Helping Students Achieve Financial Literacy

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Advocates of requiring financial education to be taught in schools contend that in today’s complex economy, young people need to learn financial literacy skills more than ever. What students are learning, however, depends to a large degree on where they live. Only four states—Missouri, Tennessee, Utah and Virginia—require at least a one-semester course devoted to personal finance.

Many young people’s extent of financial literacy—how well they understand economic principles—is limited to the lemonade stand they operated when they were children or the allowance they received from their parents. Adolescents’ and teenagers’ concept of trade might be based on baseball cards; savings might mean a piggybank. The concept of a loan could involve asking parents for an advance on their allowance to purchase a pair of jeans or a new CD.

Formal financial education of concepts such as supply and demand, incentives, decision making and scarcity isn’t universally taught at school and almost never at home. The consequence is many Americans are leaving high school or college without skills to manage their personal finances. Many use credit cards excessively or buy homes they can’t afford. Some default on student loans. And many don’t set a family budget or don’t follow it.

Some contend the lack of financial education in school is partly to blame. Only four states—Missouri, Tennessee, Utah and Virginia—require at least a one-semester course devoted to personal finance. Twenty other states require personal finance instruction to be embedded into other courses. (See map) In more than half the states, personal finance may be taught as an elective but is not required as part of the school curriculum.¹

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“There’s inconsistency about what the states expect, so some common agreement would be a huge step forward,” said Ted Beck, president of the National Endowment for Financial Education.

Reading, ‘riting and Rate of Return Ratios
Chelsea Appel, a 32-year-old elementary school teacher in Oregon, faces many of the same financial issues as most Americans. She has a credit card—only one—with a relatively modest balance of approximately $800. She also is paying off $30,000 in student loans.
Fortunately, Appel has learned when to use her credit card and when not to use it. Although she took a high school course in personal finance, she said it did little to prepare her for managing her finances once she was out on her own.

“I think the idea of credit cards wasn’t drilled into my head as it should have been,” she said. “I didn’t understand or didn’t think ahead enough because I was really concerned with what I needed at the time.”

Now, financial literacy is a skill she teaches to her elementary school students. She hopes when they’re adults, they’ll be aware of financial pitfalls, such as credit card interest and home foreclosures.

Finance experts agree there are legitimate times to take on debt—to buy a home, to pay college costs or replace a car. However, the level of credit card debt in the U.S. is staggering. According to the U.S. Census Bureau, 183 million Americans owe a total of nearly $900 billion in credit card debt. Census data also show more than one-quarter of Americans hardly ever pay the balance on their credit cards.

Improved financial education in school is one key to change the financial behavior of adults, according to Laura Levine, executive director of the Jump$tart Coalition for Personal Financial Literacy. She also served on former President George W. Bush’s Advisory Council on Financial Literacy.

“It’s really important that we put this into schools, because once adults are out in the world, it’s hard to corral them and get them to learn things,” she said. “In schools is where we know, at least theoretically, we can reach most people to teach them about a subject in a formal manner.”

Ben Bernanke, chairman of the Federal Reserve, also has been an outspoken advocate of financial education in schools. “I believe more states should consider making personal finance a requirement for all students who seek a high school diploma,” he said during a 2008 news conference. “I am personally convinced that improving education is vital to the future of our economy and all its citizens, and I strongly believe that promoting financial literacy, in particular, must be a high priority.”

Like Levine, Beck also served as a member of the Presidential Advisory Council on Financial Literacy. He said the goal should be for people to be able to make informed decisions about financial questions throughout their economic life—from allowance through retirement.

“What we care about is more than being able to pass a knowledge quiz at the end of a class,” Beck said. “It’s whether they adopt the behavior in their economic life. So understanding what a budget is is a good thing. ... Actually doing something about it is what we care about.”

A Look at State Policies
Accounting liquidity. Hedge Funds. 401(k) plans. Understanding personal finance today involves learning a new language. Although many students may not be able to relate to the new financial lexicon, waiting until they are adults may be too late, some experts agree.

On the 2008 Jump$tart Survey of Financial Literacy, given to nearly 10,000 high school seniors, the average student got fewer than half the test questions correct. The average score was just 48.3—it’s lowest level ever. College students scored 62 percent.

