FINANCIAL LITERACY

Introduction

Policymakers sometimes view financial literacy purely through the lens of helping protect consumers from being manipulated by unscrupulous providers. For those who work on these financial literacy programs, the common objective is to help drive financial inclusion and empowerment and increase access to financial services, regardless of past circumstances.

Programs exist in many forms, with some run by government or quasi-government agencies, charitable foundations and by financial service providers themselves. Public programs include school-based requirements and testing for students, free lessons for those receiving public assistance, programs tailored to aid the disabled, initiatives to help prisoners reintegrate into society, and funding for additional financial awareness and empowerment goals.

Financial services providers support financial literacy in many different forms, ranging from informative pamphlets distributed to new borrowers, to deep financial commitment to non-profit education and programs, such as the American Financial Services Association Education Foundation and its MoneySKILL® program, to courses or exams that borrowers are required to pass before receiving a specific type of loan.

Financial literacy education is evolving. The National Financial Educator's Council (NFEC) defines financial literacy as "possessing the skills and knowledge on financial matters to confidently take effective action that best fulfills an individual's personal, family and global community goals."[1] The Jump$tart Coalition's definition builds on this, adding that financial literacy is an "evolving state of competency" that enables effective responses to "ever-changing personal and economic circumstances."[2] The vast majority of financial literacy programs have been aimed at younger people with less exposure to personal finances, or unbanked, or underbanked populations.

National Standards for Financial Literacy

The creation of the Office of Financial Education under the U.S. Treasury in 2002, followed by the development of the Financial Literacy and Education Commission under the Fair and Accurate Transactions Act of 2003, marked the emergence of a rising government concern for financial education, though financial services providers have

[1] National Financial Educator's Council, *Financial Literacy Definition*, at https://www.financialeducatorscouncil.org/financial-literacy-definition/ (accessed September 19, 2016).
[2] *Id.*

supported financial literacy programs for decades. In 2006, the commission published its national strategy – reviewed yearly to measure progress – outlining the country's plan to address these concerns and improve the financial awareness, knowledge and capability of all Americans.[3] The commission also developed MyMoney.gov as a general public source for educational resources for youth, teachers, researchers, and anyone seeking additional information or learning opportunities.[4]

The Consumer Financial Protection Bureau's (CFPB) Office of Financial Education has also focused on researching, developing, promoting, and implementing financial literacy programs and activities.[5] In January 2015, the CFPB published a report describing its conceptual framework for defining and measuring success in financial education by creating a proposed definition of financial well-being and identifying the factors that contribute to it.[6]

National standards exist for both K-12 and adult financial education. Since 1998, the Jump$tart Coalition for Personal Financial Literacy® has published an annual guide detailing the curriculum requirements for children to obtain an adequate level of personal finance knowledge and ability through the 12th grade. The goal of these standards is for children to leave grade school and enter adulthood as confident money-managers, "fully prepared to make wise financial decisions for a lifetime of economic well-being."[7] Required areas of curriculum include spending and saving, investing, employment and income, risk management and insurance, credit and debt, and financial decision-making.[8]

The Institute for Financial Literacy sets the bar for adult financial education standards, consisting of benchmarks in credit, debt management, money management, risk management, and investment and retirement planning. The organization developed these courses with the intention that adults of any learning style may utilize them to become competent in managing their personal finances.[9]

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[3] Financial Literacy & Education Commission, *Taking Ownership of the Future: The National Strategy for Financial Literacy*, at https://www.treasury.gov/about/organizational-structure/offices/Domestic-Finance/Documents/Strategyeng.pdf (2006).
[4] MyMoney.gov, *About MyMoney.gov*, at http://www.mymoney.gov/Pages/About-Us.aspx, (accessed September 16, 2016).
[5] The Dodd-Frank Wall Street and Consumer Protection Act mandated that the CFPB create an office responsible for developing financial education and policy initiatives to support the financial well-being of particular segments of the consumer population. *See* 12 U.S.C. § 5493(b)(e)(g).
[6] Consumer Financial Protection Bureau, *Financial well-being: The goal of financial education*, http://files.consumerfinance.gov/f/201501_cfpb_report_financial-well-being.pdf (January 2015).
[7] Jump$tart, *National Standards in K-12 Personal Finance Education*, at http://www.jumpstart.org/assets/files/2015_NationalStandardsBook.pdf (2015).
[8] *Id.*
[9] Institute for Financial Literacy, *National Standards for Adult Financial Literacy Education*, at https://financiallit.org/resources/national-standards/ (October 2007).

