APRIL 2013

Transforming the Financial Lives of a Generation of Young Americans

POLICY RECOMMENDATIONS FOR ADVANCING K-12 FINANCIAL EDUCATION

Consumer Financial Protection Bureau

Message from Richard Cordray

Director of the CFPB

When America was confronted with the worst financial crisis since the Great Depression, many families felt helpless in the face of joblessness, falling home prices, the rising cost of higher education, and diminished savings. Many were shaken in their deeply held belief that they could work hard, behave responsibly, and get ahead in life. As the American economy recovers, we want consumers to be able to look ahead with renewed hope and resilience.

The Consumer Financial Protection Bureau (CFPB) is working toward an improved marketplace by providing effective rules, consistent oversight, and evenhanded enforcement. Moreover, we seek to ensure that product marketing and disclosures are transparent, so individuals may compare products and make informed decisions. And we want consumers of all ages to have the opportunities and resources to improve their financial capability so they are able to navigate the financial marketplace effectively and take more control over their economic lives.

During my years in state and local government, I became deeply engaged in consumer finance issues. I saw good people struggling with debt they could not afford. Sometimes they made bad decisions they came to regret. Sometimes an unexpected event – like a loved one getting sick or a family member losing a job – overwhelmed even their most careful planning. Still other times, I saw unscrupulous businesses that obscured loan terms or engaged in outright fraud.

Many people struggle to understand financial matters, and this lack of understanding can lead them into trouble or make their financial problems harder to overcome. At the CFPB, we are uniquely positioned to address these issues by helping to bridge the gap between people's actual financial capabilities and the increasingly complex financial decisions they have to make.

We are deeply committed to a vision of an America where everyone is financially educated. But the challenges that confront us in achieving this goal are complex, varied, and significant. To face these challenges, we must see that people can learn financial management skills throughout life – in schools and in places of work and worship. But we should start where all good education starts – with our children.

Young people today and future generations should not have to repeat the financial mistakes made by earlier generations. This is why the CFPB is supporting a plan to bring financial education into K-12 classrooms. We are also committed to engaging and supporting teachers and parents who are some of our most important allies. I believe the financial education policy recommendations outlined in this white paper have the potential to transform the financial lives of a generation of Americans.

We look forward to collaborating with the many public, private, and nonprofit stakeholders and allies to advance this policy dialogue and help bring meaningful financial education opportunities to millions of American youth.

Sincerely,

Richard Cordray

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1. Introduction

The recent economic downturn raised awareness about the complex nature of our financial marketplace and how unprepared many Americans are to navigate the array of choices before them. The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 established the Consumer Financial Protection Bureau (CFPB), and mandated the creation of the Office of Financial Education within the CFPB to educate American consumers and help them make better-informed financial decisions.

To prepare Americans to make sound financial decisions, the CFPB is pursuing a broad and holistic approach, which includes strategies that:

- Help make financial markets and products safer for consumers;
- Increase transparency to enable individuals to compare products and make informed decisions; and
- Promote policies that help consumers of all ages improve their financial knowledge and capability in ways that will enable them to navigate the financial marketplace effectively and take more control over their economic lives.

Consistent with this approach, the CFPB is also identifying opportunities for broader policy coordination on financial education among a range of stakeholders in the nonprofit, government, and private sectors.

The purpose of this white paper is to outline how the ongoing struggle of many consumers to manage their finances can be mitigated in the future by focusing specifically on youth financial education. What we propose here is a comprehensive strategy to impart personal financial-management skills to young people while they are in school. We are focusing on school-based financial education policy for two reasons: first, most Americans are poorly prepared to make informed financial decisions; second, school-based financial education has the potential to reverse the current trend of poor financial preparation for future generations of American consumers.

It is not difficult to understand why it is important for American consumers to master personal financial-management skills. American consumers often learn about managing their finances by making mistakes. Some of these mistakes can be very costly. For example, when consumers make an ordinary financial mistake such as being late on monthly credit card payments, they can have a poor credit report.

As we know, unfavorable credit reports can have potentially far-reaching consequences for consumers beyond the credit market. Organizations increasingly use credit reports to make decisions beyond determining a consumer's eligibility for credit. For example, organizations can access an individual's credit report when determining eligibility for rental housing and checking accounts, setting premiums for auto and casualty insurance in some states, and making hiring decisions. Consumers can trigger wide-ranging consequences when they make seemingly small mistakes. Thus, consumers need to acquire the knowledge, skills, and decision-making abilities to manage their finances.

From our vantage point, there is a very promising opportunity to help consumers become informed financial decision makers by focusing financial education efforts on young people. In the U.S., we should start young people on the road to continuous money management practice by systematically introducing age-appropriate financial education lessons and activities during the K-12 school years. When we start early with age-appropriate and relevant financial education and consistently reinforce those lessons throughout the K-12 years, we can give young people more chances to develop positive habits and behaviors.

Due to young people's current high levels of financial activity, it is imperative to introduce personal financial management early. America's children and youth spend roughly $211 billion annually.[1] According to the Financial Industry Regulatory Authority (FINRA) Investor Education Foundation's 2009 National Financial Capability Survey, approximately 72 percent of

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[1] 2012 Harris Poll Youth Plus. Harris Interactive. "$211 Billion and So Much to Buy – American Youths, the New Big Spenders." http://www.harrisinteractive.com/NewsRoom/PressReleases/tabid/446/ctl/ReadCustom%20Default/mid/1506/ArticleId/896/Default.aspx (October 26, 2011) (accessed April 5, 2013).

youth (defined as 18 to 24 years old) have a checking account and approximately 62 percent have a savings account, money-market account, or CD.[2]

Although young people tend to be unbanked or underbanked at higher rates than adults, they are increasingly utilizing a patchwork of newer financial products. Some of these products are offered by specialized providers through retail channels, including stored-value cards (e.g., gift cards), prepaid debit cards, while others are utilized online such as PayPal, and mobile payment methods. In light of these changes and the growing complexities of the marketplace, young people have a greater need than ever before for resources that help improve their financial knowledge and capability. Schools and youth centers are logical places to provide exposure to financial concepts and opportunities for practical experience.

As we further discuss our policy proposal, it is important to acknowledge that there is already an ongoing and well-developed conversation about promising practices in promoting financial education and capability for children and youth. The CFPB enters this conversation to facilitate a national focus on how state and local policy leaders can develop and implement comprehensive financial education strategies for K-12 students that are appropriate for their educational locales. Here, we briefly outline the five essential strategies that we believe could positively transform the financial lives of a generation of young Americans:

- **Recommendation 1:** Introduce key financial education concepts early and continue to build on that foundation consistently throughout the K-12 school years. In addition, CFPB encourages states to make a stand-alone financial education course a graduation requirement for high school students.

- **Recommendation 2:** Include personal financial management questions in standardized tests.

- **Recommendation 3:** Provide opportunities throughout the K-12 years to practice money management through innovative, hands-on learning opportunities.

