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BUILDING WEALTH ON KNOWLEDGE

Teaching Students Financial Literacy Skills is Too Smart a Solution to Ignore

The saying goes that sex and money can be the two most difficult subjects to talk about, and it seems especially true in a parent-child relationship. Most parents want their children to abstain from sex and want to find the best way to get this message through to their kids, sometimes feeling challenged by the sensitive subject and by the force of opposing cultural messages. But when it comes to money, parents seem to have an even harder time having 'the talk.'

Over 75% of kids report that their parents don't discuss money and personal finance with them, probably for several reasons. For parents struggling with their own personal finances, they may not feel educated or financially empowered enough to be a mentor or they may not have time. It may take a small crisis such as misusing a credit card or phone plan for a parent to recognize certain financial basics are a must in the short term. But they still may not fully realize how important ongoing and broad financial education is to preventing increasing financial struggles, protecting against cycles of financial instability and poverty, and maximizing a child's chance for financial success.

So, it's not surprising that last year, a much-touted global study by the Organization for Economic Development Corporation showed that 1 in 5 teenage students in the U.S. lack basic financial literacy skills, sadly lagging behind 14 other nations. But most young people will face significant financial decisions before their 20th birthday. And the number and complexity of financial decisions they're faced with is growing all the time: student loans, credit card options, insurance, mortgages, investments, and entrepreneurship, to name a few.

Student loans may be the first major financial decision many young people face. In 2018, the U. S. Department of Education reported that student loan debt in the U.S. was over $1.4 trillion. In Massachusetts, 60 percent of college students graduate with debt averaging over $31,000, and default rates are significant.

Also, the increased use of costly, 'quick fix' financial options by young people is problematic and foreboding. A report from the Financial Industry Regulatory Authority Foundation in 2014 found that 43% of Millennials use costly borrowing methods such as payday loans, pawn shops, and rent-to- own stores, without regard to the inordinately high (sometimes hidden) costs associated with these products and services.

The consequences of overwhelming debt and poor financial decision-making of course can be grave, including an inability to pursue educational, occupational, and residential opportunities; bad credit resulting in a lifetime of higher interest rates; job loss; bankruptcy; and extreme psychological stress, with physical and emotional consequences. For government and the business sector, the financial burdens of unemployment, loan default, uninsured and underinsured populations, and other consequences are massive. However, most states do not require schools to teach young people much about the financial world they will face and the skills they need to engage and succeed economically.

Personal Financial Literacy Education (PFLE) includes the basics of financial products, the influencers and consequences of financial decision-making, and the necessity of personal financial planning. The call for all students to be taught this crucial preparatory subject is growing louder, often coming from young people themselves who often say they wish this had been taught in their school.

The logic and effectiveness of teaching high school students PFLE is solid: financial literacy leads to better personal finance behavior. Many studies demonstrate people with higher levels of financial literacy make better personal finance decisions. A 2014 study commissioned by the Federal Reserve showed that mandated personal finance education in high school improved the credit scores and reduced the default rates of young adults. And it is well established that those who are financially *illiterate* are less likely to have a checking account, rainy day emergency fund or retirement plan, or to own stocks; they are more likely to use payday loans, pay only credit cards minimums, have high-cost mortgages, and have higher debt and credit delinquency levels.

Currently, in Massachusetts there are only education 'pockets' where financial education exists in the curriculum of some schools-- it is by no means widespread or universal. The MA Department of Elementary and Secondary Education (MA DESE) recently approved revisions to its Curriculum guidelines (not mandatory) in Social Studies that incorporate financial literacy standards for older students, while the MA Legislature is considering a bill (S2374) requiring that *all* students are taught crucial–virtually lifesaving –PFL skills.

Government and business leaders that focus on the state’s fiscal and economic health should care that currently financial *illiteracy* is the norm. Also for all the talk in Massachusetts about addressing economic inequality, practical, viable solutions are in short supply. Requiring PFLE is a win for everyone. It is a concrete, low cost, and effective part of a future where young people make smarter financial decisions, where the business sector and government are not burdened with rescuing people from poor financial decisions and personal crises due to lack of understanding and managing our financial system, and where every child is empowered with educational skills they need to have a chance at a healthy and rewarding financial and personal life.