Improving Consumer Financial Literacy under the New Regulatory System

Testimony of
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Good afternoon, Chairman Gutierrez and members of the Subcommittee on Financial Institutions and Consumer Credit. Thank you for this opportunity to speak with you today.

My name is Laura Levine and I am the executive director of the Jump$tart Coalition for Personal Financial Literacy, a non-profit organization based here in Washington, DC. Jump$tart is a coalition of about 180 companies, organizations, and federal agencies from the for-profit, non-profit, academic and government sectors, which share a commitment to advance financial literacy among students in kindergarten through college. Jump$tart is also a network of 48 affiliated state coalitions, which operate as true grassroots coalitions, largely without permanent staff or facilities, supported by the volunteer dedication of local organizations and individuals.

Nationally, the Jump$tart Coalition was founded in 1995 by a small group of organizations that recognized the need to educate students about personal finance, as well as the importance of meeting this need through a collaborative effort. Jump$tart does not conduct financial education itself or create financial education resources; rather, its role is to help coordinate the effort among the coalition partners and to support and promote individual and collective efforts to educate young people about money management.

As the committee considers the importance of financial literacy within the regulatory system, Jump$tart encourages you to keep in mind the difference between educating and informing adult consumers, and providing standards-based, tested, personal finance education for students in kindergarten through high school. Any widespread effort to require personal finance education at that level must be coordinated by or with the U.S. Department of Education, as well as state departments of education, and the various appropriate educational organizations at the national, state and local levels.

Without a doubt, Jump$tart is supportive of financial literacy for all consumers but, as the slogan on our logo indicates, the national partners of the Jump$tart Coalition remain devoted to advancing “financial smarts for students.” With that in mind, my testimony today will focus on financial literacy for the consumers of tomorrow.

Jump$tart believes that financial literacy is an important element of consumer protection. Even with better regulation designed to protect consumers and more readable disclosures that most consumer can easily understand, an adequate level of financial literacy would give most consumers comfort, confidence and the ability to make decisions most advantageous to their specific needs. Additionally, we believe the financial education of K-12 students is necessary, before they head too far down the wrong financial paths, to ensure future generations of financially literate adult consumers. But today, many young consumers are not adequately prepared to handle the growing variety and complexity of financial products and services or make wise decisions in managing their own money.

Financial Literacy Levels among Students

In 1997, the Jump$tart Coalition launched its first survey of financial literacy among high school students. The survey was written and conducted on Jump$tart’s behalf by Dr. Lewis Mandell, who is currently with the University of Washington and the Aspen Institute. The Jump$tart Survey of Financial Literacy among High School Students was conducted again in 2000 and has been repeated biennially since then.[1]

Nationally, the average score on the test portion of the survey has ranged from 48.3 percent—in our most recent survey, released in 2008—to a high of 57 percent, which would still be a “failing” grade. In each of the surveys, the participants were 12th grade students, recruited from randomly selected public high schools across the country. Students were surveyed in non-finance related classes to achieve a natural cross-section of students who had had financial education, as well as those who had not. The survey includes questions about different types of investment products, credit and credit histories, income, insurance and other personal finance topics.

[1] The complete 2008 survey, with results from high school and college participants, can be downloaded from Jump$tart’s website at www.jumpstart.org. Dr. Mandell’s analysis of the 2008 surveys and the research from its inception can also be obtained from Jump$tart’s website in a publication called *The Financial Literacy of Young American Adults*.

It is important to note that Jump$tart's survey is intended as a general measure of the level of financial literacy among high school students at a given point in time. It was not designed to be an assessment of the effectiveness of specific financial education curricula; therefore, we should not conclude from the low scores that financial education is ineffective. Rather, the consistently disappointing results over more than a decade of research do, however, seem to indicate a need for more and better financial education and information.

In 2008, Jump$tart also surveyed college students for the first time. Given the same test questions, college students, on average, answered 62.2 percent of the questions correctly—substantially better than the high school average score of 48.3 percent. The college seniors, separated out as a segment, scored 64.8 percent, which would indicate a level of financial knowledge that we might consider acceptable or close to it. Unfortunately, college graduates are still a relatively small segment of our total population and many young adults begin making financial decisions well before they reach this point. At this time, we do not have any information on the financial literacy of those college-age young adults who are not actually in school.

Financial Education Efforts

The Jump$tart Coalition believes that personal finance must be included in the education of all students, during the kindergarten through high school years, to provide young people with the knowledge and skills they need to make smart financial decisions. Some positive strides have been made in financial education in recent years, but we need to do more.

