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Ms. Chairwoman and members of the Subcommittee on Children and Families:

Thank you for the opportunity to speak to you about the economic importance of financial literacy for students.

I am the director of the Global Center for Financial Literacy at the George Washington University. As part of my research, I develop tools for testing financial knowledge, conduct studies into financial literacy levels, and assess what the results of those studies mean for the United States.

I am here today to tell you that the vast majority of Americans do not have the financial knowledge they need to fully participate in the economy or to make informed decisions about their own financial futures. This reality has implications for their lives and for the economic health of the country.

According to the 2009 National Financial Capability Study, only 30 percent of the population can do a simple 2 percent calculation and has a basic understanding of inflation and risk diversification, concepts that are important in financial decision-making. The second wave of that study is about to be released. It shows no improvement in the level of financial knowledge between 2009 and 2012.

Financial illiteracy is not only widespread, but it is particularly severe among specific groups of the population, including people aged 18 to 25. These youths just out of school and young adults beginning their careers are less financially knowledgeable than the general population.

When we focus on high school students, the findings are even more sobering. Data collected bi-annually by the Jump$tart Coalition for Personal Financial Literacy show that only 7 percent of high school students can be considered financially literate.[1] These statistics have troubling implications. Studies show that Americans who are not financially literate are less likely to participate in financial markets or to invest wisely. They are less likely to save and plan for the

[1] See Mandell, Lewis. 2008. Financial Education in High School. In *Overcoming the Saving Slump: How to Increase the Effectiveness of Financial Education and Saving Programs.* Ed. A Lusardi. Chicago: University of Chicago Press: 257–279.

future. At the same time, they are more likely to rely on high-cost methods of borrowing. This is a serious problem. Remedying it is difficult, but adding financial literacy to the curriculum in schools would be a good start. Academic research points to four reasons why we should launch financial literacy efforts in schools:

1) The first reason stems from the fact that financial illiteracy is widespread. That means young people with poor financial knowledge are unlikely to learn from their parents, other adults, or peers. Only a small fraction of students currently have access to adults and peers who are financially literate.

2) The second reason to include financial literacy in school has to do with equality. A failure to understand financial concepts is especially prevalent among certain demographics in the population. Data from the Jump$tart Coalition and other surveys show that white male students from college-educated families disproportionately account for the small percentage of students who are financially literate. This is a distinction that persists over the life cycle. Women, African Americans, Hispanics, and individuals with few educational opportunities continue to display very poor levels of financial literacy—much lower than their counterparts—at middle age, before retirement, and into retirement.

   This finding is strikingly similar and robust across countries. In a study that compares financial literacy in eight countries—Germany, Italy, Japan, the Netherlands, New Zealand, Russia, Sweden, and the United States—Olivia Mitchell from the Wharton School and I found that women and those with low levels of education display disproportionately poor financial knowledge. This is the case at all stages of the life cycle, from youth to old age.

3) Another reason to focus on financial literacy in school is that it is a necessary skill for navigating today's complex world. This is so evident that the Organisation for Economic Co-operation and Development (OECD) last year added financial literacy to the topics it evaluates in its Programme for International Student Assessment (PISA). Financial knowledge now joins mathematics, science, and reading in those tests administered to 15-year-olds around the world.

   The PISA tests gauge whether students are prepared for future challenges, whether they can analyze, reason and communicate effectively, and whether they have the capacity to continue learning throughout their lives. These assessments are conducted every three years to help us understand if students near the end of compulsory education have acquired the knowledge and skills essential for full participation in society. Given these objectives, financial literacy seems to be an essential addition.

4) The fourth reason why school is a powerful place to teach financial knowledge is a simple one: Young people need to understand how to make wise financial decisions before—not after—they are faced with life-changing decisions. Most notable among those decisions is whether or not to invest in higher education. Education beyond high school has a tremendous effect on future financial security.