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[2] FINRA Investor Education Foundation. “Financial Capability in the United States, 2009 Nation Financial Capability Study.” http://www.finrafoundation.org/web/groups/foundation/@foundation/documents/foundation/p120535.pdf (accessed April 1, 2013): 51-52.

- **Recommendation 4:** Create consistent opportunities and incentives for teachers to take financial education training with the express intention of teaching financial management to their students.

- **Recommendation 5:** Encourage parents and guardians to discuss money management topics at home and provide them with the tools necessary to have money conversations with their children.

The remainder of this white paper provides an overview of the financial decision-making context that Americans navigate, surveys some existing efforts in K-12 financial education, and addresses each of these elements of a comprehensive youth financial education strategy.

2. What is the problem?

This white paper identifies two main problems: First, many young people are ill-equipped to make major financial decisions, and second, young people confront a financial services marketplace that involves increasingly complex financial decisions.

Many young people transition to adulthood without having developed the basic financial knowledge, skills, and behaviors that are critical for establishing healthy financial futures. Many factors account for this, but chief among them are that 1) in most states, schools are not required to teach young people personal finance, and 2) many parents are unsure about when and how to talk to their children about money. As a result, young people have their first formal financial experiences when they enter the labor market lacking practical money management training or skills.

In addition to having their first financial experiences largely through their participation in the labor market, young people confront a financial marketplace that is significantly more complex than the one their parents first encountered as young adults. It is important to note that while earlier generations of Americans may only have had to choose among providers of savings and checking accounts and mortgage and auto lenders, today's youth have to choose from a large array of financial products and services. For example, in the payments arena, they may use prepaid debit cards, stored-value cards (e.g., gift cards), mobile methods of payments (such as "mobile carrier billing" where third parties can place charges on monthly phone bills, and/or online payment options such as PayPal). The array of choices now available to young consumers gives rise to a trend the Center for Financial Services Innovation (CFSI) labels an "a la carte" approach to financial services.[3]

Given the increasing complexity of the financial services landscape, young people have a greater need for resources to guide their financial decisions and improve their financial capability than may have been the case for earlier generations of Americans.[4]

Yet, the unfortunate fact is that young people are often unprepared to navigate this complex landscape. A 2008 national survey by the Jump$tart Coalition found that the "financial literacy of high school students has fallen to its lowest level ever, with a score of just 48.3 percent."[5] It appears that neither parents nor schools are adequately preparing students to manage their finances. A 2011 survey conducted by American Express found that a majority of parents with children in high school or college gave schools below-average or failing grades in teaching responsible spending.[6] Young people are vulnerable to misinformation and often make costly mistakes at important financial decision points.

The result of a poorly prepared youth population is a generation of consumers who struggle to make informed financial decisions. Indeed, a 2009 FINRA Investor Education Foundation survey of 28,000 American adults found that more than half of all respondents live paycheck-to-paycheck and a significant majority of respondents (60 percent) reported not having a "rainy day" fund to cover three months of unanticipated financial emergencies.[7] In addition, between

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[3] Stone, Corey, and Joshua Sledge. "Financial First Encounters: The Fractured Financial Landscape Facing Youth Today." http://www.cfsinnovation.com/publications/article/440710 (accessed April 4, 2013): 5.

[4] Stone, Corey, and Joshua Sledge. "Financial First Encounters: The Fractured Financial Landscape Facing Youth Today." http://www.cfsinnovation.com/publications/article/440710 (accessed April 4, 2013): 5.

[5] Mandell, Lewis. "The Financial Literacy of Young American Adults: Results of the 2008 National Jump$tart Coalition Survey of High School Seniors and College Students." http://www.jumpstart.org/assets/files/2008SurveyBook.pdf (accessed April 4, 2013) (2008): 5.

[6] American Express. "No Triple 'AAA' Ratings for Schools That Fail to Teach 'Safe Spend.'" http://about.americanexpress.com/news/pr/2011/safespend.aspx (accessed April 8, 2013) (August 10, 2011).

[7] FINRA Investor Education Foundation. "States Ranked Most and Least Likely to Engage in Five Key Measures of Financial Capability, 2009 National Financial Capability Study." http://www.usfinancialcapability.org/download/State_rankings_rev_101202.pdf (accessed April 12, 2013).

2004 and 2009, one in four respondents engaged in some form of high-cost, non-bank borrowing, including taking out a payday loan or getting an advance on a tax refund.[8] By failing to start young people on a path to successful personal money management, we leave a legacy of consumers who are ill-prepared to understand the risks and consequences of financial products, services, and decisions.

Young people are not prepared to manage their finances when they reach adulthood. At the same time, the current financial services marketplace is increasingly complex. In the face of this very real need, American education should include approaches to teach young people about their finances. Part of that task starts at home. But young people spend the majority of their time in school, therefore it makes sense to offer financial education early and consistently throughout the K-12 school years.

[8] FINRA Investor Education Foundation. "States Ranked Most and Least Likely to Engage in Five Key Measures of Financial Capability, 2009 National Financial Capability Study." http://www.usfinancialcapability.org/download/State_rankings_rev_101202.pdf (accessed April 12, 2013).

3. What are the current approaches?

There is broad agreement on the importance of teaching financial education and capability to children and youth. However, there is little agreement about what constitutes effective financial education and capability initiatives. Thus, many organizations have developed a range of programs, and policies with varying state and national guidelines to help young people increase financial knowledge, develop money management skills, and in some cases, practice financial decision making.

The current landscape of programs geared toward improving the financial knowledge and capability of youth (e.g., access to appropriate products, skills, and decision-making) includes:

- Teaching financial education in K-12 schools;
- Providing "bank-at-school" programs;
- Providing matching incentives in specialized savings accounts;
- Providing non-school-based learning opportunities; and
- Using online learning tools and resources.

Many of these strategies and programs also employ experiential learning techniques.[9]

While there is a broad array of youth financial education strategies, there is, simultaneously, a relative absence of rigorous program evaluation and research to measure the effectiveness of

[9] Experiential learning is the process of deriving meaning from direct or hands-on experiences.

existing financial education offerings. This makes it difficult for policymakers to determine which strategies to embrace and implement.[10]

In the following subsections, we review examples of K-12 financial education initiatives currently underway. These examples are illustrative of efforts occurring throughout the country. This discussion is not intended as an exhaustive overview of current programs, nor does it indicate an endorsement of these programs or the organizations associated with them.