AFSA Education Foundation

AFSAEF's MoneySKILL® Program

The AFSA Education Foundation's (AFSAEF) primary initiative is the free online personal finance course MoneySKILL®, which covers income, expenses, saving and investing, credit, and insurance. The high school version consists of 36 modules. Aligned with all national standards for personal finance curriculum in grades K-12, MoneySKILL is designed to be used as all or part of a course in personal finance, business, economics, math or social studies. The online delivery allows teachers to educate themselves on personal finance concepts prior to students beginning the course. Students can access the modules in the classroom or at home, and built-in quizzes test the students' grasp of each concept presented. Many parents, realizing the importance of educating their children about personal finance, utilize MoneySKILL as part of their home schooling or a project for their children to complete over summer vacation. MoneySKILL increases its reach each year with teachers from all 50 states enrolling more than 721,000 students. As of September 2016, twenty-one AFSA member companies use the MoneySKILL curriculum with at least 6,000 customers.[10] A detailed interactive map, complete with current educational laws, requirements and government appropriations, as well as pending legislation in each state can be found on the MoneySKILL website.[11]

AWARE

AFSAEF and several other financial services and automobile dealer industry leaders have collaborated to form Americans Well-Informed on Automobile Retailing Economics (AWARE),[12] an effort that pledges to educate consumers about vehicle financing by providing them with information, tools, and other resources to help them make informed vehicle financing decisions. AWARE has developed several resources to assist consumers, including articles, brochures, auto financing payment calculators, downloadable worksheets, and resources for young adults, teachers and first time car buyers.[13] AWARE's information is offered to consumers through several state and federal government websites to support government financial literacy efforts.[14] AWARE also works with many "Education Allies," who are not directly involved in providing or facilitating auto financing, to disseminate their educational materials.[15]

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[10] AFSA Education Foundation, *About MoneySkill®*, at http://afsaef.org/MoneySKILL/About (accessed September 14, 2016).
[11] AFSA Education Foundation, *State Standards Interactive Map*, at http://afsaef.org/MoneySKILL/State-Standards-Interactive-Map (2016).
[12] AWARE, *About Aware*, at http://www.autofinancing101.com (accessed September 15, 2016).
[13] AWARE, *Auto Financing 101 Learning Suite*, at http://www.autofinancing101.org/learning_suite/index.cfm (accessed September 25, 2016).
[14] AWARE, *AWARE Supporting Government Financial Literacy Efforts*, at http://www.autofinancing101.org/about_aware/gfle.cfm (accessed September 25, 2016).
[15] AWARE, *Education Allies*, at http://www.autofinancing101.org/about_aware/educationallies.cfm (accessed September 15, 2016).

In addition to MoneySKILL and AWARE, AFSAEF provides financial literacy resources and educational brochures on its website, addressing concepts including APR, vehicle financing, insurance, credit, and personal loans.[16]

State Statistics and Initiatives

A 2011 study performed by the Financial Literacy Center for the Social Security Administration analyzed the financial capability of today's adult consumers across the 50 states.[17] In addition to data gathered from a 2009 state-by-state survey of 28,000 individuals, the organization asked five supplementary questions to calculate a financial competency index rating of one to five for each state. Questions covering mortgage payments, interest and inflation rates, bond prices, and risk diversification were used to assess an individual's ability to successfully manage daily financial and economic decisions. The study found an overall low level of financial literacy across the nation with significant variation between the states that demographic and economic factors could not fully explain. States scoring the highest included **Idaho**, **Minnesota, New Hampshire**, **South Dakota** and **Vermont**, with the lowest scores seen in **Arkansas**, **Kentucky**, **Louisiana**, **Tennessee,** and **West Virginia**. While the average score across the nation was 2.99, the highest score, from New Hampshire, was only 3.33.[18] Authors believe this comprehensive report provides policymakers with an understanding of where to target efforts, how to measure the effects of state programs, and where to continue future research.[19]

As a measure of progress of financial education initiatives for K-12 students, the Council for Economic Education (CEE) publishes a biennial review of program requirements and assessment scores of students by state. Findings show that as of 2016, 20 states require high school students to take an economics course, 17 states require a course in personal finance, and five states require a standalone semester course in personal finance.[20] The report rates **Virginia** at the front of the pack, which mandates a full-credit course in both personal finance and economics and also provides teachers with the knowledge to instruct these lessons through educational institutes.[21] **Georgia**, **Michigan,** and **Texas** are the only states that require students to take both a personal finance and an economics course, and also incorporate these concepts into state standardized testing.[22]

