HB 2166 Oral Proponent Testimony

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As a former teacher who taught financial literacy to high school students, I have seen firsthand the necessity for consistent, comprehensive financial education for all students. To say that we are preparing students to be successful in college or career without **ensuring** they have a basic understanding and level of money management skills is ignoring research and evidence-based studies that clearly show the short and long-term impact on students.

I believe everyone here agrees that it is a good idea for students to have money management skills. The disagreement stems from whether it's the legislature's job to make financial literacy mandatory. My question is why wouldn't we want to **make sure** every graduate has this essential skill for success going forward? As we know all too well, there is much interpretation of the Kansas Constitution regarding who has certain rights and responsibilities when it comes to education. We all want our students to be successful. Let's give them the financial skills to do so!

House Education
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The Case for High School Financial Literacy

Why High Schools?

Personal finance education should start early at both home and school. Ideally, personal finance concepts should be taught in elementary, middle and high school, and should continue into college. In mathematics, you start with counting, move on to addition and subtraction, and then move on to division and multiplication. You need to learn letters before you can read. Personal finance education should be a cumulative process, with age-appropriate topics taught each school year. The reality is that many states and school districts do not provide any substantive personal finance education until high school, if at all.

The basics of personal financial planning-teaching young people about money, its value, how to save, invest and spend, and how not to waste it-should be taught in school as early as elementary school. But too many school districts teach personal finance for the first and only time in high school.

According to the National Center for Education Statistics, in 2015, 69% of students enrolled in college in the fall immediately following high school completion.[1] That means that about 31% of students are likely entering the workforce after high school. For those graduates who choose to go on to higher education, personal finance education in college is often scant and scattered, with few colleges offering a personal finance elective and even fewer requiring personal finance instruction as a graduation requirement. Regardless of when a young person's formal education ends, they will be thrust into situations where they need to know how to manage daily living expenses. So, high school seems like the best and most logical place to deliver personal finance education to America's youth.

Admittedly, a high school focus could omit some of the students who have dropped out of high school. The National Center for Education Statistics indicates that the high school dropout rate (the percentage of people ages 16 through 24 who are not enrolled in school and have not earned a high school credential) was about 6% in 2015.[2]

The Center's High School Report Card focuses on each state's financial literacy education policy because that data is obtainable. It is very hard to measure the amount and intensity of personal finance instruction that is occurring in people's homes, and meaningful data on this topic is hard to obtain for the thousands of elementary and middle schools across the country. Definitive college data is equally hard to find in this area. However, a lot of great things are happening in our colleges and universities as well as our elementary and middle schools. In the section of this report entitled "Extra Credit: State Policies and Programs That Are Making a Difference," we attempt to give you a small sampling of the many state initiatives that are trying to bring personal finance concepts to K-8 children and to young adults in college or the workplace.

The Case for High School Financial Literacy

Personal finance education in high school provides students with the knowledge and skills to manage financial resources effectively for a lifetime of financial well-being. Here are just some of the reasons our young people need to learn about personal finance:

- The number of financial decisions an individual must make continues to increase, and the variety and complexity of financial products continues to grow. Young people often do not understand debit and credit cards, mortgages, banking, investment and insurance products and services, payday lending, rent-to-own products, credit reports, credit scores, etc.
- Many students do not understand that one of the most important financial decisions they will make in their lives is choosing whether they should go to college after high school, and if they decide to pursue additional education, what field to specialize in.
- Kids are not learning about personal finance at home. A 2017 T. Rowe Price Survey noted that 69% of parents have some reluctance about discussing financial matters with their kids.[3] In fact, parents are nearly as uncomfortable talking to their children about sex as they are about money. Only 23% of kids surveyed indicated that they talk to their parents frequently about money, and 35% stated that their parents are uncomfortable talking to them about money.
- On an international financial literacy test of 15-year-olds, the U.S. ranked 7th out of 15 countries,trailing China, Canada, Russia and Australia, and was just slightly better than Poland-what a"Sputnik moment."[4]
- A 2016 survey indicated that only 31% of young Americans (ages 18 to 26) agreed that their high school education did a good job of teaching them healthy financial habits.[5]
- Most college students borrow to finance their education, yet they often do so without fully understanding how much debt is appropriate for their education or the connection between their area of study and the income level that they can expect upon graduation. Many students attend college without understanding financial aid, loans, debt, credit, inflation, budgeting and credit scores.
- At many colleges, financial literacy education is largely composed of brief, federally mandated entrance and exit loan counseling for students. Student feedback indicates that most do not comprehend the information presented, and view it as one more requirement of the financial aid process rather than a learning opportunity.

