taskforces to evaluate the nation's payment system and its challenges. One taskforce is focusing on identifying and evaluating approach-

es for implementing a safe, ubiquitous and faster payments capability in the United States. The other taskforce will provide input on security aspects of a faster payments capability and also will advise the Federal Reserve on how to address security matters and to identify and promote actions that can be implemented by payments system participants.

The goal is to create a modernized payments system that reflects the public's strong confidence in these new capabilities, George said.

Jerome Powell, governor, Board of Governors Federal Reserve System and co-chair of the initiative's oversight committee, said the payments system touches everyone's daily lives, whether it's a consumer paying a bill, a company deciding to upgrade its point-of-sale terminals, a technology startup developing a peer-to-peer app or the government issuing tax refunds.

"Americans make \$120 billion noncash

payments a year," he said. "It's only when something goes wrong, such as a data breach at a major retailer or bank, that the public notices the payment system."

That's why it's important that all participants work together to improve how America does business by building a payments system that is innovative, forward thinking, secure and empowers consumers to use the system with trust and confidence, he said.

To view videos of the presentations, to read presentation papers or to view speaker bios, visit www.KansasCityFed.org/en/research/bankingandpayments/pscp-2015. To read a briefing on the conference, visit www.KansasCityFed.org/~media/files/publicat/psr/briefings/psr-briefingoct2015.pdf



FEDERAL RESERVE SYSTEM GOV. JEROME POWELL, top left, spoke about the future of the U.S. payments system during the 2015 Payments Policy Conference. Todd Mackey, a vice president at the Kansas City Fed, moderates a discussion about payments during a roundtable in Kansas City, Mo. Kansas City Fed Senior Vice President Barb Pacheco speaks with a participant during a payments roundtable.



Photos by Gary Barber

KANSAS CITY FED CONDUCTS PAYMENTS ROUNDTABLES, COLLECTS FEEDBACK

As the Federal Reserve pursues improvement in the speed, efficiency and safety of the nation's payments system, the Federal Reserve Bank of Kansas City has a key role in guiding the effort.

To support this initiative, the Kansas City Fed organized a series of forums in late 2015 attended by a variety of representatives from financial institutions and state banking organizations across the Tenth District.

Kansas City Fed First Vice President Kelly Dubbert hosted the event and Senior Vice President Barb Pacheco and Vice President Todd Mackey moderated the conversations. The moderators encouraged participants to share feedback about challenges and opportunities they see in their markets with payment system innovation and evolution.

"Collaboration with our stakeholders is a crucial element of our efforts," Mackey said. "We are curious about what challenges they are encountering and what suggestions they have that would help."

Forum participants discussed the issue of digital currencies, the importance of the national strategy to improve the payments system, and ways organizations and citizens can engage in the national effort.

"It's crucial for us to educate as many people as we can about the work that the Fed is doing," Mackey said. "Our message to anyone involved in payments or with an interest in payments systems is to get involved. It's exciting to think about the potential of faster payments solutions."

Kansas City Fed President Esther George serves as the executive sponsor of the Fed Payments Improvement initiative with the goal of driving payment innovation through public-private sector collaboration.

The goals of the initiative are to ensure safe, faster electronic solutions for both

business and personal payments, while maintaining the integrity of the system and identifying potential threats and increasing efficiency. More than 18 billion paper checks are still written annually in the United States and the nation has fallen behind other countries when it comes to developing new ways to pay.

"Our research indicates 29 billion payments for which real-time or near-real-time delivery would be desirable to the end-user," George said in a recent speech. "One-third of consumers and fully three-fourths of businesses want real-time payments, and they are now willing to pay for them."

An additional component will support convenient, timely and cost-effective implementation of cross-border payments.

The forums are one way the Federal Reserve has called on private business and individuals to provide insight and feedback to help shape the future of payments.

"Based on a history of mutual cooperation on payments issues between the Federal Reserve and the private sector, we have seen public-private engagements yield important gains for the country," George said. "Such collaboration in the past has produced outcomes that contributed to a more resilient payments system and provided significant benefits to the public."

More information about the payments system improvement initiative is available at FedPaymentsImprovement.org, which includes the January 2015 paper, "Strategies for Improving the U.S. Payment System."



