

Middle Class Proposal #10

Creating Young Investors

For today's young people, getting ahead takes not just book smarts but financial savvy. What happens on Wall Street matters on Main Street—on retirement accounts, college funds or other investments. Today's kids need to learn much more than the simple math it takes to balance a checkbook or keep a budget. Providing federal grants for state-mandated financial education can help students get the knowledge and money smarts they need to navigate today's complex world and become confident investors rather than passive stewards of their money.

THE PROBLEM

Financial challenges for young people are more complicated today

Young people today are entering a world with many more opportunities for building wealth, but also more complexity and risk. In the past, it was enough to have only a checking and savings account, along with a job that offered a traditional pension. Loan instruments for buying a house were fairly simple and limited.

But all of that has changed. Very few jobs in the private sector offer a traditional pension.¹ And as we've learned in the past year, home loans can be exceptionally complex. Whether it's managing investments in a retirement account, understanding the fine print on a mortgage application, avoiding credit card late fees or knowing how to monitor a credit report, managing one's finances is much less simple than it used to be.

To get ahead in a world that takes market savvy, not just book smarts, today's young people need to acquire skills to understand investing. Financial education isn't yet—but should be—a mainstay of the modern school curriculum.

Young people are making poor financial choices that will have a long term effect on their financial well-being.

Only one of every eight employed people between the ages of 21 and 24 are putting any money away in IRA or 401(k) plan. Even among those between the ages of 25 and 34, less than half of those who work are currently participating in one of these retirement plans.² Considering how critical it is to put even small amounts of money away early in order to have a comfortable retirement, these figures are alarming.

Many students don't feel they have the financial know-how to succeed.

Fewer than one out of four college students say they feel ready to cope with their financial future—and even more of their parents agree.³ Three-fourths of college students admit to making mistakes in managing their money on campus, including by overspending on credit cards.⁴

Large majorities of teenagers say they wish they knew more about such basic skills as how to buy a car or a house, making investments, protecting themselves from identity theft, saving more money, managing credit card debt and budgeting.⁵

Most American high school students would get an “F” for financial basics.

On a basic test of financial literacy administered by the Jump\$tart Coalition, the average high school senior answered fewer than half the questions correctly.⁶ For example, only 40% of seniors knew that they could lose their health insurance if a parent lost a job.⁷ Fewer than half knew that paying the minimum balance on a credit card bill was more expensive than paying off a credit card in full.⁸ And only about one in six understood that owning stocks will yield better returns than parking cash in a checking account over the long term.⁹

One survey found that only 5% of adults say they learned the basics of financial education in school, while many more people (41%) said they were self-taught or “learned the hard way.”¹⁰ Although more states are beginning to offer a formal financial education curriculum in schools, only three states—Utah, Missouri and Tennessee—go so far as to offer a one-semester class. All told, just 20 states have a financial education requirement for high school students.¹¹

THE SOLUTION

Federal grants for state-mandated financial education

The federal government should reward and encourage states that offer mandatory financial education for high school students by establishing a five-year \$100 million annual grant program to pay for curriculum development, training teachers and providing materials. This funding would only be available to states that required some form of financial education for their students and would be based on the number of students in a particular state. This proposal would also establish a clearinghouse to provide technical assistance and information on best practices for states developing curriculum materials.

Financial education works.

A growing pile of research shows that financial education can help people make better financial decisions. Studies have found direct links between the level of financial knowledge a person has and the decisions they make—the amount they save, whether they pay bills on time, etc.¹² And students in states with

mandatory financial education have higher savings rates five years down the line than students in states without such a requirement.¹³

Students who've had financial education also report feeling much more confident about making the right choices. High school students who went through one financial education course not only felt that they knew more, they scored better on financial literacy tests and even changed their spending and saving behavior.¹⁴

Students, parents and teachers overwhelmingly support financial education.