3.1 Teaching financial education in schools

A number of states have recognized the connection between including financial education into school curricula and financial capability later in life. As of 2011, policymakers in 22 states had enacted laws requiring high school students to take an economics course as a graduation requirement, and 13 states required students to take a personal finance course (or personal finance included in an economics course) as a high school graduation requirement.[11]

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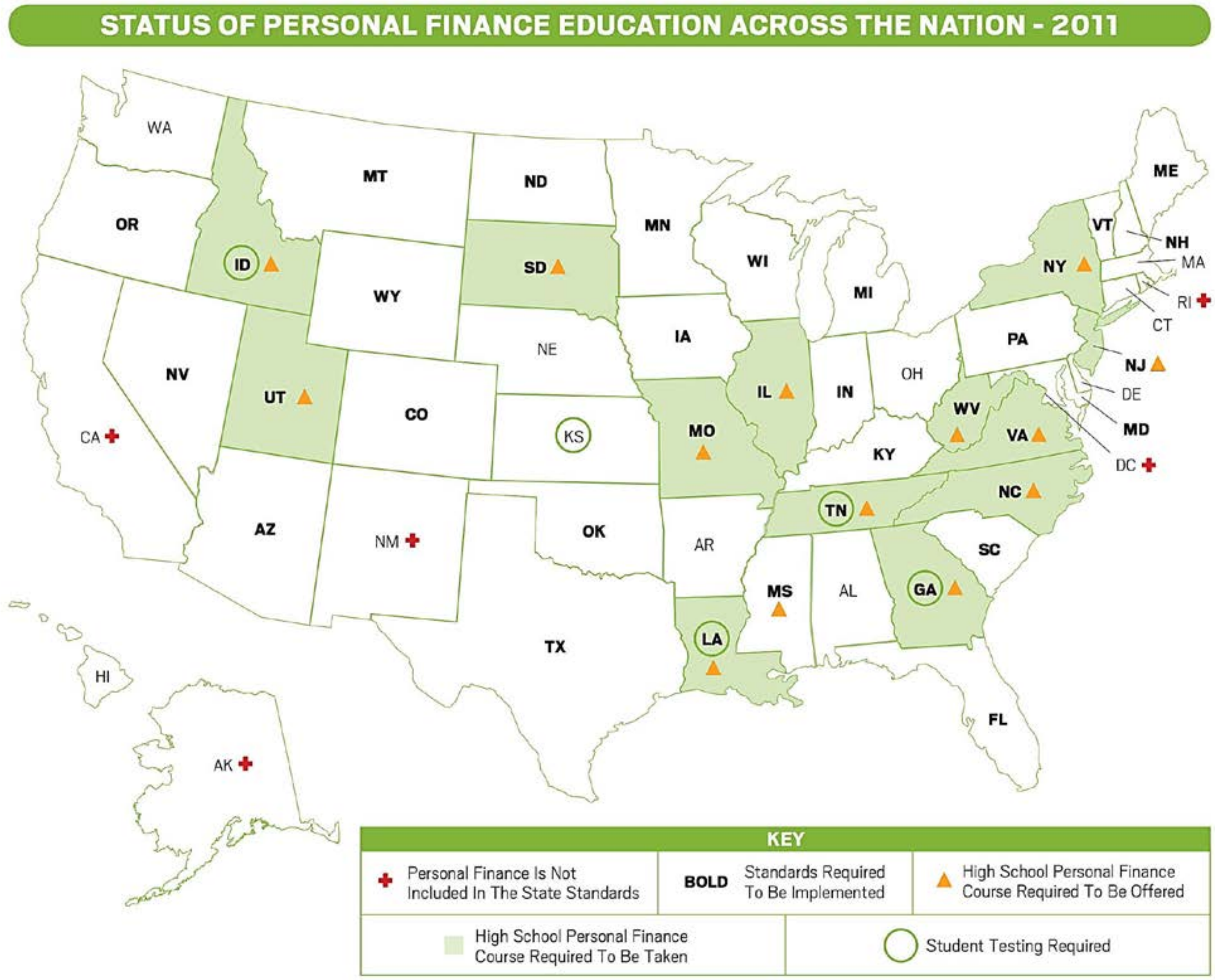
[10] Although the Center for Financial Services Innovation has provided some guidance by identifying those program elements that have been found to be effective at promoting financial capability, it is clear that additional, rigorously derived evidence and data would be required for policymakers to choose among those financial education curricula and programs that consistently promote behavioral change and positive financial outcomes later in life. Center for Financial Services Innovation. "From Financial Education to Financial Capability: Opportunities for Innovation." http://www.cfsinnovation.com/system/files/InBrief_FinancialCapability_Mar22010.pdf (accessed April 12, 2013).

[11] Council on Economic Education, "Survey of the States," http://www.councilforeconed.org/wp/wp-content/uploads/2011/11/2011-Survey-of-the-States.pdf (March 2012) (accessed April 20, 2013): 7.

FIGURE 1: STATUS OF PERSONAL FINANCE EDUCATION ACROSS THE NATION - 2011



Source: Survey of the States, Council on Economic Education, http://www.councilforeconed.org/wp/wp-content/uploads/2011/11/2011-Survey-of-the-States.pdf

Popular approaches for teaching financial education in schools include the following:

- **Integrated curricula:** Adding financial education concepts and lessons into existing curricula enables students to see the intersection between core subjects (e.g., math, language arts, and social studies) and personal finance. For example, the K-6 *Everyday Math* program developed at the University of Chicago focuses on using math to solve practical problems (e.g., making change, doing tally lists), thereby getting financial issues into the standard mathematics curriculum.[12]

- **Separate curricula dedicated to teaching personal finance:** These classes are typically offered in high schools and are often geared toward graduating seniors who are on the verge of going out on their own as adults to become financially responsible for their own decisions. For example, Utah requires a stand-alone financial education course for high school graduation. Designed for juniors and seniors, the half-credit course teaches to four core standards: financial decision-making and goals; income and careers; principles of money management; and savings, investing, and retirement planning.

Many state and education leaders have also implemented education content standards for teaching personal finance. Education standards outline expectations about the knowledge, concepts, and skills that students should acquire at each grade level. Forty-six states now include personal finance in their curriculum standards.[13] It is important to note that states can adopt personal finance content standards but stop short of requiring schools to implement those standards. When the law does not require implementation of specific education standards, they become voluntary and less effective, tending to take a back seat to the required education standards.

3.2 Bank-at-school programs

Schools throughout the country have partnered with banks and credit unions to start bank-at-school programs, which provide children and youth with classroom-based financial education, the opportunity to open deposit accounts on the school premises, and the ability to make regular small deposits. Many programs also give students the opportunity to manage the school bank or credit union branches as student bankers or junior tellers. Young students may learn more from

[12] University of Chicago School Mathematics Project, Everyday Mathematics, http://everydaymath.uchicago.edu/about/, (accessed April 20,2013)

[13] CFED: Assets & Opportunity Scorecard. “Policy Brief: Financial Education in Schools.” http://cfed.org/assets/scorecard/2013/pb_FinancialEducationSchools_2013.pdf (October 2012) (accessed April 5, 2013).

financial education in classrooms when they can also practice using appropriate financial products and services. Students with savings accounts and the ability to make regular deposits at school have an opportunity to apply financial knowledge and skills learned in the classroom. This activity increases the relevance of the instruction and can lead to greater engagement.

