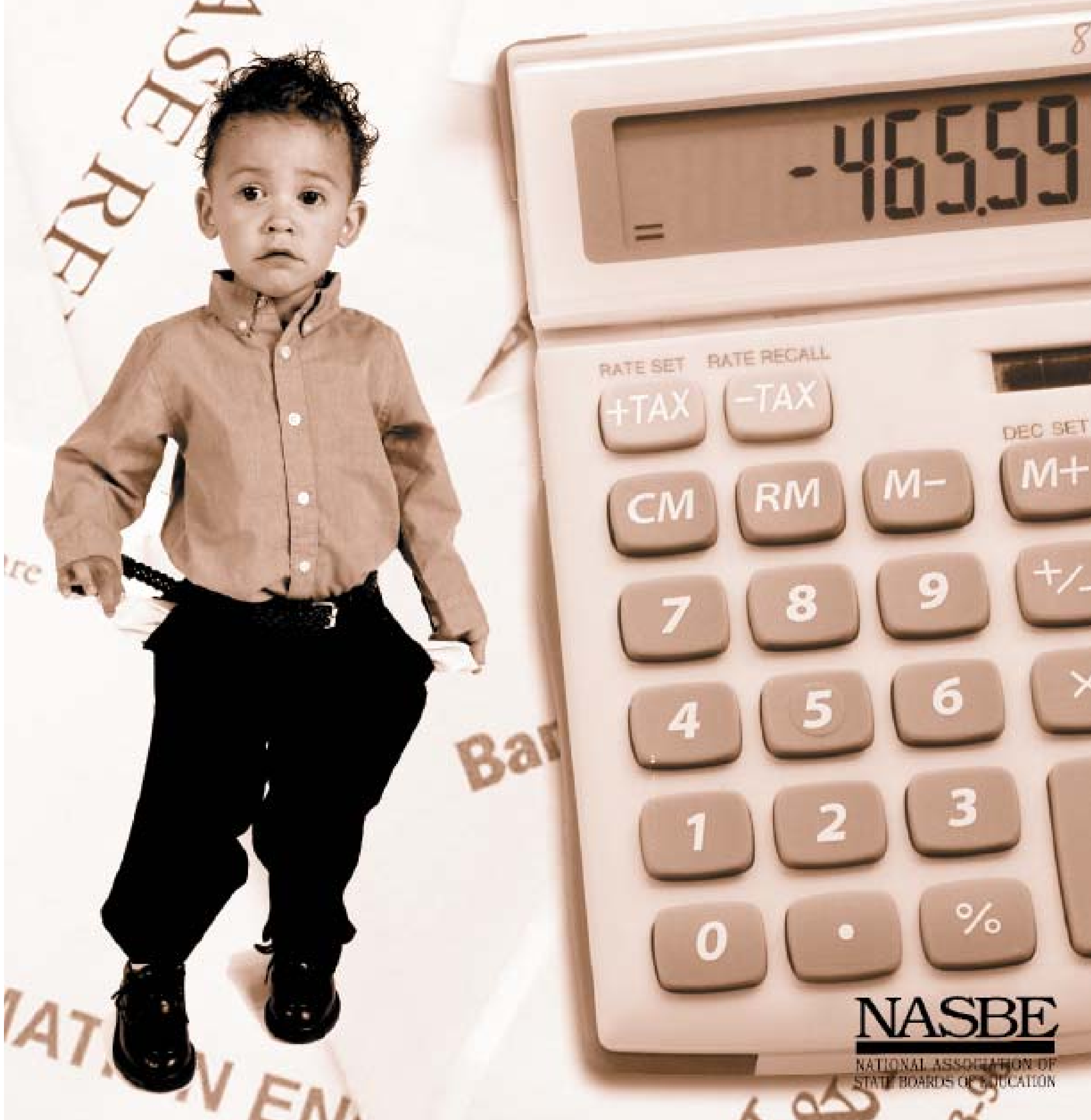
Who Will Own Our Children?

The Report of the NASBE Commission on Financial and Investor Literacy

Executive Summary



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NASBE Commission on Financial and Investor Literacy

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Armed with a shiny new diploma from State U, the young graduate is ready to begin a new life. Of course, the bachelor's degree is accompanied by approximately $16,000 in student loans, a credit card debt of $3,500, and the need for a transportation. Welcome to the brave new—and uncertain—world of today's college graduate. Add to these initial debts the likelihood that the individual will never work for an organization that provides a defined benefit retirement plan combined with the fact that the Social Security system will inevitably undergo significant revision with reduced benefits. Indeed, the financial future of today's high school/college generation has never been more insecure.

In a world in which fierce global competition and terrorism grab many of the headlines, the answer to the question of "Who will own our children?" may actually present the greatest single national security challenge to the nation. State boards of education, with responsibility for establishing curriculum standards and guidance, hold one of the keys to determining our children's—and ultimately, the nation's—financial future.

