House Education Hearing on Financial Literacy Taskforce Report

October 6, 2014

Presented To:

Chairman Paul Clymer

and Members of the House Education Committee

Chairman Clymer,

Thank you for allowing me to speak before the Committee today. The crisis regarding the financial landscape that are young people now are faced with has tremendous implications on their future success…or lack thereof.

Though there were many aspects that contributed to the most recent recession, a rising issue is the lack of financial literacy among adults today. Though many have access to advisors and online information at their fingertips, reports constantly reflect that adults make poor decisions in saving, credit, and other financial standards. Or at least have less than average confidence in doing so. Less than adequate actions affect the economy as a whole.

"Not only has managing day-to-day finances become more difficult for many Americans, but there are also greater risks in getting it wrong." – Michael S. Barr, Assistant Secretary for Financial Institutions, U.S. Department of the Treasury

Nan J Morrison, President and CEO for the Council for Economic Education (CEE) says, "A financially illiterate society is not an option."

Personal financial illiteracy can also have effects on a workforce, as well as the local, national and global economy. "A competitive economy requires a workforce that not only understands the rules of the workplace, but also the rules of life. From basic understanding of finances, to the soft skills needed for employment, individuals from all income brackets continue to be in need of basic skills necessary for financial security and successful careers," Representative Rosemary Brown and Representative Dan Truitt have commented.

And yet, one in three adults believes they have made poor financial decisions, as a result of lack of financial literacy, according to the Council for Economic Education's *Survey of the States*. The CEE *Survey of the States* is conducted every two years to measure the implementation of personal finance curriculum in our nation's schools.

One of the problems in America today is the consistency of the quality and process of which individuals are being educated on personal finance, and the inconsistency of the knowledge being provided. About 44% of Americans are learning about personal finance from their parents or at home, according to the 2012 Consumer Financial Literacy Survey, by the National Foundation for Credit Counseling. Yet as of 2012, 80% of adults say they could benefit from advice and answers from answers to simple questions from a trained professional. In the very same survey, less than one percent of those asked where or from whom they learned most about personal finance, responded from school.

When polled, 89% of adults also think financial education should be taught in school. There is a fundamental reason for students to be educated in schools.

"Some of what we're facing as a nation, in terms of financial hardship – the mortgage crisis, personal debt – we might be able to prevent in future generations if we arm [children] with information." –Laura Levine, executive director of Jump$tart for Personal Financial Literacy

The concern also hits close to home. "Not everybody is given an opportunity (at home) to be financially literate…" Explains Dr. Annamaria Lusardi, Denit Trust Distinguished Scholar in Economics and Accountancy, The George Washington University School of Business. According to the Jump$tart Coalition's *Financial Literacy of Young American Adults* survey conducted by Lewis Mandell, Ph.D. in 2008, many of the students who were more financially literate were those with more affluent parents ($40,000 - $79,999), whereas those with less affluent ($20,000 a year or less per annum) parents scored lower on the survey.

The effect on our society lingers just as much as it does on our economy.

"Economic education is about much more than money. It provides students with a framework for making good decisions that will help them and the country." –Alan B. Krueger, former Chairman of the Council of Economic Advisors

OUR FUTURE: WHY IS IT IMPORTAT TO PASS THIS LEGISLATION

Students graduating college today are faced with a staggering debt from both credit cards and student loans. In a case study done by Wells Fargo Bank recently, it was discovered that four in ten Millennials are overwhelmed with debt. And yet, more high school graduates entering college today are taking out student loans and acquiring substantial debt. However most young people indicate they do not understand the student loan process or how to plan for college costs.

Though the rising inflation could be considered the culprit, a large contributing factor is the lack of financial responsibility in our youth.

"The number one problem in today's generation and economy is the lack of financial literacy,"
– Alan Greenspan, 13th Chairman of the Federal Reserve.

With a national student loan debt of over $1.08 trillion according to the Federal Reserve Bank of New York, it is not surprising that 30% of college students with loans drop out without a degree, and of those adults 22-29 who did graduate, 22% of them had taken a job they would not have taken otherwise because of debt, according to a survey completed by *USA Today* and the National Endowment for Financial Education in 2006.

Today, only 56% of U.S. teens plan to save some of their income, down from 89% in 2011, according to the CEE. Could this be as a result of the 1/3 of parents who are more comfortable talking with their kids about smoking, drugs, and bullying than about money?

Our youth need to be educated to stabilize their personal financial health. In fact, many would prefer to learn it in school, rather than once out in the workforce, or from home. In a 2009 survey conducted by Sallie Mae, 84% of students said they needed more education on financial management topics, and 64% would have liked to receive financial management information in high school, as quoted by Annamaria Lusardi in her article, *Financial Literacy among the Young*.

The tough differential arises when Economics is taught in schools, but not necessarily Personal Finance. Let me specify for a moment, a distinction between the economics subjects taught in many schools, and the personal finance which need to be addressed. Economics takes the student through the history of the trade, the cycles, and shows them the institutions and individuals engaged in such. Personal finance is just that, more personal. This teaches students the methods and principles of acquiring and managing their own income and assets, as stated in the *Economic and Personal Finance Education in Pennsylvania* report, presented to the Governor and General Assembly in 2013.

As of this year, only 17 states require a Personal Finance course. Since 2007, it has risen by 10%, only 7 states requiring the class, and since 2002, a 16% increase, when only 1 state had a requirement for finance classes. In the time from 2002 until the present, the number of states requiring student testing in economics has dropped from 27 to 16.