Because many of the program designs and partnerships occur at the local or regional levels, it is unclear how many bank-at-school programs are in operation. Examples of such programs include:

- **School $ense and Money F-I-T:** School $ense is a bank-at-school program operating in Eau Clair, Wisconsin schools. The program provides personal finance instruction in fourth- and fifth-grade classes. In six of the 13 elementary schools in the Eau Clair school district, students have access to in-school credit union branches where students can open savings accounts and make regular savings deposits in these accounts. The Money F-I-T research pilot is examining whether fourth- and fifth-grade students learn more from personal finance instruction when they have a credit union branch in their school. The program will provide valuable insight into the effective strategies for teaching personal finance to elementary school students. A similar program, Smarter Texans Save, has been launched in Amarillo, Texas. As part of its Assessing Financial Capability Outcomes research initiative, the U.S. Department of the Treasury is funding the evaluation of the Money F-I-T research pilot.[14]

- **Capital One student-run bank branches:** Branches have been established in Newark, New Jersey, as well as in the Bronx and Harlem in New York City. The in-school branch offers a limited menu of products designed primarily for student savers. The school branch is managed by high school seniors who also teach fellow students the importance of money management skills.

- **Delaware Bank-at-School programs:** These programs give students access to savings accounts at no cost. As of 2012, the state had more than 70 bank-at-school

[14] Money F-I-T, Center for Financial Security, accessed April 23, 2013, http://moneyfitcfs.com/about-money-f-i-t/ ,

sites with more than 4,000 depositors.[15] Students also have an opportunity to serve as junior tellers at the school branch. Although classroom financial education is not required, teachers receive financial education lessons that correlate with the state standards in economics.

3.3 Youth savings accounts

A number of organizations – particularly nonprofits, educational institutions, and government agencies – have developed savings accounts for children and youth with built-in matching incentives and/or prizes to promote the habit of saving, financial goal setting, and, in some programs, college access. These savings accounts are often paired with some form of financial education.

One positive correlation between having an account and having savings was documented in a 2010 study conducted by the Center for Social Development at Washington University in St. Louis, which found that students who expect to graduate from a four-year college and have an account are substantially more likely to attend college than youth who have no account.[16]

Examples of savings products geared toward youth include:

- **Make Your Path (MY Path):** This initiative helps low-income youth in San Francisco develop healthy financial habits and behaviors by combining the following elements: financial education developed and delivered by peers; an emphasis on setting and achieving savings goals; opportunities to engage with common financial products and services such as savings accounts; and a focus on behavioral economics that removes barriers to account setup through automated savings-account setup. The pilot uses a hands-on, experiential approach, with an emphasis on peer learning

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[15] Delaware Financial Literacy Institute website. http://www.dfli.org/index.cfm?ref=05000 (accessed April 4, 2013).

[16] Elliott III, William, and Sondra Beverly. "The Role of Savings and Wealth in Reducing 'Wilt' Between Expectations and College Attendance." *Journal of Children & Poverty*, 17 (2) (2011): 165.

and support. Mission SF Community Financial Center launched this program in 2011 in partnership with the Mayor's Youth Employment and Education Program, the city's largest youth employment program.

- **Kindergarten to College (K2C):** The first publicly-funded, universal children's college savings-account program in the U.S., this program provides every kindergartener attending public school in San Francisco with a college savings account containing a $50 deposit from the city and county of San Francisco. Children enrolled in the National Student Lunch Program receive an additional $50 deposit. The program offers incentives to save earlier and to save more. Foundations, community organizations, local businesses, and individuals provide additional deposits and matching incentives. In addition, schools are integrating financial subjects into the K-12 math curriculum, with each child's K2C account serving as a teaching tool.

- **Youth Savings Account:** This program gives Native American high school students in two participating New Mexico schools access to a savings account and a $50 seed deposit. Students who keep the account open and make deposits are entered into a lottery to win $100 at the end of the semester. This program pairs access to incentivized savings accounts with classroom financial education. The program is offered by First Nations Development Institute.

- **KIPP College Account:** This special savings account is available to students in grades five through 12 at some KIPP DC schools. The account provides a $50 seed deposit and additional dollar-for-dollar matching incentives. Students who go on to college receive the accumulated savings in the form of a scholarship.

3.4 Non-school-based learning

Many financial education courses are conducted via community programs and services. This helps take some pressure off schools dealing with funding challenges and allows for other funding opportunities. Faith-based groups, community organizations, industry trade associations, and others are creating opportunities to provide financial education to youth. By offering tailored programs, materials, and other avenues of learning accessible to students, these groups help youth who may otherwise not have an opportunity to be exposed to financial education. Examples of these programs include:

- **Junior Achievement Finance Park:** This program helps students build financial skills by engaging them in experiential, hands-on learning opportunities on topics related to entrepreneurship, work readiness, and financial literacy. The on-site activities are managed in a dynamic environment outside the classroom. There are 15 permanent Junior Achievement Finance Park facilities across the country.

- **The Boys and Girls Clubs of America:** In collaboration with the Charles Schwab Foundation, the Boys and Girls Clubs of America educate teens about money and finance through the Money Matters: Make It Count Program.[17] This financial literacy program consists of interactive activities and exercises on topics such as using a checking account, creating a spending plan, managing debt, saving for college, and learning the basics of investing.

- **National Endowment for Financial Education (NEFE):** This program emphasizes the importance of using multiple financial-literacy tools to educate young people. Fun online games, classroom instruction, community-based learning, and home-based study can all work toward producing well-rounded, highly-efficient, financially-literate students. The NEFE High School Financial Planning Program provides students in grades eight through 12 with the opportunity to develop personal-finance skills.

- **4-H Youth Development:** This program offers a variety of age-appropriate, financial-learning experiences for youth ranging from Reading Makes Cents to 4-H Build a Million. The 4-H program's learn-by-doing philosophy engages youth in strategies to learn financial terms and practice financial activities, including being treasurers of their 4-H clubs. As they learn how to budget and manage their projects from start to finish, they develop lifelong financial capability.[18]

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[17] Money Matters: Make It Count. Program information. http://moneymattersmakeitcount.com/Pages/default.aspx (accessed April 8, 2013).

[18] 4-H Youth Development. Ohio State University Extension. *Real Money. Real World.* http://realmoneyrealworld.osu.edu/documents/RMRW_FollowUpStudy_execsum.pdf (2009): 2.

3.5 Online teaching tools and resources

The financial education field has developed an array of online teaching tools for supporting financial education. Examples of the types of offerings available include online training modules, online or mobile gaming (also known as financial entertainment), as well as numerous websites with useful calculators and resources.

- **MyMoney.Gov:** The website organizes financial education resources from more than 20 different federal agencies and websites in one place. This federal government website is dedicated to helping all Americans learn the basics of financial education. The website provides information, tools, and resources to help consumers make sound financial choices.