A study sponsored by the National Endowment for Financial Education concludes financial knowledge
is a key predictor of financial behavior, while financial education is a key predictor of financial knowledge.⁵

“There is clear evidence that students from states with no (financial education) policies tend to fare worse on the majority of outcome measures—dispositions, knowledge and behavior—than students from other states,” the report said.

In some states, such as Virginia, the legislature mandated financial education. Virginia Senate Bill 950, enacted in 2005, called for economic education and financial literacy to be taught in middle and high school.¹ Then, in 2009 the Virginia Board of Education unanimously approved a one-credit course in economics and personal finance as a requirement for high school graduation.

Similarly, Tennessee legislators adopted Senate Bill 3741 in 2006, which became the launch pad for a one-half credit course in personal financial education for all high school students. Tennessee added some muscle to its financial education requirement in 2011 with the passage of Senate Bill 912, signed into law in May. It requires the Tennessee Board of Education, in consultation with the Tennessee Financial Literacy Commission, to develop guidelines to strengthen personal finance standards and require that certain financial literacy concepts are included in testing standards for social studies.

The legislation was sponsored by Sen. Doug Overbey. “The goal of the curriculum is to teach children how to make sound decisions about money as well as other life choices,” he said in a press release. “In the long-term, Tennessee should benefit, but more importantly this legislation will have a positive effect on the lives of these individual students and their families.”

In Missouri, the Department of Education adopted minimum standards for the class of 2010 that require a half-credit course in personal finance. There was no legislation specifically mandating this requirement.²

Ohio requires all schools to integrate economics and financial literacy in the social studies academic content standards adopted by the state board of education. Its curriculum includes money, comparative economic systems, the value of education and career choices, budgeting, saving and spending.³

A survey of financial education in Ohio high schools found 91 percent of personal finance instruction comes from three content areas: family and consumer sciences, business education and social studies. Business education teachers were more likely to teach elective courses and tax-related topics. Family and consumer sciences classes were more likely to teach concepts such as credit, budgeting and goal-setting. And social studies teachers were more likely to teach investment and lessons about oil and other non-renewable resources.³

Still, 26 states do not require any personal finance standards to be taught. Levine’s message to policymakers in states that do not require financial education in school, “Step up!” She adds, “We need to teach it in schools because that’s where we can reach young people and it’s where we have the tools to teach them adequately. And we need to teach young people before they start making the wrong decisions.”

Not everyone agrees that financial education should be taught in schools—or at least what financial literacy should look like. In a graduation speech to the University of Texas in May 2010, noted economist Lewis Mandell acknowledged that most people lack financial literacy to avoid making huge personal financial mistakes. He added, however, teaching financial education to all students will not
solve the problem.

“Unfortunately, seven national studies that I’ve conducted show that financial education doesn’t work,” Mandell said. “Kids have no incentive to retain information about financial products, such as home mortgages, that they won’t buy for 10 more years and which won’t look anything like those offered today.”

Levine agrees even a semester-long course dedicated to teaching financial literacy principles isn’t likely to prevent financial landmines students will face as adults. She believes, however, schools should provide a solid financial education for students, starting as early as preschool and building upon the concepts through high school.

Beck also said financial education in school is not “an inoculation.” He said, “This is a key foundation piece of information they should be receiving continuously throughout their lives.”

Honors for West Virginia Financial Literacy Program
A financial literacy initiative in West Virginia has been raking in accolades since its inception in 2008. This year, West Virginia State Treasurer John D. Perdue’s NetWorth financial education program is one of eight regional finalists for a Council of State Governments’ Innovations Award. The program was also a finalist for an Innovations Award in 2010. In addition to the CSG honors, NetWorth was the recipient of the 2009 Excellence in Financial Literacy Education Award from the Institute for Financial Literacy.

Created by a grant from the state legislature, NetWorth is a comprehensive financial literacy program developed by Perdue in partnership with the West Virginia State Department of Education.