Student debt can be very high for some recent college graduates and large debt variations exist from state to state. Ac ig to a recent study of 2016 four-year public and private college graduates, these students left college with average student debt that ranged from a low of $20,000 in Utah to a high of $36,350 in New Hampshire. The percent of these students graduating with debt ranged from a low of 43% in Utah to a high of 77% in West Virginia.[6] According to the U.S. Department of Education, 11.5% of students who graduated from college in 2014 have loans in default.[7]

- Employee pension plans are disappearing and being replaced by defined contribution retirement programs, which impose greater responsibilities on young adults to save and invest, and ultimately spend retirement savings wisely. If they fail to do this, they could become a significant economic burden on our society.
- A 2014 study indicated that only 24% of Millennials (ages 18 to 34) surveyed could answer four out of five questions correctly in a financial literacy quiz.[8] By comparison, 48% of Baby Boomers (born between 1946 and 1962) were able to answer four out of five correctly. While Boomers should be more knowledgeable, our young citizens are dangerously illiterate in this area.
- Credit scores are a difficult concept for many young adults. The economic cost of low (or no) credit score is very high. One's credit score and borrowing history impacts one's daily life: applying for a credit card, purchasing a home or car, renting an apartment, buying insurance, signing up for certain utilities, and even getting a new job. Having an excellent credit score could save a consumer in excess of a $100,000 in interest payments over a lifetime (see: Credit.com's Lifetime Cost of Debt Calculator).

Financial literacy leads to better personal finance behavior. There are a variety of studies that indicate that individuals with higher levels of financial literacy make better personal finance decisions. Those who are financially illiterate are less likely to have a checking account, rainy day emergency fund or retirement plan, or to own stocks. They are also more likely to use payday loans, pay only the minimum amount owed on their credit cards, have high-cost mortgages, and have higher debt and credit delinquency levels.

As a society, we need more training programs that increase the number of financially literate citizens who are able to make better and wiser financial decisions in their own lives. Such programs are not just good for the individual but also helpful to society. The 2008 financial crisis clearly shows that poor financial decisions by individuals had negative consequences on our country.

The good news is that studies indicate that financial literacy educational interventions in high school appear to have a positive impact on knowledge and measurable financial behaviors:

- **MANDATED FINANCIAL LITERACY EDUCATION IMPROVES CREDIT BEHAVIOR.** Researchers focused on three states where material personal finance high school education mandates were recently enacted (Brown, Collins, Schmeiser, and Urban, 2014).[9] Default rates and credit scores of recently graduated students who received this education were compared to similarly aged individuals in bordering states that did not change their financial literacy education requirements in high school. It was found that mandated personal finance education in high school improved the credit scores and reduced the default rates of young adults. There was no measurable change in the bordering states over the same time period measured.
- **ROBUST EDUCATOR TRAINING AND A WELL-DESIGNED CURRICULUM WORK.** Another study shows that a well-designed personal finance course (one semester in length), taught by highly trained educators who attended a 30-hour week-long training program and used a specific curriculum, improved the average personal finance knowledge of the students in all standard and concept areas covered by the researchers' assessment examination (Asarta, Hill, and Meszaros, 2014).[10]
- **EDUCATORS WHO LEARN TO TEACH PERSONAL FINANCE IN A GRADUATE-LEVEL COURSE ARE DRAMATICALLY MORE CONFIDENT AND EFFECTIVE.** Students who learn personal finance from these trained teachers showed significant knowledge gains in all test topics, while a control group of students who did not receive personal finance education dropped slightly in knowledge in all but one area. Also, students who received formal education by trained teachers reported some improvement in most personal finance behaviors measured. Indeed, students who received personal finance education by trained teachers had "high financial literacy" on par with the literacy levels of Generation X (ages 35 to 49) and higher than that of older Millennials (ages 18 to 34) (Champlain College's Center for Financial Literacy, 2015).[11]