- **Money Smart Young Adult:** The Federal Deposit Insurance Corporation offers this program. This free, self-paced program for youths 13 and older features a game-based learning design. In addition, the program aligns with educational standards in all 50 states, the District of Columbia, Guam, and the Virgin Islands, as well as Jump$tart financial education standards and the economic education standards developed by the National Council on Economic Education.

- **Practical Money Skills for Life:** Developed by Visa, this website allows consumers, educators, parents, students, and policymakers to access free financial education resources, such as a pre-K-12 curriculum; online games (such as financial football); and videos developed in partnership with Khan Academy, a nonprofit that provides original lessons on a range of subjects through free video content.

- **Doorways to Dreams (D2D):** This national nonprofit has created games to improve financial engagement and capability of low-and moderate-income (LMI) consumers. Although these financial-entertainment games are geared toward women and LMI adults, player data revealed that the games were growing organically in popularity among high schoolers and middle schoolers. Through partnerships with government and education leaders, D2D hosts tournaments where youth play the games for the chance to win prizes such as $25 savings accounts and scholarships.

- **Vault – Understand Money and EverFi – Financial Literacy:** These learning platforms use video, animation, 3-D gaming, avatars, and social networking to bring complex financial concepts to life for children and youth. Vault – Understanding Money is an interactive program designed to teach and help students in grades four through six build the foundation for making good financial decisions. EverFi – Financial Literacy is a new-media program geared at students in grades nine through 12 that covers topics such as credit cards, savings, and investments.

3.6 Additional experiential learning opportunities

Experiential learning is an important way to increase student engagement and improve learning. Experiential learning involves a cycle of action, reflection, conceptualization, and new experiences.[19] Teaching methods in experiential education include practice-based learning, role-play, simulation, imagination, inner exploration, encounter, and group work. A number of programs and strategies that have already been highlighted, at their core, provide opportunities to learn through experiential techniques. For example, programs that pair financial education with savings accounts at schools, special goal-based savings accounts with built-in incentives, and game-based learning all have some element of experiential learning. Additional examples of experiential learning opportunities include:

- **Girl Scouts of the USA:** This organization provides young girls with money-earning projects such as selling cookies. As part of this program, girls learn about goal setting, decision-making, and money management, among other things. This program employs encounter-based experiential learning to help girls gain financial knowledge and develop important skills. In 2011, Girl Scouts of the USA introduced a new set of financial-literacy badges for girls in K-12 grades.

- **Boys Scouts of America:** The Boy Scouts offer a merit badge for personal management. Earning the badge means the Boy Scout set short- and long-term financial goals and discussed them with his family; developed a spending plan;

[19] Johnson, Elizabeth and Margaret S. Sherraden. "From Financial Literacy to Financial Capability Among Youth." Working Paper 06-11 (2006) (accessed April 8, 2013):11.

balanced a budget; put money into a savings account; analyzed how to manage money better; and studied insurance, cost of credit, and how to manage debt, as well as investing in stocks, bonds, and mutual funds.[20]

- **My Classroom Economy:** This classroom-management system is available to K-12 educators to teach age-appropriate personal-finance lessons through experiential learning. Teachers and students establish a simple classroom economic system where students need to earn a paycheck in the form of “school dollars” by taking on classroom jobs. With the school dollars they earn, students are required to pay rent for their desks, pay fines for violations, and have the option to invest with accumulated savings. This program helps students learn financial skills and decision-making through simulations and role-playing.

[20] Boy Scouts of America. Personal Management Merit Badge Series (BSA Supply No. 35928). http://www.scouting.org/scoutsource/BoyScouts/AdvancementandAwards/MeritBadges/mb-PERM.aspx (accessed April 11, 2013).

4. CFPB's recommendations for advancing financial education and capability

States can help determine the quantity and quality of the financial education that most students receive through a variety of policy options. States can explicitly mandate that high school students complete a stand-alone course in personal finance. In addition, states can require school districts to include personal finance in the curriculum of other courses, such as family and consumer sciences, economics, mathematics, business education, agricultural sciences, and social studies. As an incremental step, states can require schools to offer an elective course in personal finance, but stop short of making it a condition for graduation.[21] This plurality of policy solutions adopted by states reinforces the broad agreement that it is good public policy to include financial education in the K-12 curriculum.

Because education policy is determined at the state and local levels, there is a range of approaches for supporting financial education. This raises the question of whether more can be done to pursue a common policy framework that supports the current diverse approaches among states. While there can and should be many types of financial education in schools – particularly to reflect the unique needs and diversity of each community – these approaches could benefit from sharing a common strategic point of departure. In this respect, the development of the Common Core State Standards is instructive. Forty-five states, the District of Columbia, four territories, and the Department of Defense Education Activity have adopted the

[21] By making financial education optional, however, many students are able to graduate without developing important financial skills.

Common Core Standards in K-12 Mathematics and English Language Arts.[22] These new standards create a shared understanding of the cognitive theory behind the organization, approach, and curricula for Math and English Language Arts.

A coordinated strategy similar to the Common Core could anchor the efforts underway to provide financial education and capability in schools. In our view, there is sufficient directional evidence to propose a comprehensive strategic policy framework for financial education in schools; the evidence will be discussed below.

We believe that these five essential strategies, if implemented by state policymakers and education leaders, could transform the financial lives of a generation of young Americans:

- **Recommendation 1:** Introduce key financial education concepts early and continue to build on that foundation consistently throughout the K-12 school years. In addition, CFPB encourages states to make a stand-alone financial education course a graduation requirement for high school students.

- **Recommendation 2:** Include personal financial management questions in standardized tests.

- **Recommendation 3:** Provide opportunities throughout the K-12 years to practice money management through innovative, hands-on learning opportunities.

- **Recommendation 4:** Create consistent opportunities and incentives for teachers to take financial education training with the express intention of teaching financial management to their students.

- **Recommendation 5:** Encourage parents and guardians to discuss money management topics at home and provide them with the tools necessary to have money conversations with their children.

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[22] In the States. Common Core State Standards Initiative. http://www.corestandards.org/in-the-states (accessed April 12, 2013).

4.1 Teach financial education early and consistently through K-12 years

Most U.S. students spend an average of six-and-a-half hours per day in school for 180 days a year.[23] By the time they graduate, we expect them to be able to read, write, master everyday math skills, engage in effective teamwork, and possess some personal judgment that helps them make sound decisions. When young people transition to adulthood, they also confront a number of financial decisions: how to use credit, how to manage household expenses with earnings, and what types of financial products to use. Yet, in a number of states financial education is absent from the school day throughout the 13 years that students spend in the K-12 realm.

When young people lack the skills to engage in effective financial decision-making, they can incur unnecessary debt, miss opportunities to save money, and develop a poor credit history. The absence of money management skills can have a significant impact on their ability to access basic necessities, such as checking and savings accounts, rental housing, and employment – opportunities and resources that are essential to building financial stability. It is unfortunate that such critical life skills are often left out of the required course of study.