In the recent *Survey of the States*, it was observed that students from states where a financial education course was required were more likely to display positive financial behaviors and dispositions, such as paying credit cards off every month, saving for retirement, and not maxing out their credit cards.

In Pennsylvania, only 1.4% of high school students are taking a course devoted to personal finance, according to a report done by the Pennsylvania Department of Education and the Pennsylvania Department of Banking and Securities in 2013. Of the 500 school districts in the state, only about 50 of them require students to take a course in personal finance before graduation. The 10% is in only 25 of the state's 67 counties.

While a personal finance course has been offered in some counties in Pennsylvania for some time, there is still no requirement for high school students. But students are not the only voice. Teachers and administrators polled in a 2012 study done by the Pennsylvania Department of Education and Penn State University were in overwhelming support of a personal finance and/or economics course requirement. 72.1% strongly agreed. But while many of them wish for the requirement to become a state requirement, the very same teachers in our schools are not all equally prepared to teach Personal Finance. Instead, teachers certified in other areas are teaching the subject matter. Across the nation, fewer than 20% of teachers report feeling competent to teach personal finance topics. How then, do we prepare our youth to be fiscally responsible?

HOW WE MAKE FINANCIAL LITERACY A PART OF THE CURRICULUM AND IMPROVE OUR FUTURE ECONOMY BY PROVIDING OUR YOUNG PEOPLE WITH THE SKILLS THAT THEY NEED

There is no longer a question of 'if we should' teach our students the importance of financial literacy, or 'when should' it be taught. Today, there is just a matter of whom. An organization like Junior Achievement removes the burden of finding the coursework, the trained professionals, or the appropriate department to convey the information to students. For nearly a century, JA has been arming students from primary school through college with the knowledge and skills necessary to form sound financial management discipline and to ultimately break the cycle of debt and bad habits.

Though JA is a 501(c)3 nonprofit, we operate like a business and are strongly aligned with the business world. We are in the business of developing youth, the economy and education–all of which are attractive to the corporate world as we are developing their future workforce. Many business partners, both local and global, volunteer to provide students with real world scenarios in the classroom.

JA has always created programs that combined conceptual learning with hands-on, experimental activities and concepts that link to real-world application – today and in the future. Now, they have incorporated the use of technology simulations, virtual learning and the Internet to broaden their reach and mirror how today's children learn, interact with each other and view the world. The simulations and activities are designed to allow children to see the impact of their decisions in a safe and nurturing environment, providing them with the knowledge, skills and confidence to apply what they have learned to the real world.

Students gain financial management knowledge realized from their participation in specific JA programs. The programs are comprehensive and sequential (yet independent), and target elementary, middle and high school students. It is a strong belief that financial concepts can be taught early so that positive habits are developed. In fact, students as young as 4 or 5 can start learning about finance.

Programs conducted by JA with a focus on Financial Literacy include, but are not limited to, JA More than Money, JA Economics for Success, JA Personal Finance, and JA Finance Park. Students participating in JA More than Money reported they learned practical skills, such as how to open a bank account, write a check, and develop a business. Students who participated in JA Economics for Success were more likely than their peers to report that they understand what it means to save and invest. More than 8 out of 10 students (84%) who participated in JA Finance Park agreed the program taught them how to avoid going into debt. Almost 9 out of 10 middle school students (88%) who participated in JA Finance Park reported more confidence in managing their personal finances.

Once a student has graduated the JA financial literacy program, many are asked to complete evaluations on their ability to complete financial tasks, both prior to and following programs participation. Across these evaluations, students consistently share the acquisition of skills that are important for future success. These include but are not limited to creating a budget, developing a savings plan, and setting personal financial goals.

Across the United States, Junior Achievement reaches over 4 million students in nearly 114 markets, including urban and rural. Junior Achievement touches the lives of 150,000 students in the state of Pennsylvania each year with instruction from 6,000 mentors in the corporate and greater community. In just the Delaware Valley alone, more than 18,000 students have been reached. During the last 75 years, Junior Achievement has impacted over four million students in the state. Each year, JA reaches over 50,000 students with directed financial literacy programs. During last school year, we expanded JA Personal Finance into a new program called JA Money 101, which is a 6-session high school program that focuses on earning money; spending money wisely through budgeting; saving and investing money; using credit cautiously; and protecting one's personal finances. In addition, students put the lessons into action by creating a five-year financial plan.

Junior Achievement and its offices in Pennsylvania are participants in the Jump$tart Coalition for Personal Financial Literacy and are currently working with the PA House Education Committee to be a solution provider for financial literacy. We have previously worked with the PA Office of Financial Education and the President's Advisory Council on Financial Literacy.

Though a great number of students have been reached, many are still without reach to the tools provided by Junior Achievement. Many are in schools with low funding, like those for instance, in the Philadelphia School District alone. With 53 high schools, 16 middle schools and 149 elementary schools, it is one of the largest in the state, having served 154,262 students in the 2011-2012 academic year alone. In the state's top enrollment districts, 405,892 students walked through school doors between 2011 and 2012 (1.5% of the nation. Imagine if every student that walked out of every high school upon graduation was just a little bit savvier with their finances, just a little bit more financially literate, and a little bit more confident entrepreneurially. If the state required personal finance and economics as a course for graduation, Pennsylvania would be a leader in the direction for a more financially independent student body, and a brighter, more responsible economic future.

2012 Consumer Financial Literacy Survey, by the National Foundation for Credit Counseling - http://www.nfcc.org/newsroom/FinancialLiteracy/files2012/FLS2012FINALREPORT0402late.pdf

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