CREATING A NETWORK



Leaders gather in Denver for first women in banking forum

American Banker recently reported that the employee composition among U.S. major banks still favored men, and in one major bank, women only made up 37 percent of mid-level leadership positions. In a 2014 survey, 48 percent of U.S. women respondents said women are not equally represented in senior positions within the financial industry. The survey, conducted by a financial careers organization, found there was a need for inclusion practices, training and services that provided women a better opportunity to advance in their careers.

Alison Felix, Denver Branch executive and vice president for the Federal Reserve Bank of Kansas City, had a similar observation when

reaching out to banks in the Rocky Mountain region of the Tenth Federal Reserve District.

"We had noticed in the Rocky Mountain zone there were very few women in banking leadership," she said.

The Denver Branch wanted to provide a forum to help women succeed in their current roles and advance in their banking organization, create a network for women leaders and potential leaders, and at the same time, broaden the Kansas City Fed's network of bankers.

More than 100 women in management positions in the banking industry attended "Banking and the Economy: A Forum for



“Women in Banking”, a day-long event Oct. 8 at the Denver Branch of the Kansas City Fed.

The goals of the forum, Felix said, were to offer attendees resources on the economy, banking and the Kansas City Fed, and to provide an opportunity for women bankers to network with banking



MORE THAN 100 WOMEN in management positions in the banking industry attended Banking and the Economy: A Forum for Women in Banking, a all-day event Oct. 8 at the Denver Branch of the Kansas City Fed.

leaders across the Rocky Mountain region and Federal Reserve staff.

The forum addressed topics critical to bankers today, including regional economic data, a discussion of regional banking conditions, cybersecurity, and creating and cultivating diverse networks, teams and boards.

Lilly Marks, a member of Kansas City Fed's Board of Directors and vice president for Health Affairs for the University of Colorado and Anschutz Medical Campus, was the luncheon keynote speaker. She shared her career experiences and the successes and challenges of leadership.

“It is rare in the banking industry to have so many women together in one room,” Felix said. “The forum provided a great opportunity for me to network with women from across the three state region served by the Kansas City Fed's Denver Branch, which includes Colorado, northern New Mexico and Wyoming.”

To receive notices of events, programs, speeches, publications and research offered by the Kansas City Fed, sign up for the Bank's email notifications at www.KansasCityFed.org/ealert.

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COMMENTS/QUESTIONS are welcome and should be sent to teneditors@kc.frb.org.

Energy Survey

Evaluating the elements vital to the economy

Energy is an important segment of the national, regional and local economies, and the best way to gauge changes in the energy sector is to ask people within the industry.

Since January 2014, the Federal Reserve Bank of Kansas City has conducted a quarterly survey that monitors energy firms located in the Tenth Federal Reserve District, with results based on total firm activity nationwide.

This information is important in evaluating the economy, especially when considering how modern society relies upon the industry. For example, according to the U.S. Energy Information Administration, electrical power is 40 percent of U.S. energy consumption, 29 percent is transportation, 21 percent industrial and 10 percent residential and commercial. In the Tenth District, oil and natural gas production play a larger role in the region than coal or wind, so the survey focuses on the aforementioned industries.

Before the survey, Kansas City Fed staff gathered information through business contacts, such as Bank directors and advisory council members, as well as public external data like rig counts and prices. The survey began in the first quarter of 2014 and the results have been released publicly since January 2015. Staff from the Kansas City Fed Regional Affairs Department in the Oklahoma City Branch oversees the survey process, which is outlined here.



1

Kansas City Fed staff contact each quarter approximately 55 to 60 oil and gas firms headquartered in the Tenth District. Although these firms are located throughout the District, many of them are in Oklahoma.



2

The survey asks firms a few index questions, such as have sales, revenues, profits, employment, etc., been up, down, or experienced no change. The questions also seek a comparison, such as current quarter conditions versus the previous quarter, previous year, and the expectations in six months. The survey also asks several special questions, such as what commodity price do firms need to be profitable and about capital spending plans.

3

The survey is conducted over a two-week period and receives approximately 35 to 40 responses. The Oklahoma City Branch staff has about a week to analyze the information.



4

Survey results reveal changes in several indicators of energy activity, including drilling, capital spending and employment. Firms also indicate projections for oil and natural gas prices. All results of the survey are diffusion indexes—the number of firms indicating increases minus the number of firms indicating decreases.