Beginning in kindergarten, NetWorth incorporates personal finance lessons in core subject areas such as math, language arts and social studies, a strategy that avoids additional burdens on educators, and meets student demand for learning real world skills. General concepts such as saving and budgeting are introduced in the lower grades, with lessons progressing to more complex issues such as financial planning and investing.

“The NetWorth program was developed to make sure every child in West Virginia has access to quality and comprehensive financial education,” Perdue said. “My staff and I have worked closely with the state department of education to ensure students start learning age-appropriate financial responsibilities in kindergarten. The goal is to continue that education to produce high school graduates who possess advanced personal money management skills.”

Conclusion
At a time when news reports bring attention to seemingly unfettered credit card and student loan debt, home foreclosures and lack of saving for retirement or emergencies, it would be easy to conclude that most Americans do not have a firm grasp of financial literacy skills.

In 2009, the Financial Industry Regulatory Authority Investor Education Foundation surveyed more than 28,000 people, asking a wide range of questions about personal financial habits. Sixty percent responded they do not have emergency funds; only 42 percent reported they spend less than their income and 62 percent reported they did not compare credit cards before shopping for one. So perhaps it’s revealing that the survey also showed 67 percent of Americans rate their level of financial knowledge as high.

Most Americans believe they have a higher level of financial literacy than they actually have,
according to Levine. And while there’s no guarantee financial education in school will be the silver bullet to avoid personal finance mismanagement in the future, many of the nation’s top finance experts believe it’s the place where financial education should begin.

The President’s Advisory Council on Financial Literacy’s first recommendation, in fact, states, “The United States Congress or state legislatures should mandate financial education in all schools for students in grades Kindergarten through 12. For those schools without access to curricula, encourage the adoption of ‘Money Math: Lessons for Life,’ a ready-to-use middleschool curriculum created by the (U.S.) Department of the Treasury and endorsed by the Council.”

The council acknowledges that some believe money management is a family matter, best learned at home. However, its report concludes, “the reality is that many parents are not willing or able to teach their own kids everything they need to know about finance.” To support this claim, the report cites research by Charles Schwab & Co. Inc. that found while 70 percent of parents had taught their teenagers how to do laundry, only 34 percent had taught them how to balance a checkbook and only 29 percent had taught them about how credit card fees and interest work.

Lessons Learned from Financial Literacy Survey
In 2008, the Jump$tart Coalition for Personal Financial Literacy surveyed nearly 10,000 high school seniors, testing them on 31 questions related to financial literacy. The average student answered fewer than half the questions correctly. An analysis of the test results was surprising; high school seniors who reported having had an entire course dedicated to money management or personal finance actually scored slightly lower than other students.

For the first time, students who had taken a full-semester course in money management or personal finance were asked when they had taken the course. The coalition was surprised to find that just over half—52.4 percent—took the course when they were seniors, a time when the material would presumably be most relevant to them.

The test analysis also states, “We were even more surprised to learn that students who took the course when they were sophomores or juniors had higher financial literacy scores than did those who took the course when they were seniors. This may lend support to the notion that students learn this material better when they are younger.”

Sample questions and responses, by percentage.
(*denotes correct answer)

1. Which of the following types of investment would best protect the purchasing power of a family’s savings in the event of a sudden increase in inflation?
   19.2% a) A 10-year bond issued by a corporation
   26.2% b) A certificate of deposit at a bank
   17.4% c) A 25-year corporate bond
   35.8% d) A house financed with a fixed-rate mortgage*

2. Retirement income paid by a company is called:
   37.4% a) 401(k)
   36.2% b) Pension*
   3.6% c) Rents and Profits
   22.8% d) Social Security
3. If your credit card is stolen and the thief runs up a total debt of $1,000, but you notify the issuer of the credit card as soon as you discover it missing, what is the maximum amount that you can be forced to pay, according to federal law?
17.3%  a) $500
16.9%  b) $1,000
52.8%  c) Nothing
13.0%  d) $50*

4. Many savings programs are protected by the federal government against loss. Which of the following is not?
13.4%  a) A U.S. Savings Bond
43.8%  b) A certificate of deposit at a bank
28.4%  c) A bond issued by one of the 50 states*
14.4%  d) A U.S. Treasury Bond


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