A 2007 survey by Visa found that 91% of Americans support requiring financial education in high school.¹⁵ Moreover, the majority of teenagers say they would like to learn more about money management, even though only about one in seven has ever taken a class on the topic.¹⁶

Meanwhile, eight in ten teachers say they think financial education is important to teach in schools, and three-fourths believe their state should have academic standards for this subject.¹⁷ These teachers say that lack of time and state requirements are the top barriers to offering more financial education in schools.¹⁸ Making federal funding available for state curricula could help overcome those barriers.

Financial education at school can fill in the gaps at home.

While a majority of parents say they see financial education as one of their obligations,¹⁹ the reality is that a majority of students don't get all the information they need from home. Fewer than half of people say they learned money management from their parents,²⁰ and a majority of parents in surveys say they haven't discussed financial basics such as budgeting with their children.²¹ This gap makes school-based financial education all the more critical.

THE ROLLOUT

Ideas for launching and publicizing a federal grant program for state-mandated financial education

- **Hold a press conference** at a high school with students and their parents and teachers.
- **Release a short report** documenting the need for financial education among students. For background data, refer to the biennial financial literacy survey conducted by the Jump\$tart Coalition, which surveys high school seniors and college students on their financial knowledge.
- **Hold a financial education workshop for high school students** featuring a local non-profit financial education group, such as the Jump\$tart Coalition.
- **Set a goal of doubling investments in retirement accounts** among workers under 30.

CRITIQUES & RESPONSES

Federal grants for state-mandated financial education

It's too expensive.

For yesterday's generation, owning a portfolio was the province of the elite. Today, most middle-class Americans are investors. Money smarts are more important than ever to middle-class success. This proposal creates a five-year \$100 million annual grant program—a small investment that will yield big rewards for middle-class Americans in their ability to manage their financial futures. For example, studies find that Americans could save as much as \$20 billion a year in lower credit card finance charges if they improved their credit scores by 30 points.²²

It's unnecessary because states can do this on their own.

There's no stick in this program—just a carrot. No state is being required to offer financial education to its students, but if it chooses to require a program, the grant funding will enable a state to do so at minimal or no additional cost. Particularly in these tough economic times, states are squeezed for funding. This program will help overcome the barriers of lack of funding and lack of technical assistance that are preventing some states from offering financial education. Moreover, only 20 states require financial education today—clearly, there needs to be a federal incentive to encourage and reward more states to offer financial education.

The federal government shouldn't meddle with the school curriculum.

Again, it's up to states whether they want to participate in this program or not. Moreover, this proposal has no curriculum mandates—instead it establishes very broad guidelines for the topics that a state financial education requirement should cover in order to be eligible for funding. It also establishes a clearinghouse for states to get technical help for developing classroom materials and information on best practices so they don't have to reinvent the wheel.

APPENDIX

Details of the proposal to provide federal grants for state-mandated financial education

Annual grant program

This proposal would establish a five-year \$100 million annual grant program in the Department of Education to provide states that require financial education in high schools with funding to develop materials, train teachers and pay for other incidental costs associated with establishing a new curriculum. Grant funding would be formula-based, depending on the number of children in a state.

State eligibility for funding

States may receive funding to implement mandatory financial education programs that are either integrated into existing curricula or are stand-alone classes. To be eligible for funding, proposed programs must cover certain topic areas, such as budgeting and credit and debt management, that are to be determined by the Department of Education, in consultation with the Department of Treasury's Office of Financial Education, the Federal Reserve and other federal agencies that currently operate adult financial education programs.

Clearinghouse for best practices

This proposal would establish a clearinghouse, which can be operated by a private non-profit organization, to provide states with technical assistance on curriculum development, collect research on best practices and program effectiveness and help coordinate disparate ongoing financial education efforts run by other federal agencies.

Endnotes

¹ Bureau of Labor Statistics, "Trends in Retirement Plan Coverage," MLR: The Editor's Desk, Mar. 10, 2006, available at <http://www.bls.gov/opub/ted/2006/mar/wk1/art05.htm>. In 2005, only 21 percent of private-sector employees were enrolled in pension plans.