5

After the week of analysis, the Kansas City Fed releases the results, which include numerical results, charts, and special questions, along with a short write up explaining the results. The results are published on the Bank's website, KansasCityFed.org, the first or second week of the month following the quarter. For example, the second quarter survey results are published the first or second week of the third quarter. To see the results, visit KansasCityFed.org/research/indicatorsdata/energy.

DID YOU KNOW...



- The survey results provide the Kansas City Fed with more timely and accurate information on the energy industry that is not available elsewhere, such as critical knowledge of current and future conditions, which is vital to the Tenth District economy.
- The information is used internally in pre-FOMC briefings, memos and presentations, and externally in research publications, such as *TEN*, the *Oklahoma Economist*, and *Economic Review*, and presentations.
- The unique nature of the survey has made it popular among local and national media as well as industry watchers and economists studying the energy sector.



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Money Ethics: Teaching Kids to Follow Their Moral Compass

Picture this scenario. You're playing with the kids at the park, enjoying the beautiful weather. As you walk toward the swings, you spot a wallet on the ground. Your son or daughter sees you pick it up and look inside to find one hundred dollars. How do you handle this situation?

As a parent and a role model, you demonstrate what an ethical person would do. You check the wallet for identification and contact information. You discover a cell phone number and immediately dial the wallet's owner, all under the watchful eyes of your child. You inform the owner and set up a meeting to deliver the wallet.

Now you take time to discuss your actions with your child. You should begin by asking them how they would feel if they lost a large amount of money. The response most likely will be "upset" or "sad." Continue by explaining that the wallet's owner was probably feeling the same way, and returning the wallet as soon as possible was the right thing to do. You can add value to the conversation by explaining that what you did shows ethical behavior. Tell them that ethics are rules of conduct for doing what is right, and these are rules you believe in. Ethical behavior shows respect for others and develops responsibility and trust.

If you have older kids, you can do a deeper dive by introducing the concept of a moral compass. Begin by asking them to imagine a compass (or look at a picture of one) that shows the four directions: north, south, east and west. Tell them to replace the northern point with good behavior, and the other three directions with bad or poor behavior in their mind. Because a compass should always point north, their moral compass should help them judge what is right or wrong and act accordingly.

Contacting the wallet's owner in this situation would point their moral compass north. If their compass strays east or west, or even south, their inner voice or conscience will let them know through guilty feelings. Listening to their conscience should help them decide the right thing to do.

You can prepare kids for dealing with ethical conflicts by asking them in advance what they would do in certain money situations. Start with one that is fairly common, such as receiving too much change back after a purchase. Explain to them that knowingly keeping the extra money is not the right thing, even though it may be tempting. They should politely inform the cashier that they were given too much money and hand back the excess. The cashier will be grateful, as these workers generally have to match the amount of cash in their registers to their sales at the end of their shift. If they are "short" of money, it reflects badly on their work.

Next, try a money scenario involving a friend to see how your child reacts. Ask what they would do if they were offered money to do a friend's book report. Tell them before they answer to consider the fact that they are an excellent reader and writer, while their friend isn't. Now they have additional pressure connected to their decision, as the friend desperately needs their help. Inform them that this suggestion could actually be considered a bribe, where money is offered to pay for unethical behavior. If the child took the offer, their reputation might be at risk as well. Have your child think of an alternative solution to this problem, such as urging their friend to ask the teacher for more work time.

To practice the art of ethical decision making, try a game developed by Neale

Godfrey, a contributor to Forbes Magazine. Play the Ethical Decision Bag Game by cutting apart the game scenario slips on page 30 and putting them in a paper bag. Take turns drawing the slips out of the bag and suggesting ethical solutions to the game scenarios. Neale suggests playing the game while you are together in the car, when it's easy for the conversation to flow. After the kids do a good job of answering all questions, step up the game by asking them to think of additional ethics questions and solutions on their own.

Promoting ethical conduct while kids are young will help them develop into adults who make wise ethical decisions daily. And

employers will benefit by hiring adults with strong ethics for their businesses, as these workers build trust and respect for their companies. Cultivating an ethical viewpoint as kids grow up can truly make a life-long difference.

Michele Wulff is a former public school educator of 30 years and a recipient of the national peer award "Excellence in Teaching Economics." As an economic education coordinator with the Kansas City Fed, she offers practical advice on how to educate young people on personal financial matters.

