

The State of Financial Literacy and Financial Education in the United States

By Jeff Zhou

AUTHOR BIO

Jeff Zhou is currently a senior at the San Francisco Waldorf High School. As of August 2022, he is 17 years old. He is interested in social entrepreneurship, business, and finance. At school, he is the president of the finance club, where he invites finance professionals to teach at club meetings. In his free time, he runs a website that provides personal finance resources and opportunities for other high school students. He also enjoys photography, playing basketball, reading, and traveling. In his first time writing a literature review, Jeff chose to research the literature on financial education in the hope of gaining a comprehensive understanding of its current state in the United States and its importance.

ABSTRACT

The world we live in is more complex than ever. We can now transfer money through mobile payment apps such as Venmo, budget through online services such as Mint, and invest in the stock market through free-trading apps like Robinhood. As a result, teenagers and young adults can easily spend and accumulate debt without ever seeing paper money change hands. Without these physical barriers to spending and the vast subscription services and online shopping opportunities, people are more susceptible to losing control of their personal finances. Due to new financial technology and globalization, personal finance has become increasingly complicated in the United States and throughout the world. This paper reviews the literature on the current state of financial literacy in the United States, including the efforts to improve financial education. This paper will also discuss how financial literacy is measured in the existing literature and consider whether financial education improves adult financial literacy or personal finance outcomes. Finally, this paper will outline a few proposals for future research. learning.

Keywords: *Financial literacy, financial education, personal finance, public policy issues, high school personal finance, post-secondary school personal finance, retirement, savings, investing.*

INTRODUCTION

In recent years, the concern over the lack of financial literacy in the United States has increased. Previous studies discussing financial literacy tend to agree that “consumers lack the financial literacy to make important financial decisions in their own best interests” (Mandell & Klein, 2009). Moreover, Lusardi and Wallace (2013) reported that young adults between the ages of 23 and 25 usually have the lowest level of financial literacy. Although these levels are low in every subgroup of the population, it is especially concerning among teenagers and young adults who are just starting to make financial decisions that will significantly impact their lives, suggesting that it is increasingly important to educate citizens at a young age on the basics of financial concepts.

The majority of concern over financial literacy is due to the transition from defined benefit to defined contribution pensions, leaving many people today more responsible for figuring out how to save for their retirement and how much they should invest in their chosen plan (Bumcrot, Lin, & Lusardi, 2013). If new forms of investment are constantly emerging, preparing citizens for their financial future could be essential as they face increased responsibility for their savings and investing.

Defining Financial Literacy

Before determining if high school personal finance courses result in higher financial literacy among adults, it is essential to understand precisely what financial literacy is. While one study claimed “financial education is the knowledge that helps people make sound, informed financial decisions” (Valentine & Khayum, 2005, p. 1), another researcher suggested defining it as “a combination of awareness, knowledge, skill, attitude, and

behavior necessary to make sound financial decisions and ultimately achieve individual financial wellbeing” (Cameron et al., 2014, p.13). As McCormick (2009) pointed out, despite its growing popularity, there is no single, uniform definition of financial literacy. However, existing literature generally regards financial literacy as a combination of knowledge and ability, which are the two essential factors that an individual should possess to manage their personal finances responsibly (Huston, 2010; Lusardi, Mitchell, & Curto, 2010). In this paper, “financial literacy” is defined as having both the knowledge and ability to make informed personal finance decisions.

Current State of Financial Literacy Among Youth (K-12) in the US

One of the most comprehensive measurements of financial literacy among young individuals in the U.S. is the OECD Program for International Student Assessment (PISA), which assesses the knowledge and skills that 15-year-old students have acquired in several critical areas. Since 2012, PISA has designed a module on financial literacy to measure three different dimensions: knowledge and understanding of basic financial topics, cognitive processes related to students’ ability to recognize and apply relevant financial concepts, and the breadth of contexts in which financial knowledge, skills, and understanding are applied. In addition to financial literacy scores, the assessment includes information on each student’s cultural, educational, and socioeconomic background.

Findings from the most recent PISA assessment (2018) suggest that, like their adult counterparts, many high school students in the U.S. lack basic financial knowledge and skills. For example, on a 1,000-point scale, the average score for U.S. students was 506. These levels of

financial literacy are low, and they have been quite resistant to progress since the initial assessment. According to the study, U.S. students' scores were statistically the same since the first assessment in 2012.

Some Financial Literacy Determinants

Studies show that other determinants besides educational instruction may affect one's financial knowledge. Some researchers believe there are "considerable differences among demographic groups" (de Bassa Scheresberg, 2013, p. 10). The characteristics of race and sex are considered factors that affect one's financial literacy. One group of researchers suggested that "there is now fairly robust evidence confirming that many women do not do well in financial calculations." Their study also found that "white people were more likely than Black and Hispanic respondents to answer financial literacy questions correctly" (Lusardi, Mitchell, & Curto, 2010, p. 367). Though these findings are discouraging, they show us the specific groups of people who benefit from financial education the most. A larger argument lies in the role of educational attainment as a factor in youth's financial literacy. Valentine and Khayum (2005) showed that plans to pursue post-secondary education significantly improve a student's overall financial literacy score. Students with professional goals may already be more able to understand and apply financial topics and appreciate their importance. Data also suggests that college-educated parents have more financially literate children (Lusardi, Mitchell, & Curto, 2010, p. 363). Parents with a higher education level are more likely to instill financial knowledge in their children and encourage higher education. It is seen that overall, education plays a prominent role in financial literacy.