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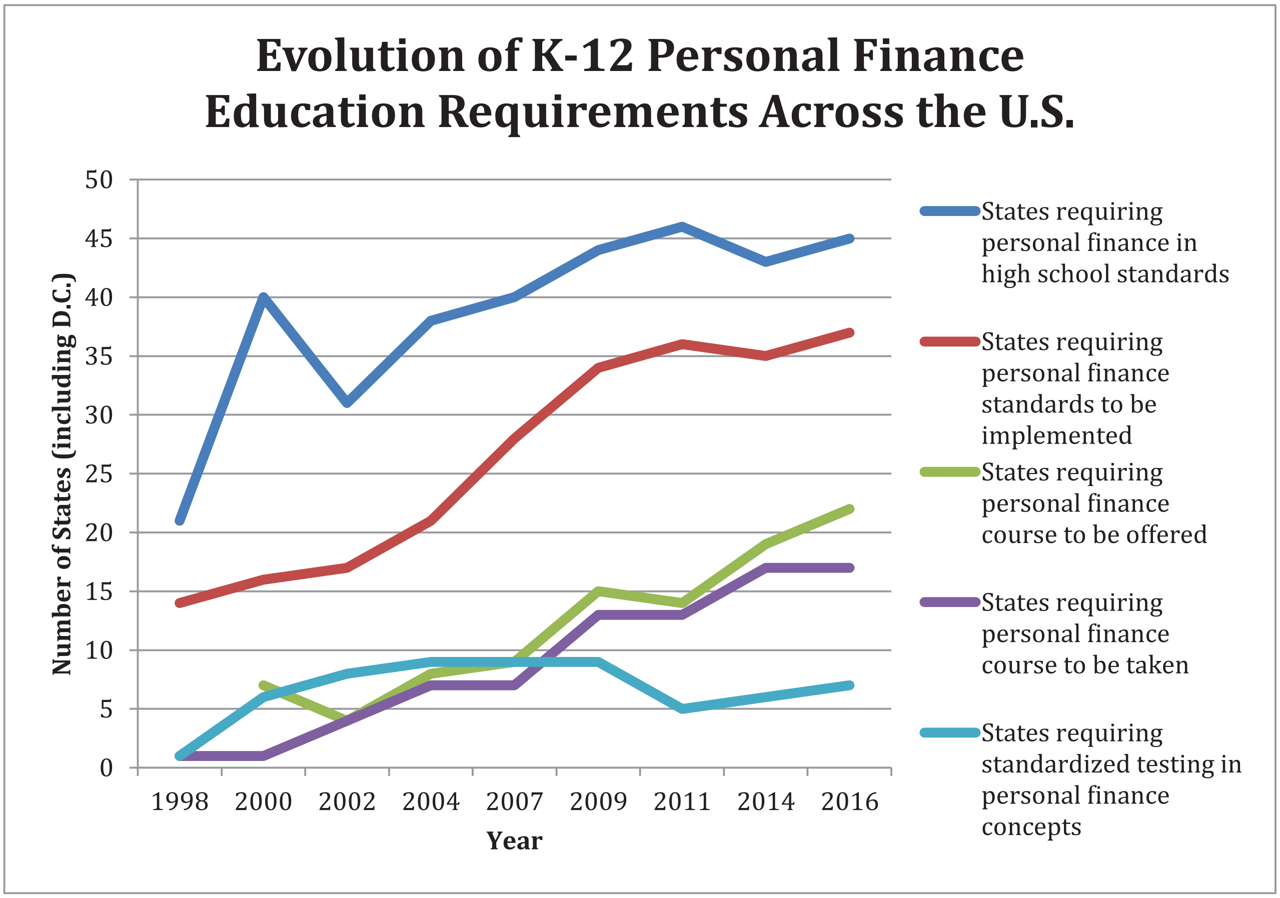
[16] AFSA Education Foundation, *Resources*, at http://www.afsaef.org/Resources (2016).
[17] Financial Literacy Center, *The Geography of Financial Literacy*, at https://www.rand.org/content/dam/rand/pubs/working_papers/2011/RAND_WR893.pdf (November 2011).
[18] *Id.*
[19] *Id.*
[20] Council for Economic Education, *Survey of the States: Economic and Personal Finance Education in Our Nation's Schools*, at http://councilforeconed.org/wp/wp-content/uploads/2016/02/sos-16-final.pdf (January 2016).
[21] *Id.*
[22] *Id.*

The chart below illustrates the changes in personal finance program requirements across the nation over the past few decades based on data collected by the recurrent CEE Survey of the States.[23]