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Financial Education Resources

The Kansas City Fed is committed to promoting economic and financial literacy and greater knowledge of the Fed's role by providing resources for teachers, students and the public. Visit our website at KansasCityFed.org for more information. The resources below are a few of many available on this subject.

FEDERAL RESERVE RESOURCES

"Art of Decision Making Online Course for Consumers" from the St. Louis Federal Reserve

This course teaches the importance of decision making, how every decision bears a cost and how to make informed decisions. For high-school-age youth to adults. www.stlouisfed.org/education/the-art-of-decisionmaking-online-course-for-teachers-and-students

ONLINE RESOURCES

"Money and Ethics: Let's Show Our Kids How They Fit Together"

by Neale Godfrey
<http://www.forbes.com/sites/nealegodfrey/2015/05/10/money-and-ethics-lets-show-our-kids-how-they-fit-together/>

An article that discusses how to develop ethical behavior in kids related to money issues. For adults.

NONFICTION BOOKS FOR CHILDREN

"E is for Ethics: How to Talk to Kids about Morals, Values, and What Matters Most"

by Ian James Corlett
A series of 26 read-aloud stories that help kids understand ethical decision making in everyday situations. For ages 6-12.

"Every Kids Guide to Decision Making and Problem Solving"

by Joy Berry
This book offers guidelines for making good decisions and solving problems effectively. For ages 6-12.

NONFICTION BOOKS FOR ADULTS

"Ethics for the Real World: Creating Personal Code to Guide Decisions in Work and Life"

by Ronald Howard
This book explains how to master the art of decision making by committing in advance to ethical principles and generating alternatives to solve dilemmas.

Activity Page

What Would You Do If...

Cut apart the money ethics scenarios below and place them in a paper bag. Take turns drawing slips out of the bag and suggesting an ethical solution or the “right thing to do” in each scenario. **Be ready to explain your reasoning.**

What would you do if ...

you found some money in
the toy aisle of a store?

What would you do if ...

you accidentally dropped
your friend’s tablet and
now it’s not working?

What would you do if ...

you received an extra
dollar back in change?

What would you do if ...

someone offered to pay you
to do their math assignment?

What would you do if ...

you found money lost
in your classroom?

What would you do if ...

you were walking in your
neighborhood and found an
expensive ring on the sidewalk?

What would you do if ...

you were buying school
supplies and the cashier
forgot to scan an item?

What would you do if ...

you were shopping with a friend
and saw him take some gum?



Notes from around the Tenth District

Boy Scouts of America partnership fosters financial preparedness skills

Conversations between The Federal Reserve Bank of Kansas City and Boy Scouts of America staff have resulted in two new ways for the Bank's financial preparedness and education resources to be shared with more young people.

Free financial education resources from the Kansas City Fed and other Reserve Banks will be included in the Boy Scouts' pamphlet for its personal management merit badge, which is earned by about 48,000 Scouts per year. The Bank's education staff worked with other Reserve Banks to gather appropriate resources, including videos, quizzes and curricula, to help Scouts earn this specific merit badge.

The booklet is being introduced in a digital format as an alternative to the Scouts' printed handbook for the first time this year. The digital version includes interviews with bank examiners in the Kansas City Fed's Oklahoma City Branch, who share insight about their careers and the important ways that the Kansas City Fed's bank examination function supports trust and confidence in the nation's banking system.

Community Affairs staff from the Kansas City Fed also have been working with the Scouts to incorporate financial readiness as a key component of disaster preparedness, which ties into the Kansas City Fed's resource: "Plan. Prepare. Prevail."—an online program that helps people prepare their finances in case of a natural disaster.

Through this new partnership, the Boy Scouts will soon add a requirement in their emergency preparedness badge for financial preparedness. In the future, Community Affairs will pursue options with the Scouts to reference "Plan. Prepare. Prevail." as an available resource in their merit badge booklet. The emergency

preparedness and personal management merit badges are required for a Scout to reach the Eagle Scout level, which is the highest rank in the program.

Ariel Cisneros, a Community Affairs specialist who works in the Denver Branch office, helped create "Plan. Prepare. Prevail."

"This increases the visibility and use of our materials to a whole new segment—Scouts and their parents," he said. "Our work on this has changed the focus of how scouting families look at emergency preparedness."

Kansas City Fed staff have a long tradition of working with community and educational organizations like the Scouts on these kinds of topics, said Jennifer Clark, who leads economic education initiatives for the Kansas City Fed and worked with the Boy Scouts to promote use of the Bank's resources.