Why is it important to focus on building these financial skills early? First, when we teach financial concepts early, we can catch young people at critical developmental stages and can influence how they manage financial matters throughout their lives. Cognitive development theory and related research suggests that the elementary school years may be a window of opportunity during which education can influence financial behavior later in life.[24] Although

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[23] The Center for Public Education. "Time in School: How Does the U.S. Compare?" http://www.centerforpubliceducation.org/Main-Menu/Organizing-a-school/Time-in-school-How-does-the-US-compare (accessed April 5, 2013).

[24] Collins, J. Michael et al. "Determining What Works: A Framework for Evaluating Financial Literacy Education in Elementary School." Center for Financial Security. http://moneyfitevaluation.files.wordpress.com/2012/06/determining-what-works-2012.pdf (accessed April 1, 2013): 3.

young children's financial understanding is unsophisticated, scholars suggest that elementary-school-age children can grasp basic economic concepts such as savings, barter, scarcity, and supply and demand. [25] Second, recent research demonstrates that young people begin to form financial identities early and that those identities are correlated with financial capability later in life.[26] It is clear that starting financial education early has important benefits for young people.

In addition to starting early, youth financial education should be continuous. Like other areas of study, developing financial knowledge, skills, and the decision-making capacity needed to navigate the financial services marketplace successfully requires consistent learning opportunities throughout a person's education and even throughout a person's lifetime. By integrating financial education lessons in school curricula – such as the Family, Career and Community Leaders of America programs led by Family and Consumer Sciences educators – students can learn, for instance, about the benefits of compound interest in math class, the basics of economic costs and risks in social studies class, and sharpen writing skills by composing essays about how we manage money or how we can take control of our financial lives to achieve our goals.

When we start early and build financial skills throughout their K-12 education, we give young people time to grow and comprehend more as they go through natural developmental stages.[27] A longitudinal research study of university students conducted in 2011 as part of the Arizona Pathways for Life Success in University Students (APLUS) program found that high school and college students who are exposed to ongoing or cumulative financial education show an increase in financial knowledge, which, in turn, drives increasingly responsible financial behavior as they

[25] Sherraden, Margaret S., Lissa Johnson, Baorong Guo, and William Elliott. "Financial Capability in Children: Effects of Participation in a School-Based Financial Education and Savings Program." *Journal of Family and Economic Issues.* 32 (3) (2011): 385-399.

[26] Shim, Soyeon, Joyce Serido, Leslie Bosch, and Chuanyi Tang. "Financial Identity Processing Styles Among Young Adults." *The Journal of Consumer Affairs* (Spring 2013): 128-152.

[27] Lopez-Fernandini, Alejandra and Karen Murrell. "The Effectiveness of Youth Financial Education." New America Foundation. http://www.newamerica.net/publications/policy/effectiveness_youth_financial_education_1 (accessed March 29, 2013).

become young adults.[28] This opportunity to find this "teachable moment" as young people transition to adulthood is the key reason why state and education leaders should strongly consider adoption of a required stand-alone course in personal finance for high school students. Indeed, a 2009 study revealed that college students from states that require a financial education course had the highest reported financial knowledge and were more likely to display positive financial behaviors and dispositions.[29]

Although we need more research and data to inform specific program and curricula design, there is some evidence to suggest that teaching financial concepts early and consistently increases financial capability.

4.2 Introduce financial education concepts into standardized tests

Forty-five states, four U.S. territories, the District of Columbia, and the Department of Defense Educational Activity have all adopted the Common Core State Standards.[30] There is a unique opportunity for this group of states and jurisdictions to incorporate financial education questions in standardized assessments. The benefit of doing so is that schools and teachers will have added incentives to teach to topics queried in those assessments. In addition, this presents an opportunity to systematically measure and track the performance of students on financial education content.

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[28] Shim, Soyeon, and Joyce Serido. "Young Adults' Financial Capability." APLUS, Wave 2. http://www.cgsnet.org/ckfinder/userfiles/files/APLUSWave2_Final.pdf (September 2011) (accessed April 4, 2013): 16.

[29] Gutter, Michael. "Financial Management Practices of College Students from States with Varying Financial Education Mandates." National Endowment for Financial Education. http://www.nefe.org/Portals/0/WhatWeProvide/PrimaryResearch/PDF/Gutter_FinMgtPracticesofCollegeStudents_Final.pdf (2009) (accessed April 8, 2013).

[30] In the States. Common Core State Standards Initiative. http://www.corestandards.org/in-the-states (accessed April 12, 2013).

Since financial education is not part of the Common Core State Standards, it will likely not figure prominently in curricula the states adopt. This raises the possibility that financial education concepts might not be included in standardized assessments unless they are incorporated into an existing educational standard in Math or English Language Arts. In 2002, the Treasury Department suggested that states explicitly develop policy principles that affirm a state's commitment to teaching financial skills and require that financial education concepts get included in test questions. Under this approach, when a state issues a Request for Proposal to develop educational assessments, the companies bidding for those state contracts would have strong incentives to incorporate financial education into the tests they propose and ultimately develop.[31]

The CFPB urges states to explore opportunities to support the development of assessment questions related to financial skills. In states where the Common Core Standards have been adopted, state and education leaders should consider aligning financial skills based assessment questions with the existing standards. If such assessment questions are developed for one state, it is likely that other states that work within the Common Core framework can use that states work as a reference point in developing their own assessments for financial education.

What would a standardized assessment question about financial education concepts look like? In a 2010 *Chronicle of Higher Education* article, Professor Peter Tufano of Harvard University suggested that it would not require adding more content-based questions, but rather reframing the context of existing questions.

> *For example, in the critical-reading section of the SAT, test takers are given passages... and asked what they mean. Those passages could be about credit cards, or insurance. In the math section, students solve word problems. Reframing some questions around key financial principles, such as interest compounding, would be straightforward.*