Since 1998, 24 states have adopted and kept financial literacy curriculum standards, 23 states have required and upheld implementation standards, and 16 states have established and maintained required courses since 1998; however, progress has slowed in recent years. Since the 2014 survey, no additional states have implemented a personal finance course requirement and few states have changed requirements for personal finance standards and their implementation since 2011.[24] Furthermore, eight states that previously required students to take a personal finance course for graduation now do not, and six states have dropped mandates in recent years that required a personal finance course be offered to all high school students.[25]

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[23] *Id.*

[24] Council for Economic Education, *Survey of the States: Economic and Personal Finance Education in Our Nation's Schools*, at http://councilforeconed.org/wp/wp-content/uploads/2016/02/sos-16-final.pdf (January 2016).

[25] Council for Economic Education, *The State of Programs Across the Nation*, at http://www.surveyofthestates.com/#2016 (January 2016).

The Financial Industry Regulatory Authority (FINRA) measured the credit scores of young adults before and after the implementation of financial education requirements in states with the strictest mandates. FINRA saw an increase in credit scores and a decrease in the amount of consumers falling 90 days behind on credit payments in both **Georgia** and **Texas**, providing evidence that school programs have a positive effect on the financial capability of young consumers.[26]

The CEE has developed an online advocacy tool kit designed to help constituents address their concerns about personal financial and economic education requirements in their own state. Alongside the Survey of the States data, the toolkit provides samples of legislation from states that already have these requirements in place and tips on how to contact state representatives.[27]

Legislative Analysis

Current Session

The current financial literacy legislative landscape consists primarily of school-based initiatives centered on properly educating and preparing K-12 and college students for the future. Out of the 45 states that have introduced legislation regarding financial literacy over the 2015 and 2016 sessions, 37 states have enacted legislation. Thirty-nine states proposed school-related bills, with enactments in 10 states. Puerto Rico SB 1311 was the only legislation that approved a new mandatory financial education requirement for middle and high school students.[28] Non-school related proposed legislation over the past session has sought to develop financial literacy resources for disabled individuals, help prisoners reintegrate into society, prevent elder financial abuse, cultivate efforts specific to aiding minorities, provide courses for those receiving public assistance, establish mortgage and vehicle financing education programs for adults, and increase funding and awareness for current and future financial literacy initiatives.[29] A sample of this session's legislation is included below:

California SB 1296 was referred to the Senate Education Committee on March 3, 2016, and is unlikely to see further movement due to the adjournment of the legislative session. The bill would have added financial literacy instruction on topics including, but not limited to, student loans, credit cards, and investment and retirement accounts to the existing "consumer and homemaking education" requirement for students in grades 7 through 12. California currently does not include personal finance in its curriculum standards.

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[26] Financial Industry Regulatory Authority, *Insights: Financial Capability*, at https://www.finra.org/sites/default/files/investoreducationfoundation.pdf (January 2015).
[27] Council for Economic Education, *Advocacy Tool Kit*, at http://councilforeconed.org/policy-and-advocacy/toolkit/ (2016).
[28] National Conference of State Legislatures, *Financial Literacy 2015 Legislation*, at http://www.ncsl.org/research/financial-services-and-commerce/financial-literacy-2015-legislation.aspx (January 2016).
[29] *Id.*

Delaware HB 10 was signed by Democratic Governor Jack Markell on July 7, 2015. Effective immediately, the law establishes the Office of Financial Empowerment within the Department of Health and Human Services. The Office of Financial Empowerment will ensure the sustainability of the Stand by Me program, a financial empowerment initiative designed to help businesses, state agencies, educational institutions and non-profits collaborate on financial literacy best practices and provide personal financial coaching to the economically vulnerable. The office is also responsible for conducting public financial educational forums for citizens, coordinating funding and research, and implementing any other financial empowerment programs.

Illinois SB 0672/Public Act 99-0284 was signed by Republican Governor Bruce Rauner on August 5, 2015. Effective July 1, 2015, the act adds the subjects of consumer debt, higher education student loans, and identity theft security to the subjects required to be included in the state mandated financial literacy course for students in grades 9 through 12.

Louisiana HB 401/Act 624 was signed by Democratic Governor John Bel Edwards on June 17, 2016. Effective August 1, 2016, the law amends the rules relating to personal finance education, clarifying that each public elementary or secondary school must offer instruction in personal financial management, integrated into existing study, that covers basic principles including spending, saving, earning, and investing.

Maine LD 1348 became law without the signature of Republican Governor Paul LePage on July 12, 2015. Effective immediately, the law provides ongoing funding to the Office of Aging and Disability Services for the operation of financial management assistance programs aimed at helping the elderly maintain their financial independence and avoid financial exploitation.