Issues when Incorporating Financial Education into High Schools

While incorporating financial literacy into high school curricula should be attainable, understanding the issues ahead allows us to understand better how to implement the proposed solutions. Unfortunately, potential problems arise when studying the correlation between high school education and personal financial literacy. One common problem discussed among researchers is that the effectiveness of the curriculum may be compromised if the teachers are not adequately trained. One researcher suggested that "teachers may have inappropriate or inadequate qualifications (Bernheim, Garrett, & Maki, 2001, p. 436)." Another claimed that "mandate effectiveness could also be compromised if mandates create negative learning environments or if teachers are untrained in the subject area (Tennyson & Nguyen, 2001, p. 242)." It will be challenging to increase students' financial knowledge if teachers are not educated as well. Training teachers and providing them with the proper tools to educate students is crucial when incorporating a financial course into a curriculum.

Student interest and engagement are additional issues in education. Bernheim, Garrett, and Maki (2001) argued that "students may fail to take the material seriously." Though this is a possibility, as with any other subject, some students have expressed a desire for financial education, which decreases the chances of this occurrence. Also, if a personal finance course is a graduation requirement and the importance of the class material is stressed, they will be able to fall back on this knowledge later. However, one researcher said, "there is substantial variation in personal finance curriculum mandates across the states" (Tennyson & Nguyen, 2001, p. 246). This suggests a more standardized curriculum needs

to be created so that students across the nation have the same exposure to financial education and more equal opportunities to succeed.

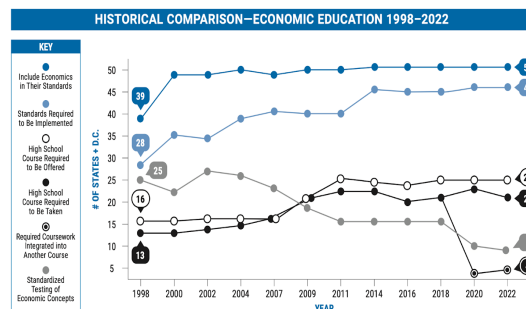
Efforts to Improve Financial Literacy

The lack of financial literacy has stimulated the development and implementation of various educational programs to improve financial literacy. At high school level, 21 states incorporate personal finance standards, courses, or exams as a graduation requirement (CEE, 2022). Current attempts to address financial literacy in the U.S. are generally categorized into three groups: early education or adoption, mitigation, and retirement planning. The early education efforts focus on developing a baseline understanding of money and economic forces, covering topics like the fundamental definition of currency and its role in society to mathematics and finance. Such early educational initiatives, and the required curriculum modifications, are often dictated by education standards boards and vary state by state. On the other hand, mitigation efforts aim to reactively address the negative impacts of financial illiteracy through education and alleviative tools. These tools can come from loan consolidation, personal financial advisory, and general education to make up for poor or nonexistent early education. Lastly, retirement planning solutions focus on helping individuals set retirement goals and identifying the necessary measures and decisions to achieve those objectives.

These initiatives are undertaken primarily by the U.S. government, non-profit organizations, and for-profit enterprises. The U.S. government focuses mainly on resources dedicated to educational programs, while sometimes receiving assistance from non-profit organizations for additional resources and for-profit enterprises for funding. Non-profit programs usually prioritize qualifying issues of

financial illiteracy, such as burdening debt, poor credit, and interest consolidation, while the private sector typically addresses retirement planning education. However, outside the K–12 classroom, most of these efforts are autonomous, lacking meaningful coordination and collective effort across platforms and topic areas.

With a better grasp of what current research shows about the effects that high school courses have on young adults and an understanding of other possible factors and problems, there is a strong case in favor of required personal finance courses. As Figure 1 displays, economic education has been taught more in high school classrooms over the past two decades. However, the presence of specifically designated personal finance courses is still low (CEE, 2022).



Source: Council for Economic Education (CEE). (2022). Survey of the states' economics, personal finance, and entrepreneurship education in our nation's schools 2022. New York: CEE.

Conclusion

With our current understanding of the definition of financial literacy, its current role in high schools, and the potential problems that may exist, we can evaluate the most effective solution. While previous research has shown a positive correlation between receiving personal finance education in a high school setting and having a higher adult financial literacy (Fan & Chatterjee, 2018), future studies should consider the factors that impact financial literacy. Furthermore, future financial literacy assessments should test students before and after

completing a course to see if their financial literacy has actually improved. It would also be helpful to test students across the United States to compare regional differences and to determine whether teaching methods would produce different results. Young adults and teenagers are becoming more responsible for their financial outcomes, so it is important to understand how society can help them make informed decisions.

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