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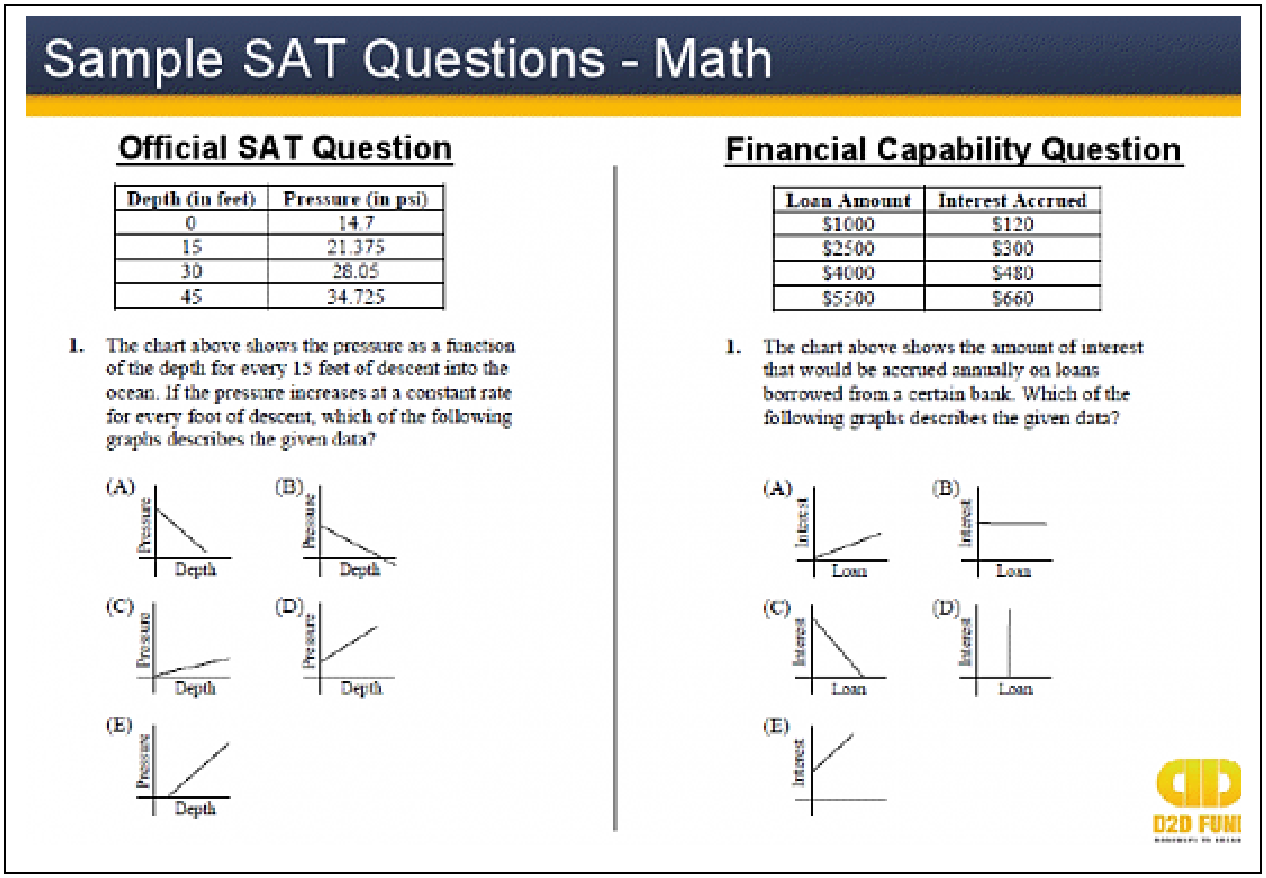
[31] U.S. Department of the Treasury, Office of Financial Education (white paper). "Integrating Financial Education Into School Curricula: Giving America's Youth the Educational Foundation for Making Effective Financial Decisions Throughout Their Lives by Teaching Financial Concepts as Part of Math and Reading Curricula in Elementary, Middle, and High Schools." http://www.eric.ed.gov/PDFS/ED471873.pdf (October 2002) (accessed April 8, 2013).

Testing services already have experience with this material, which is included in the GMAT, taken by M.B.A. applicants.[32]

The Doorways to Dreams Fund, a nonprofit organization founded by Professor Tufano provides an excellent example of a sample math question that could be incorporated into standardized exams required for college admission. (*See Figure 1 on page 29*).

FIGURE 2: SAMPLE STANDARDIZED EXAM QUESTIONS FOR MATH



Source: Prep for Change Overview, D2D Fund, http://www.d2dfund.org/prep_change_1

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[32] Tufano, Peter. "Commentary: Leveraging Admissions Tests to Increase Financial Savvy." *Chronicle of Higher Education*. http://chronicle.com/article/Leveraging-Admissions-Tests-to/125177/ (October 31, 2010) (accessed April 8, 2013).

4.3 Create innovative hands-on learning opportunities

Experiential learning is the process whereby students "learn by doing" and by reflecting on the experience. Students may be more likely to retain financial knowledge when they apply the concepts they have learned in concrete situations.[33] Examples of hands-on learning opportunities for children and youth include interacting with financial products and services, either through simulations or through in-school bank and credit union branches; online gaming to gain financial knowledge and practice financial decision-making skills; and entrepreneurship training.

Programs that incorporate access to financial services may increase the effectiveness of financial education curricula.[34] Several leaders in the education field have developed hands-on financial education opportunities for youth. Many of these programs are based on the belief that financial education that is relevant to students and provides experiential learning opportunities may be more effective in motivating learning and improving retention.

Some promising examples of hands-on learning programs for K-12 students are Kindergarten To College (K2C) and Make Your Path (MY Path). A case study of the K2C program conducted by EARN showed that parents participating in the universal college savings program found flexible account features very appealing (82 percent), consider teachers and school principals to be the best messengers of the program (71 percent and 65 percent, respectively), and believe

[33] Collins, J. Michael et al. "Determining What Works: A Framework for Evaluating Financial Literacy Education in Elementary School." Center for Financial Security. http://moneyfitevaluation.files.wordpress.com/2012/06/determining-what-works-2012.pdf (accessed April 1, 2013): 11.

[34] Peng, Tzu-Chin Martina, Suzanne Bartholomae, Jonathan Fox, and Garrett Cravener. "The Impact of Personal Finance Delivered in High School and College Courses." *Journal of Family and Economic Issues*, 28(2) (2007): 265-284.

that financial education in the classroom for students and community programs for parents is very appealing or somewhat appealing (52 percent and 36 percent, respectively).[35]

An initial evaluation of the MY Path program was conducted by the Federal Reserve Bank of San Francisco. The research revealed that low-income youth participating in the MY Path program demonstrated in pre- and post-test assessments that they had significantly increased their knowledge of various financial topics after each peer-led financial education training session.[36] Participants also reported that they increased their frequency of positive financial behaviors as a result of the program (e.g., budgeting, tracking spending, distinguishing between needs and wants, etc.).[37] Individuals also indicated that participating in peer-led financial education training increased the level of engagement in part because they were able to relate better to the youth trainers.[38]

Many of the innovative hands-on learning programs that have been developed are too new to suggest robust results at the moment. Yet the interim results discussed in this section suggest that these trials are having a positive impact on the financial knowledge and outlook of children and youth. Our knowledge of what can be successful in transferring personal financial management skills to young people will be enhanced by extensive exploration and evaluation of learning-by-doing opportunities.

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[35] Shipman Bevans, Jade. "Children's Education Savings Accounts: A Case Study of San Francisco's Kindergarten to College Program." http://www.earn.org/static/uploads/files/K2C_Practitioners_Report_.pdf (March 2013) (accessed April 8, 2013).

[36] Federal Reserve Bank of San Francisco. "Increasing Financial Capability Among Economically Vulnerable Youth: MY Path." http://www.frbsf.org/publications/community/wpapers/2013/working_paper_2013_03_Increasing-Financial-Capability-among-Economically-Vulnerable-Youth-MY-Path.html (March 2013) (accessed April 8, 2013): 10.