Given the importance of the issue and the prominent role state boards of education play in addressing it, NASBE convened its Commission on Financial and Investor Literacy in February 2006. The Commission's charge was to assess the current state of financial and investor education in public schools and provide education policymakers with recommendations for specific actions to help strengthen students' financial literacy.

Understanding the Issues

The drumbeat of news covering the personal finances of Americans continues on a daily basis. This news, whether from radio, newspapers, television, or the Internet, is almost always negative.

NASBE's Commission on Financial and Investor Literacy heard, for example, how millions of Americans have experienced an erosion in their economic and social security. Advances in technology and economic globalization have accelerated the pace of change in

What is Financial/Investor Education?

According to Vitt, et al. in *Personal Finance and the Rush to Competence: Financial Literacy Education in the U.S.*, "Personal financial literacy is the ability to read, analyze, manage, and communicate about the personal financial conditions that affect material well-being. It includes the ability to discern financial choices, discuss money and financial issues without (or despite) discomfort, plan for the future, and respond competently to life events that affect everyday financial decisions, including events in the general economy....Literacy in the context of personal finance is sometimes referred to as economic literacy." The authors go on to note that, "General education determines occupation and income, which in turn influences place of residence, social contacts, consumer choices, and activities. *Financial Literacy* education shapes the life course in other ways by enhancing access to investment income, asset accumulation, and asset protection."[4]

our economy, increasing both job insecurity and the awareness of this instability. In the past two decades, this has been especially the case for the relatively highly compensated blue-collar workers who were forced to accept less lucrative positions or retired from the workforce. At the same time, globalization has spurred efforts by employers to reduce costly pensions and health care benefits. As a result, over the past decade there has been a massive reduction in the availability of pension plans for employees (only 46 percent of all workers in 2004 were covered by a defined benefit plan). For younger workers, these plans have effectively ceased to exist. Employers have largely replaced pension plans with contributory retirement programs that are voluntary and must be funded, entirely or in large part, out of wages. According to Congressional testimony, "At present, most workers with access to these contributory programs are not participating sufficiently to allow them to retire in their sixties without suffering a great decrease in their standard of living."[1]

Another area of concern addressed by the Commission was personal debt. Massive increases in the availability and acquisition of consumer and mortgage credit now make it essential for nearly everyone to understand and make sensible decisions about debt. A key factor in the rising number of personal bankruptcies over the past decade has been the growth in credit card marketing, which has reached a level of over five billion mail solicitations annually. Available credit lines on these cards have grown to nearly $5 trillion dollars.[2] American consumers now owe about $1.7 trillion in credit card and other debt, an amount roughly equal to the gross national products of Great Britain and Russia combined.[3]

According to Nosfsinger and Duguay, "In 2005, the average personal savings rate for the year dipped into negative territory (-0.5 percent) in the United States for the first time since the Great Depression as consumers relied on credit and/or tapped into personal savings and other assets to allow them to spend more than they took in. As a comparison, savings rates for countries in Western Europe hover around 14 percent."[5] In 2006, household debt in the United States rose to an unprecedented 126.4 percent of disposable income.[6]

Clearly, this level of personal debt and lack of savings is not sustainable over the long term, both for individuals and for the country.

A significant concern for Commission members was the social and economic issues associated with the erosion of pension funding and the cloudy—at best—future of Social Security. For the Commission, the issue was two-fold. It is apparent that the massive change in retirement funding will have untold and unforeseen consequences for the American public. In terms of ensuring a secure retirement, the consequences for individuals are clear. Less obvious, but just as important, is the threat to social cohesion if large segments of society become prisoners of debt and/or are unable to secure their well-being into retirement. Clearly, more work needs to be done to address these consequences. Specifically, the Commission expressed concern about a burgeoning "policy in a vacuum"

Current State Efforts

The National Council on Economic Education (NCEE)[16] annually publishes a *Survey of the States*. This survey solicits information from a) the chief executives of state councils on economic education, and b) social studies and family and consumer education specialists in all 50 states and the District of Columbia. Following are some of the highlights from the report's findings:

- Forty-nine states and the District of Columbia require economics;
- Seventeen states require an economics course to be offered in high school;
- Thirty-eight states report having personal finance standards of some form;
- Nine states require testing in personal finance;
- Nine states currently have personal finance as part of their graduation requirements (Alabama, Georgia, Idaho, Illinois, Kentucky, Louisiana, New York, Texas, and Utah);
- In 2004, 23 states introduced legislation that addressed personal finance education and at least 30 states introduced similar legislation in 2005; and
- In 2006, seven states have introduced legislation concerning the teaching of personal finance in public schools (Florida, Indiana, Massachusetts, Mississippi, New Hampshire, Oklahoma, and Pennsylvania).

Clearly the issues of economics education and financial education have been on the radar-screen for some time. Just as clearly, most states have made at least some effort to provide students with information. However, it is also apparent that, at present, there is no consistent approach concerning the issue of personal financial education.

crisis—that is, with a growing push for the public to take personal control over finances, there has not been a concomitant push for the provision of adequate tools to manage this change.

