Financial Education: Providing Students with the Tools for Financial Success

The recent economic crisis highlighted the reality that personal finances can be a public issue. It has also brought attention to the role of public schools in preparing fiscally responsible citizens. Many state boards of education and state legislatures are incorporating financial education programs into K-12 schooling as a way to ensure all individuals have a firm understanding of personal finance.

In 2006, a NASBE commission explored the role of education policy in the nation’s financial future. A prominent theme of Who Will Own Our Children? The Report of the NASBE Commission on Financial and Investor Literacy was that “financial literacy” resonates with many stakeholders, but that effective financial education programs must be intentional and cohesive. This policy update looks at two key issues that policymakers must consider as they implement financial literacy policies:

- Integration of Financial Education Throughout K-12; and
- Highly Relevant and Targeted Financial Education Curriculums.

Compared to previous generations, individuals have more access to credit once they turn 18 years old. Unfortunately, individuals in their early to mid-20s tend to be less responsible with their personal finances compared to other age groups. In 2006, 63.5 percent of individuals in this age range had some form of debt and those in debt owed an average of $16,000, which includes student loans and credit cards. Additionally, these young adults were more likely to be late on payments—if they made any payments at all. Lack of payment forces lenders to put the account in delinquency, “charge off” the debt, and send the account to a collection agency. These behaviors negatively impact an individual’s credit and create significant debt for them at an early age. Policymakers continue to examine what can be done while young people are still in school to help them develop the skills and knowledge necessary to make sound financial decisions after they graduate.

Financial Education

Public school financial education programs try to ensure that all students graduate with the ability to manage their own finances in a responsible manner. One important gauge of a successful program is its ability to change behaviors. Researchers examined the impact of mandated financial education programs in K-12 schooling on financial behaviors in adults. Adults who attended school in states that required financial education were associated with higher savings rates and wealth accumulation than adults from states without mandated programs, controlling for demographic and income factors.

Many states are now requiring a personal finance class for graduation. According to the

### Loan Difficulties Experienced by Young Adults

<table>
<thead>
<tr>
<th>Percentage of Loans “Charged Off” by Lenders</th>
<th>Late Payments Per Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>49%</td>
<td>1.6</td>
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<tr>
<td>37.8%</td>
<td>1</td>
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Source: Fetterman and Hansen, 2006
Jump$tart Coalition, 25 states require personal finance to be taught in public schools, either incorporated into other subject matter (21 states) or as a separate course (4 states).

Policy Considerations

Integration of Financial Education Throughout K-12: Sound financial decision-making is a skill that is developed throughout a lifetime. Therefore, it is important that students are given transferable skills while in school to have the knowledge and skills to make thoughtful financial decisions later in life. To implement this, the U.S. Financial Literacy and Education Commission recommends that financial education be integrated with other coursework so that it does not get taught at the expense of core subjects. In addition, the commission recommends that all teachers have the training and support to effectively integrate financial education into all classrooms.

In Colorado and Kansas, state policymakers required integration of financial education programs into K-12 curriculum. In particular, both states require that the financial education curriculum and standards for the state are integrated into state math assessments. These efforts are intended to increase the personal finance knowledge of students.

Highly Relevant and Targeted Financial Education Curricula: The most effective financial literacy programs are ones that are highly targeted to decisions that individuals make in the near future. There is only a limited scope of financial decisions that young people make while they are in K-12 education. Many students under 18 have few, if any, financial responsibilities. However, after graduation, these individuals will be making significant financial decisions, whether they choose to attend college or begin working. Therefore, financial education programs for high school seniors should be focused on decisions such as applying for a credit card and taking out a student loan or car loan, along with the implications these decisions will have on their credit rating and financial well-being. Targeted programs are more likely to change behaviors because short-term financial choices are more easily impacted

and the curriculum stays relevant to the students’ lives. In addition, changes to these short-term decisions have an impact on long-term behaviors such as savings and retirement planning by providing the individuals with the skills necessary to realistically evaluate their financial needs.

In Tennessee, a state that requires a personal finance course for graduation, the graduation requirements for financial education explicitly cite topics to be covered such as completing a loan application, managing debt, spending, and credit.

Poor financial decision-making led many consumers to their current financial troubles. Individuals bought houses that they could not afford, took on significant debt, and failed to save. Many of these behaviors might have been avoided if individuals had had the appropriate financial education. While the current economic issues highlight the need for effective financial education programs, a program that is highly targeted and integrated into K-12 schools can help ensure that all individuals are equipped with the tools necessary to make responsible financial decisions regardless of the economic climate.

Resources


Endnotes


3. Jump$tart Coalition for Personal Financial Literacy. www.jumps tart.org/state-financial-education-requirements.html (accessed July 12, 2010). (Editor’s note: Arkansas was added to this list based on an Arkansas State Board of Education requirement from 2009 that high school students take a semester course that includes economics and personal finance principles.)