Jump$tart has identified three states—Missouri, Tennessee, and Utah—that currently require all students to take and pass a one-semester course devoted to personal finance in order to graduate from high school. Another 18 states require some personal finance content to be incorporated into other required subject matter. In Illinois, for example, students are required to take a nine-week consumer education course, a large portion of which is devoted to the basic concepts of financial literacy.[2]

Other states have taken steps toward incorporating financial education into their curricula. In Michigan, for example, Senate Bill 834, passed in December, allows schools districts to offer a one-semester personal finance course to fulfill a math credit requirement.

[2] Jump$tart tracks financial education mandates at the state level on it website: http://www.jumpstart.org/state_legislation/index.cfm The color coded map offers an overview of financial education requirements nationwide. The authorization and supporting documents are also posted, where applicable.

It is important to note, however, that personal finance education is taking place in schools across the country, whether or not the state or local jurisdiction requires it—and much of this is as a result of the efforts of Jump$tart's partner organizations that make curricula and other resources available to schools. Jump$tart operates an online clearinghouse of financial education curricula and other materials, which currently lists more than 700 resources—many available to educators and others at no or low cost.[3]

We believe that personal finance education needs to be introduced in the early elementary school years, while students are forming their behaviors and beliefs.

We believe that effective financial education in the middle grades could help troubled or unmotivated students start to make the connection between staying in school and their life-long income earning potential—possibly changing the path of would-be drop-outs. Well rounded financial education, covering careers, income, and entrepreneurship, may help young people envision themselves in a future that they might not have otherwise imagined.

Jump$tart is encouraged by the progress that many states have made in requiring or offering personal finance education, generally at the high school level, but we need a widespread and consistent strategy to ensure that all students—in all parts of the country, from all segments of the population—are receiving adequate financial education. In the mean time, states need funds to strengthen and promote these programs, provide training and support for the classroom teachers who deliver this content, and assess the effectiveness of this education.

Standards

One of the ways in which Jump$tart helps to ensure the quality of financial education is through the *National Standards in K-12 Personal Finance Education*, which include learning benchmarks for the 4th, 8th, and 12th grades.[4] These standards are intended as a model, representing the framework of an ideal personal finance curriculum, outlining not only the financial knowledge, but also the skills, that students should possess before leaving high school.

The standards characterize financial literacy not as an absolute state, but as a continuum of abilities and an evolving state of competency that enables each

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[3] Jump$tart's online clearinghouse of financial education resources is operated at no cost to the user or product provider. Users link directly to online resources or order materials from the provider as indicated. Jump$tart reviews submissions for accuracy, completeness, and appropriateness for educational use. http://www.jumpstart.org/search.cfm

[4] The National Standards can be viewed online or downloaded at no cost from the Jump$tart website. http://www.jumpstart.org/guide.html Print copies may be ordered through the Federal Citizen Information Center. http://www.pueblo.gsa.gov/

individual to respond effectively to ever-changing personal and economic circumstances

The National Standards were last revised in 2007 by an academic task force assembled by Jump$tart. Other reviewers included representatives from financial institutions and financial associations, educational non-profit organizations such as Junior Achievement and the National Endowment for Financial Education; the Florida and Virginia Departments of Education; as well as classroom teachers and university professors.

Using some of the benchmarks under "Credit and Debt," for example, financial education should enable a 4th grade student to explain the difference between buying with cash and buying with credit. An 8th grade student should be able to explain how the interest rate and term affect the cost of credit. And by high school graduation, a young consumer should be able to define credit card disclosure terms and complete a typical credit card application.

In addition to the National Standards in K-12 Personal Finance Education, Jump$tart believes that effective financial education and financial education materials follow a set of "best practices"[5] that include: objectivity in content and tone; alignment with educational standards in business, economics, consumer science, math and social studies; stimulating, relevant and contemporary activities, presented clearly, using plain language; the acknowledgement of audient diversity (and text translation, if necessary); accuracy, especially with regard to information that is current; availability and accessibility, including for those students with special needs; and an assessment tool or element to measure both knowledge and potential behavioral change.

Conclusion

I thank the subcommittee for the opportunity to speak to you today. As you start to shape the future regulatory atmosphere for financial institutions, I urge you to keep the financial literacy of our nation's students in mind, too. More—not less—personal financial education is needed, and we need to have a long-term, nationwide strategy in place to ensure that this education is available to all students.

[5] Jump$tart's complete list of best practices can be found on the Jump$tart website: http://www.jumpstart.org/bp.cfm