As noted by the U. S. Department of Treasury:

> It is easy to lose sight of the broader social and political changes that have contributed to this need for greater financial awareness. Changes in employment and public policy have only recently put substantial financial responsibility on the shoulders of individuals, a condition for which they have not been adequately prepared. Financial literacy is as much a societal concern as it is an issue for individuals, according to Sonnenberg,[7] and policymakers must stay aware of the broader issues.

According to Rep. Harris Fawell, R-IL, author of the SAVER Act (Savings Are Vital to Everyone's Retirement Act of 1997), America faces "a ticking demographic time bomb that requires increased retirement savings." Educating the public, Fawell urged, is the first step in defusing the bomb.

Preparing students, by giving them the necessary skills to defuse this "time bomb," is the responsibility of state boards of education.

Why Is Financial Literacy a K-12 Issue?

The Commission acknowledged the importance of offering financial education to individuals at various stages in their lives. However, financial education efforts targeted at a specific type of financial decision-making (such as buying a home or saving for retirement), which have been shown to be effective, will be most successful when a person already possesses a basic understanding of financial concepts. Like all types of education, financial education begins with teaching the basics that will provide an individual with a foundation for analyzing increasingly complex financial problems. Introducing the youngest students to financial education basics in school helps them to develop the building blocks they will need to make good financial decisions throughout their lives. Policymakers cannot expect a 30-year-old to comprehend the mortgage closing process or a 65-year-old to make informed investment and spending decisions regarding retirement income if they have not been given an understanding of the basic concepts of personal finance.

The best and most obvious starting people is in schools. No better venue exists to reach a large segment of the youth population than through the school system. The evidence shows that youth financial education can make a difference. Individuals graduating from high schools in states that mandate personal finance education courses have higher savings rates and net worth as a percentage of earnings than those who graduate from schools in states without such a mandate.[15] Teaching financial education in school starts the process of preparing children to become competent consumers and managers of household wealth.

Recommendations

■ **Recommendation 1: State boards of education must be fully informed about the status of financial literacy in their states.**
The Commission recommends that state boards of education evaluate the current status of financial and investor education in their state. If students in their state are currently being taught financial and investor education concepts, the Commission recommends that board members evaluate the goals of the program and determine whether the state's current strategies are working, whether changes are needed, and how needed changes should be implemented.

■ **Recommendation 2: States should consider financial literacy and investor education as a basic feature of K-12 education.**
The Commission believes that all students should receive comprehensive financial and investor education. The Commission also believes that the earlier a student begins learning these concepts, the more opportunities schools will have to impact behavior. Therefore, states should consider infusing financial and investor education throughout the K-12 curriculum.

■ **Recommendation 3: Ensure that teachers and/or staff members teaching financial literacy concepts are adequately trained.**
The Commission recommends that states, school districts, and/or schools provide the resources to ensure that individuals teaching financial and investor education concepts are adequately prepared. This includes providing the professional development needed to meet the goals identified for the curriculum. The Commission also envisions that state boards of education contribute to preparing teachers by encouraging recertification.

■ **Recommendation 4: States should fully utilize public/private partnerships.**
The Commission recognizes that there is a large number of organizations (including educational institutions, consumer groups, nonprofit organizations, and private sector companies) that offer financial education programs. The Commission believes that states should encourage partnerships with such organizations (where possible and where the organizations are deemed creditable) in order to obtain support for teaching financial and investor education concepts.

■ **Recommendation 5: States should improve their capacity to evaluate financial literacy programs.**
Currently, not enough is being done to evaluate the effectiveness of financial education programs. Therefore, the Commission recommends that states develop better tools to assess financial and investor education programs, including establishing indicators to determine program effectiveness. The Commission also suggests that states, schools, and/or districts establish a plan to improve financial and investor programs that are not achieving their instructional goals.

■ **Recommendation 6: States should include financial and investor education in their academic standards and ensure that assessments are aligned with the standards.**
Because teachers tend to teach to state standards, particularly if that subject matter is assessed, the Commission believes that for financial and investor education to truly be part of every student's education, financial literacy concepts must be included in the state's standards and assessment system.

■ **Recommendation 7: State boards of education should cooperate with other states to develop a common assessment tool for financial and investor education.**
Although states may incorporate financial and investor education in different ways, the Commission believes that burdens carried by individual states will be lessened if states develop and share common assessments for measuring goals.

■ **Recommendation 8: States should encourage the development of a National Assessment of Educational Progress (NAEP) framework for financial literacy.**
While the Commission is pleased that there is now a NAEP assessment in economics, the Commission members believe that this broad treatment of the subject does not provide enough information to fully understand what students know about financial and investor education. Therefore, the Commission recommends that the National Assessment Governing Board, which oversees NAEP, direct the development of a specific framework and assessment for gauging students' financial literacy.

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