> At the same time, whether and how to finance higher education has changed dramatically in recent years. The cost of a college education has increased rapidly in the United States, surpassing the increase in both wages and inflation. This means that young people who pursue degrees often start their careers with substantial amounts of debt.

Some past studies looking into the effectiveness of financial literacy programs in high school did not find encouraging results. One study found that students in states that required financial education scored no better in financial literacy tests than those in states that did not require financial education.[2] However, subsequent analyses concluded that this research was incomplete since it did not account for course content, test measurement, teacher preparation, and the amount of instruction, just to cite some of the most important limitations. When researchers looked more closely at state education requirements, they found that when students are required to take a financial education course, they perform much better than students in states with no such requirements.[3] Thus, there is evidence that requiring personal finance education may, in fact, be effective in increasing student knowledge—but only when it requires significant exposure to personal finance concepts.

Other researchers have looked at teacher preparation. They found that less than one-fifth of teachers were prepared to teach any of the six personal finance concepts normally included in financial education courses. Moreover, states requiring high school financial education do not necessarily provide or promote teacher training. As a result, state education mandates appear to have no effect on whether teachers take courses in personal finance, teach the courses, or feel competent to teach such a course.[4]

Other studies attempted to provide a more rigorous framework for evaluating financial education in high school, recognizing that students who take financial education courses are not a random sample of the population of students and test scores might not align with what is taught in school. In research published in 2010, economics professors William Walstad of the University of Nebraska-Lincoln and Ken Rebeck and Richard MacDonald at St. Cloud State University used a quasi-experimental method to assess a well-designed video course that covered fundamental financial concepts.[5] The test was designed to measure improvements in financial knowledge. These researchers found a significant increase in the level of personal finance knowledge among students exposed to financial education, suggesting that conclusions from earlier findings were premature.

There is now a great deal of material available to help teachers and schools add financial literacy into school curricula and to improve the quality of that education. For example, we have national standards for financial literacy from the Jump$tart Coalition for Personal Financial Literacy and, more recently, the Council for Economic Education. The OECD also issued guidelines for

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[2] See the discussion in Mandell (2008).
[3] Tennyson, Sharon and Chau Nguyen. 2001. State Curriculum Mandates and Student Knowledge of Personal Finance. *Journal of Consumer Affairs* 35 (2): 241-262.
[4] Way, Wendy and Karen Holden. 2009. Teachers' Background and Capacity to Teach Personal Finance: Results of a National Study. *Journal of Financial Counseling and Planning* 20(2): 64-78.
[5] Walstad, William, Ken Rebeck and Richard MacDonald. 2010. The Effects of Financial Education on the Financial Knowledge of High School Students. *Journal of Consumer Affairs* 44(2): 336–357.

financial education in high school,[6] and its International Gateway for Financial Education serves as a global clearinghouse on financial education, providing access to a comprehensive range of information, data, resources, research, and news on financial education issues and programs around the globe.[7]

Other countries, such as the United Kingdom, recently added financial literacy in their schools.

Young people—not only in the United States but also around the world—face a new economic environment with more complex financial markets. They will have more individual responsibility in investing in their own education and in planning for their own financial security during their working lives and into retirement. And they will be doing this, among other things, on a global scale.

If they are going to do this well, they must be equipped with the right tools and skills. Just as it was not possible to contribute and thrive in an industrialized society without basic literacy—the ability to read and write—so it is not possible to successfully navigate today's world without being financially literate.

There is a cornerstone of economic theory: Where you have well-informed consumers, you will find vigorous competition and efficient markets. In other words, financial literacy is not only good for Americans because it allows them full participation in society, but financial literacy is also essential for business, the economy, the country and, in this age of globalization, the world.

Thank you for this opportunity. I would be pleased to answer any questions.

[6] Details are found at http://www.oecd.org/finance/financial-education/48493142.pdf
[7] For more information, see http://www.financial-education.org/home.html