As former President Bill Clinton stated, financial literacy is "a very fancy term for saying spend it smart, don't blow it, save what you can and know how the economy works."[12] Financial literacy, just like reading, writing and arithmetic, builds human capital by empowering individuals with the ability to create personal wealth to buy a home, go to college, have a rainy day and retirement fund.

We would not allow a young person to get in the driver's seat of a car without requiring driver's education, and yet we allow our youth to enter the complex financial world without any related education. An uneducated individual armed with a credit card, a student loan and access to a mortgage can be nearly as dangerous to themselves and their community as a person with no training behind the wheel of a car.

1 - Department of Education, National Center for Education Statistics and the Institute of Education Sciences. "Fast Facts, to School Statistics." https://nces.ed.gov/fastfacts/display.asp?id=372.

2 - U.S. Department of Education, National Center for Education Statistics and the Institute of Education Sciences. "Fast Facts, Dropout Rates." https://nces.ed.gov/fastfacts/display.asp?id=16.

3 - T. Rowe Price. "Parents, Kids & Money Survey." http://www.moneyconfidentkids.com/content/money-confident-kids/en/us/media/research/2017-parents--kids---money-survey-results.html.

4 - Organisation of Economic Co-operation and Development (OECD). PISA 2015 Results: "Students and Money: Students Financial Literacy (Volume IV)." PISA, OECD Publishing. http://www.keepeek.com/Digital-Asset-Management/oecd/education/pisa-2015-results-volume-iv_9789264270282-en#.WeUF0ltSyUk.

5 - Bank of America/USA TODAY Better Money Habits Report, "Young Americans & Money, Fall 2016." https://about.bankofamerica.com/assets/pdf/BOA_BMH_2016-REPORT-v5.pdf.

6 - The Institute for College Access & Success. "Student Debt and the Class of 2016." https://ticas.org/sites/default/files/pub_files/classof2016.pdf.

7 - U.S. Department of Education, Federal Student Aid. "Official Cohort Default Rate for Schools." https://www2.ed.gov/offices/OSFAP/defaultmanagement/cdr.html.

8 - Mottola, Gary. "The Financial Capability of Young Adults-A Generational View." FINRA Foundation Financial Capability Insights. http://www.usfinancialcapability.org/downloads/FinancialCapabilityofYoungAdults.pdf.

9 - Brown, Collins, Schmeiser, and Urban, 2014. "State Mandated Financial Education and the Credit Behavior of YoungAdults." https://www.federalreserve.gov/pubs/feds/2014/201468/201468pap.pdf.

10 - Asarta, Hill, and Meszaros, 2014. "The features and effectiveness of the Keys to Financial Success curriculum." http://nebula.wsimg.com/7c3014715076f1f6a49caa6f4b6af123?AccessKeyId=27E1C5C94AE9959DA340&disposition=0&alloworigin=1.

11 - Champlain College's Center for Financial Literacy, 2015. "Prepped for Success, A Study of Teacher Training, Financial Literacy & Classroom Outcomes." https://www.champlain.edu/centers-of-excellence/center-for-financial-literacy/report-prepped-for-success.

12 - Klein, Asher and Giordano, Jackie. "Bill Clinton Visits USC to Teach Kids Value of Financial Literacy." Channel 4, Southern California. http://www.nbclosangeles.com/news/local/Bill-Clinton-Visits-USC-to-Host-Financial-Literacy-Event-282070241.html.