[37] Federal Reserve Bank of San Francisco. "Increasing Financial Capability Among Economically Vulnerable Youth: MY Path." http://www.frbsf.org/publications/community/wpapers/2013/working_paper_2013_03_Increasing-Financial-Capability-among-Economically-Vulnerable-Youth-MY-Path.html (March 2013) (accessed April 8, 2013): 11.

[38] Federal Reserve Bank of San Francisco. "Increasing Financial Capability Among Economically Vulnerable Youth: MY Path." http://www.frbsf.org/publications/community/wpapers/2013/working_paper_2013_03_Increasing-Financial-Capability-among-Economically-Vulnerable-Youth-MY-Path.html (March 2013) (accessed April 8, 2013): 13.

4.4 Create consistent opportunities and incentives for teacher training

Teachers are critical to the success of any programs or initiatives that rely on teaching financial education in classrooms. A growing body of research suggests that teachers generally support financial education course requirements for students. A 2010 teacher survey funded by the National Endowment for Financial Education found that 89 percent of K-12 teachers agree that students should either take a financial education course or pass a competency test for high school graduation. In the same survey, only 20 percent of teachers, however, believe that they are adequately prepared to teach personal finance topics.[39]

Teachers confront continuing education obstacles that include having limited or uneven access to trainings and few incentives for participating in training programs that will help them become better educators of personal finance. Barriers to accessing teacher training are especially acute for educators in geographically remote areas because they are forced into costly, long-distance travel to attend training. Connecting teachers to existing resources, increasing access to training by offering continuing-education units (CEUs), and providing need-based stipends for teachers who must travel to attend trainings could remove some initial barriers for educators.

There are many demands on teachers to get training in specific content areas, and they also have an array of training options that provide CEUs and compete with financial education training. One way to address this challenge is to develop a systematic approach to awarding CEUs to all teachers who avail themselves of ongoing financial education training programs. States and school districts should consider this policy recommendation to ensure consistent opportunities for teachers across the country. We can also think about how to integrate personal financial management training into college courses for those considering becoming teachers. If colleges and universities offer effective financial education courses, these courses could have special value for education students who will later become teachers.

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[39] Way, Wendy L. and Karen Holden. “Teachers’ Background & Capacity to Teach Personal Finance: Results of a National Study.” National Endowment for Financial Education. http://www.nefe.org/Portals/0/WhatWeProvide/PrimaryResearch/PDF/TNTSalon_ExecutiveSummary.pdf (accessed March 29, 2013): 13.

If teachers have better access to high-quality training for teaching financial education – combined with the incentive of CEUs – more American students are likely to receive and benefit from financial education lessons taught in K-12 classrooms.

4.5 Encourage parents to discuss money management topics at home

As common sense would suggest, parents influence children's habits, attitudes, and even financial capability. A longitudinal research study found that not only do parents exert the most influence over their children when it comes to developing positive financial attitudes and behaviors, but they are also 1.5 times more influential than ongoing financial education.[40] Similarly, research in the field of identity development and developmental psychology has found that parents are very influential in shaping consumer skills and knowledge as well.[41] Evidence suggests that as youth enter adulthood, parents continue to influence children's financial behaviors and skills. Working with parents to encourage and support money conversations at home is critical to putting young people on the path to exercising greater control over their personal finances.

This evidence suggests an enormous and exciting opportunity to engage parents and guardians in their children's financial education. There are many ways we can accomplish such engagement, in ways that are similar to how parents become active in supporting their children's extracurricular activities, academic projects, and general learning and skill acquisition.

While parents and family members are important transmitters of lessons about how a young person should approach personal financial management, many parents, like teachers, may lack knowledge and skills in this area. As the 2009 National Financial Capability Study indicates,

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[40] Shim, Soyeon and Joyce Serido. "Young Adults' Financial Capability." APLUS, Wave 2. http://www.nefe.org/Portals/0/WhatWeProvide/PrimaryResearch/PDF/APLUSWave2_Final.pdf (September 2011) (accessed April 8, 2013): 21.

[41] Shim, Soyeon, Joyce Serido, Leslie Bosch, and Chuanyi Tang. "Financial Identity Processing Styles Among Young Adults." *The Journal of Consumer Affairs*, (Spring 2013): 131-148.

many Americans possess a low level of financial literacy as measured by quiz-style questions designed to yield an independent, objective assessment of the respondent's financial literacy.[42] Parents need educational tools and opportunities to support lessons on money management that their children may be learning in school.

[42] FINRA Investor Education Foundation. "Financial Capability in the United States, 2009 Nation Financial Capability Study." http://www.finrafoundation.org/web/groups/foundation/@foundation/documents/foundation/p120535.pdf (accessed April 1, 2013): 18.

5. Conclusion

Financial capability is critical to the success and achievement of Americans. We know that at a relatively early age, young people face challenging and life-changing financial decisions. Yet many Americans lack the personal financial management skills to be successful. This white paper focuses on how we can address the absence of personal financial management skills by focusing on opportunities to engage young people during their K-12 years.

Across the country, policymakers, teachers, nonprofit leaders, and parents are pursuing a wide range of approaches for teaching financial education and capability. Notwithstanding these efforts, there is an exciting opportunity to develop a coordinated and consistent policy framework that can provide young people with the information, experience, and results they need to be informed and empowered managers of their money over their lifetimes.

The policy framework articulated in this white paper acknowledges the importance of starting early to support financial capability and continuing this emphasis throughout the K-12 school years. In addition, CFPB recommends that states strongly consider including a stand-alone personal financial management course as a graduation requirement for high school students. It also advocates that financial management questions be added to standardized assessments. The policy framework includes an emphasis on financial education approaches that offers opportunities for experiential learning so students are able to apply financial knowledge in concrete ways and build financial capability. A number of states, municipalities, and school districts have engaged in pilot initiatives that provide young people with hands-on experiences that will yield important lessons for the field and will facilitate effective future efforts.

A number of states require financial education and some require financial education testing. The CFPB recommends that states consider removing teacher training barriers and award teachers CEUs for pursuing ongoing training to teach financial skills effectively. Finally, we propose that schools engage with parents to develop strategies for supporting the financial capability of young people.

In order to navigate the complex financial marketplace, consumers need to be able to discern the risks as well as the opportunities associated with financial products, services, and decisions. Young people today and future generations should not have to repeat the financial mistakes made by earlier generations.

Our financial education policy recommendations outlined in this white paper represent a comprehensive approach to addressing the complex and dynamic issue of promoting the financial education and capability of millions of young Americans. If implemented by state policy makers and education leaders, these recommendations have the potential to help transform the financial lives of a generation of children and youth. These policy recommendations are self-reinforcing and could create a stronger policy fabric if they are pursued together rather than independently.