



Iowa Financial Literacy Summit May 5, 2015

Changing Landscape of Personal Finance Education



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Disclaimer

The opinions expressed in the presentation are mine and not those of the Federal Reserve Bank of St. Louis nor the Federal Reserve System.



Increased interest in personal finance in the K-12 curriculum fueled by:

- Statistics on poor financial decisions by young adults
- Consumer debt, particularly college loan debt
- Predatory lending
- Expanded access to credit for younger populations



- Increased interest in personal finance in the K-12 curriculum fueled by:
 - Popular press
 - Academic community
 - Greenspan and Bernanke
 - President's advisory counsel
 - FLEC



Status of Financial Education

- 43 states include personal finance in their standards
- 35 require that standards be implemented
- 19 require that a high school personal finance course be offered
- 17 require that a high school personal finance course be taken
- Only 6 require student testing



2011 Center for Financial Literacy at Champlain College

- 60% of states received grades of C or less
- Of these, 44% grades of D or F



- Results of 2012 PISA Financial Literacy Assessment
 - Financial literacy is knowledge and understanding of financial concepts and risks, and the skills, motivation and confidence to apply such knowledge and understanding in order to make effective decisions across a range of financial contexts, to improve the financial well-being of individuals and society, and to enable participation in economic life.



- Results of 2012 PISA Financial Literacy Assessment
 - 18 countries participated
 - U.S. ranked 9 out of 18 countries



Suppose you have \$100 in a savings account earning 2 percent interest a year. After five years, how much would you have?

1. More than \$102
2. Exactly \$102
3. Less than \$102
4. Don't know



Imagine that the interest rate on your savings account is 1 percent a year and inflation is 2 percent a year. After one year, would the money in the account buy more than it does today, exactly the same or less than today?

1. More
2. Same
3. Less
4. Don't know



If interest rates rise, what will typically happen to bond prices? Rise, fall, stay the same, or is there no relationship?

1. Rise
2. Fall
3. Stay the same
4. No relationship
5. Don't know



True or False: A 15-year mortgage typically requires a higher monthly payment than a 30-year mortgage but the total interest over the life of the loan.

1. True
2. False
3. Don't Know



True or False: Buying a single companies stock usually provides a safer return than a stock mutual fund.

1. True
2. False
3. Don't know

FINRA Foundation 2012

National Financial Capabilities Study

Financial Knowledge and Decision Making Results

	Correct	Incorrect	Don't Know
National Results	2.88	0.81	1.26
Illinois	2.82	0.77	1.30
Iowa	3.06	.72	1.14
Missouri	2.93	0.79	1.22

National Financial Capabilities Study

Financial Knowledge and Decision Making Results

	% Who Did Not Compare Credit Card Offers
U.S.	61
Illinois	57
Iowa	64
Missouri	54

FINRA Foundation 2012 National Financial Capabilities Study Results

- FINRA also asked questions about financial behaviors related to:
 - Making ends meet
 - Planning ahead
 - Managing Financial Products

FINRA Results: Making Ends Meet

	% Spent More than the Earned	% with Medical Bills Overdue
U.S.	19	26
Illinois	18	24
Iowa	19	24
Missouri	20	29

FINRA Results: Planning Ahead

	% Have a Rainy Day Fun
U.S.	40
Illinois	45
Iowa	40
Missouri	36

FINRA Results: Managing Financial Products

	% Use Non-Bank Borrowing	% Paid Only Minimum Credit Card Payment	% Have Underwater Mortgage
U.S.	30	34	14
Illinois	26	32	16
Iowa	25	27	8
Missouri	34	35	11



Does Personal Finance Education Work?

- Some suggest that it doesn't work
 - It should be replaced with personal financial counseling
 - More math classes
 - Just in time education
 - Left for parents to provide in the home



Have We Ever Actually Had Financial Education?

- 2005—John Morton described personal finance as a homeless curriculum
 - No cohesive set of standards
 - No true academic home
- What if we taught in the same way that we teach other subjects?
 - K-12 integration with a capstone course
 - Prepare/certify teachers



- National Association of State School Boards of Education—Commission on Financial and Investor Literacy
 - Recommends integration beginning in kindergarten and progressing through grads.
- Consumer Financial Protection Bureau recommends K-12 personal finance education
- What if we integrate K-12 and provide a capstone course?



APLUS STUDY

- 2011 *Arizona Pathways for Life success in University Students (APLUS)*, co-funded by the University of Arizona and the National Endowments for Financial Education found that:
 - High school and college students exposed to cumulative financial education show an increase in financial knowledge
 - Increase in financial knowledge drives increasingly responsible financial behavior as they become young adults.
 - “Snowball effect”—early financial education efforts increase the likelihood that students will pursue more financial education as time goes on.

Source: University of Arizona and NEFE

http://www.nefe.org/Portals/0/WhatWeProvide/PrimaryResearch/PDF/APLUS_Wave2_Final.pdf



What Should K-12 Students Know Upon Leaving High School

- National Personal Financial Literacy Standards
 - Council on Economic Education
- Focus on application of economic decision making to personal finances
- Includes 6 Standards:
 - Earning Income
 - Buying Goods and Services
 - Saving
 - Using Credit
 - Financial Investing
 - Insuring and Protecting

Iowa Core K-12 21st Century Skills: Crosswalk with National Financial Literacy Standards

Iowa Essential Concept/Skill	National Financial Literacy Standard
Evaluate and identify appropriate risk management options, including types of insurance, non-insurance, and identify protection. (21.9-12.FL.3)	Standard VI: Protecting and Insuring
Manage money effectively by developing spending plans and selecting appropriate financial instruments to maintain positive cash flow. (21.9-12.FL.2)	Standard I: Earning Income; Standard II: Buying Goods and Services; Standard III: Saving
Make informed and responsible decisions about incurring and repaying debt to remain both creditworthy and financially secure. (21.9-12.FL.3)	Standard IV: Using Credit

Iowa Core K-12 21st Century Skills: Crosswalk with National Financial Literacy Standards

Iowa Essential Concept/Skill	National Financial Literacy Standard
Demonstrate financial responsibility and planning skills to achieve financial goals for a lifetime of financial health (21.9-12.FL.4)	Standard I: Earning Income; Standard II: Buying Goods and Services; Standard III: Saving
Assess the value, features, and planning processes associated with savings, investing, and asset building, and apply this knowledge to achieve long-term financial security with personal and entrepreneurial goals in a global market. (21.9-12.FL.5)	Standard III: Saving; Standard V: Financial Investing;



Teachers Background and Capacity to Teacher Personal Finance

- 46% of teachers in study think students should be required to take a personal finance course
- 48% Don't think that the content is too difficult for elementary grades
- Few teachers report feeling very competent to teach financial topics
- By and large teachers indicate they are not competent to work with national and state standards in personal finance
- Somewhat homeless curriculum
- Source: Way, W.L and Holden, K. "Teachers' Backgrounds and Capacity to Teach Personal Finance: Results of a National Study," 2009



Teachers Background and Capacity to Teacher Personal Finance

- We have research that tells us teacher education/preparation matters
- Even teachers with some background (business and FACS teachers) aren't prepared to teach the full range of topics

C. Loibl (2008). Surve of Financial Education in Ohio's Schools: Assessment of Teachers, Programs, and Legislative Efforts. Ohio State University P-12 Project,
<http://p12.osu.edu/reports/Loibl.PersonalFinanceEducation.pdf>

WEBSITE

<http://www.stlouisfed.org>

QUESTIONS