"All of this ties to our mission to support public understanding of the work of the Federal Reserve," she said. "We know wise consumers make more informed financial decisions."

Visit the Kansas City Fed's website to learn more about financially preparing for a disaster at www.KansasCityFed.org/community/disasterrecovery



Notes from around the Tenth District

Educators across Tenth District spend an Evening with the Fed

In the fall, nearly 300 kindergarten-12th grade educators spent an “evening with the Fed” to learn more about their local economies and how to incorporate educational resources into the classroom.

This annual program at the Kansas City Fed and its Branch office locations in Oklahoma City, Denver and Omaha, brings classroom educators together with Kansas City Fed economic education staff members, economists and leaders. Teachers hear first-hand about economic conditions and topics on economic education to help them in the classroom, and learn more about the wide variety of free educational curricula and resources created by the Kansas City Fed.

“We do this type of program to help equip teachers with additional knowledge and classroom resources on economic and financial issues,” said Erin Davis, a member of the Kansas City Fed’s staff in Denver who organizes the event. “Our goal is to help make these concepts easier to understand and translate into their classroom,”

Davis said teachers gave the program very positive feedback, with teachers noting in surveys that they will use the resources and information in many different ways. She said educators highlighted resources on entrepreneurship, regional economic conditions and personal finance as especially

helpful. They also showed great interest in the Bank’s “Financial Fables” series, which teaches children personal finance principles.

The one commonality in their feedback, Davis said, is that they appreciated the event and want to hear about more resources for the classroom.

To learn about the 2016 teacher and education programs visit www.KansasCityFed.org/education. For additional resources, visit www.FederalReserveEducation.org

Bank Anniversaries

The following banks in the Tenth Federal Reserve District are celebrating one, five, 10, 20 or more years as Federal Reserve members in January, February or March.

Colorado B&TC of La Junta	La Junta	Colo.	92
Lusk State Bank	Lusk	Wyo.	81
St. Mary's State Bank	St. Mary's	Kan.	80
Community B&TC	Neosho	Mo.	74
Northstar Bank of Colorado	Highlands Ranch	Colo.	36
Freedom Bank of Oklahoma	Tulsa	Okla.	24
Centennial Bank	Centennial	Colo.	24
First Bank of Fairland	Fairland	Okla.	23
Adams B&TC	Ogallala	Neb.	21
Community State Bank	Poteau	Neb.	21
Verus Bank of Commerce	Fort Collins	Colo.	5



IN 2015, RICHARD THORNE, third from right, an assistant vice president of the Kansas City Fed’s Denver Branch Examinations and Inspections Department, presented the State Member Bank membership certificate to the board of directors of FNB New Mexico in Clayton, N.M.

The Federal Reserve System

Congress created the Federal Reserve in 1913 to bring financial stability after a number of banking panics. It is the nation's third central bank. The first, established in 1791, and the second, created in 1816, were each operational for 20 years. In both cases, its charter failed to be renewed and the banks closed.

With the Federal Reserve Act, Congress sought to create a central bank the public would be more likely to support by making it "decentralized" with more local control. This new structure was designed to overcome one of the primary weaknesses of the previous central banks: public distrust of an institution that many felt could potentially be under the control of either government or special interests. The new central bank is a network of 12 regional Federal Reserve Banks, located throughout the country and under the leadership of local boards of directors, with oversight from the Board of Governors in Washington, D.C., a government agency.

The Federal Reserve is considered to be independent within government and broadly insulated from political pressures. While members of the Board of Governors are nominated by the president of the United States and confirmed by the Senate, the Federal Reserve's regional structure, including local boards of directors and advisory councils, ensures that views from a broad spectrum of the public nationwide contribute to the central bank's deliberations.

President Woodrow Wilson signed the Federal Reserve Act on Dec. 23, 1913, and the 12 regional Federal Reserve Banks opened on Nov. 16, 1914.

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System, the Bank participates in setting national monetary policy, supervising and regulating numerous commercial banks and bank holding companies, and providing other services to depository institutions.



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WORKFORCE DEVELOPMENT FOR A MODERN ERA

The new book *Transforming U.S. Workforce Development Policies for the 21st Century* explores how new policies and practices can meet the changing needs of workers and businesses, and their communities.

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