Maryland HB 248 died pursuant of the adjournment of the 2015 legislative session. The bill would have required all high school students to complete a semester-long course in financial literacy prior to graduation. The bill would have required the State Board of Education to develop the curriculum content for the course and each county board to implement the curriculum in every high school in the county. A summary analysis offered in a fiscal note states that unlike every other content area, there are no financial literacy content specialists at the Maryland State Department of Education, and additionally, there are no state monetary resources to implement the current financial curriculum or to provide professional development. Previous versions of this bill include HB 1429 in 2014, HB 843 in 2013, and HB 191 in 2012, all of which were heard in the House Ways and Means Committee but died upon adjournment of the respective legislative sessions.

Minnesota HF 997 was referred to the House Job Growth and Energy Affordability Policy and Finance Committee on February 18, 2015, where it died upon adjournment of the legislative session. The bill would have appropriated $8 million dollars for the Housing Opportunities Made Equitable (HOME) pilot project for competitive grants to community organizations to provide long-term financial education training, case management, credit monitoring, home buyer education, and foreclosure prevention mitigation services to disadvantaged communities.

New York AB 9712/Chapter 131 was signed by Democratic Governor Andrew Cuomo on July 21, 2016. Effective immediately, the law amends the elder law by adding financial literacy and elder abuse education and outreach to the list of congregate services provided by the government or a public agency in community settings where the elderly come together for services and activities.

North Carolina HB 775 was referred to the House Appropriations Committee on April 15, 2015, where it died upon adjournment of the legislative session. The bill would have created a two-year pilot program on teaching financial literacy in public schools. The pilot program was designed to ensure that teachers feel qualified to teach the personal finance components of the curriculum and that students are mastering the material. The Department of Public Instruction would have needed to analyze the results of assessments at the end of each semester to determine if the program should continue. The bill would have appropriated $500,000 for the fiscal year of 2015-2016 to implement this program.

Pennsylvania SB 101 was referred to the Senate Education Committee on February 12, 2015, where it died upon adjournment of the legislative session. The bill would have amended the Public School Code of 1949, further providing for economic and personal finance education as subjects for instruction, added a required capstone course in personal finance as a requirement for graduation and established the Personal Finance Education Fund in which state funds would be appropriated.

Texas HB 3987 was signed by Republican Governor Greg Abbott on June 20, 2015. Effective immediately, the law allows school districts and open-enrollment charter schools to establish a school-based savings program in conjunction with the required personal financial literacy course. The law requires schools that wish to implement the savings program to partner with both private sector institutions that will provide the structure and resources to maintain and manage these accounts, as well as public entities that will offer funding as encouragement and incentive for families to contribute to these accounts.

Washington SB 5202/Chapter 211 was signed by Democratic Governor Jay Inslee on May 8, 2015. Effective July 24, 2015, the law amends the duties of the financial education public-private partnership, requiring integration of financial education skills and content knowledge into the state essential academic learning requirements. The law provides all school districts with a list of courses that align with requirements and all students in grades 9 through 12 with the opportunity to access the new financial education standards.

Conclusion

While there is plenty of evidence indicating low levels of financial capability among American consumers, and a wide variety of often impressive programs designed to correct this, there is no consensus as to how to resolve the discrepancy between the existence of the latter and the challenge of the former. A trend in legislative efforts toward preemptive financial education programs and requirements in schools may be helpful here, as policymakers look for a way to ensure that future consumers are more informed and prepared to efficiently and sustainably operate in a more sophisticated financial services environment. Positive effects on young consumers' credit scores can attest to the effectiveness of programs in states with strict requirements; however, as state standards continue to increase, further monitoring and assessment of consumers' post-education is necessary to better understand how to design these programs for the greatest results.

The NFEC importantly emphasizes that the psychology behind an individual's decision making must be included in the definition of financial literacy, as this is an important factor to be considered when creating effective financial education programs. The NFEC notes that while consumers may possess the knowledge of how to properly use financial instruments, they may freeze up and "lack the confidence to make the right decision and take actions in a decisive manner."[30] With that in mind, researchers are continuing to examine which other factors, in addition to the state of awareness, knowledge and preparedness, affect a consumer's ability to make sound financial decisions and where policymakers may jump in to improve the general public's decision making process.

[30] National Financial Educator's Council, *Financial Literacy Definition*, at https://www.financialeducatorscouncil.org/financial-literacy-definition/ (accessed September 19, 2016).