² Craig Copeland, "Ownership of Individual Retirement Accounts and 401(k)-Type Plans," Employee Benefit Research Institute, May 2008 Notes, Vol. 29, No.5, available at www.ebri.org.

³ The Hartford Financial Services Group, Inc., "New Survey by The Hartford Reveals Financial Literacy Communication Gap Among College Students and Parents," News Release, February 2007, available at <http://ir.thehartford.com/releasedetail.cfm?ReleaseID=237682>.

⁴ KeyBank and Harris Interactive "One-Third of College Upperclassmen Admit Being Financially Unprepared as Freshmen," News Release, August 2006, available at <http://www.harrisinteractive.com/news/allnewsbydate.asp?NewsID=1108>.

⁵ Capital One, "Capital One's Annual Back to School Survey Finds More Teens Eager To Learn About Money, Yet Parents Continue to Overlook Simple Opportunities to Talk Dollars and Cents," News Release, July 2007, available at http://phx.corporate-ir.net/phoenix.zhtml?c=70667&p=irol-newsArticle_print&ID=1026172&highlight.

⁶ Jump\$tart Coalition, "Financial Literacy Still Declining among High School Seniors, Jump\$tart Coalition's 2008 Survey Shows," News Release, April 9, 2008, available at www.jumpstart.org

⁷ Ibid.

⁸ Ibid.

⁹ Ibid.

¹⁰ Visa, "Visa Back-To-School Survey Finds That Only 5% of Kids Learn Vital Life Skill of Money Management in Class," News Release, August 2007, available at <http://www.practicalmoneyskills.com/english/presscenter/releases/081307.php>.

¹¹ Jump\$tart Coalition, "State Financial Education Requirements," available at http://www.jumpstart.org/state_legislation/index.cfm.

¹² Matthew Martin, "A Literature Review on the Effectiveness of Financial Education," Federal Reserve Bank of Richmond Working Paper No. 07-03, June 15, 2007, available at http://www.richmondfed.org/publications/economic_research/working_papers/pdfs/wp07-3.pdf.

¹³ Ibid.

¹⁴ Sharon M. Danes, "Evaluation of the NEFE High School Financial Planning Program: 2003-2004," available at <http://hsfpp.nefe.org/loadFile.cfm?contentid=273>.

¹⁵ Visa, "Visa Back-To-School Survey Finds That Only 5% of Kids Learn Vital Life Skill of Money Management in Class," News Release, August 2007, available at <http://www.practicalmoneyskills.com/english/presscenter/releases/081307.php>.

¹⁶ Capital One, "Capital One's Annual Back to School Survey Finds More Teens Eager To Learn About Money, Yet Parents Continue to Overlook Simple Opportunities to Talk Dollars and Cents," News Release July 2007, available at http://phx.corporate-ir.net/phoenix.zhtml?c=70667&p=irol-newsArticle_print&ID=1026172&highlight.

¹⁷ Networks Financial Institute at Indiana State University, "National K-12 Financial Literacy Qualitative & Quantitative Research," March/April, 2007, available at <http://www.networksfinancialinstitute.org/SiteCollectionDocuments/NationalK12FinancialLiteracyStudy.pdf>.

¹⁸ Ibid.

¹⁹ The Hartford Financial Services Group, Inc., "New Survey by The Hartford Reveals Financial Literacy Communication Gap Among College Students and Parents," News Release, February 2007, available at <http://ir.thehartford.com/releasedetail.cfm?ReleaseID=237682>.

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²¹ Capital One, "Capital One's Annual Back to School Survey Finds More Teens Eager To Learn About Money, Yet Parents Continue to Overlook Simple Opportunities to Talk Dollars and Cents," News Release, July 2007, http://phx.corporate-ir.net/phoenix.zhtml?c=70667&p=iro-newsArticle_print&ID=1026172&highlight.

²² Consumer Federation of America and Washington Mutual, "Consumer Understanding of Credit Scores Remains Poor," News Release, July 19, 2007, available at http://www.consumerfed.org/pdfs/Credit_Score_Release_07_19_07.pdf.