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Financial Education at School and at Work: Policy with a Big Payoff

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Financial resilience has many definitions. More than anything, it is the ability to manage unexpected life events that threaten personal finances. Across the United States, the COVID-19 pandemic is testing the financial resilience of households. It has dramatically revealed the fragile construct upon which a large share of the population has built its financial future. Too many people lacked emergency funds even before the pandemic started. They struggled with excessive debt and lived paycheck to paycheck. Their financial vulnerability became obvious when business shutdowns or sickness cut off those income streams.

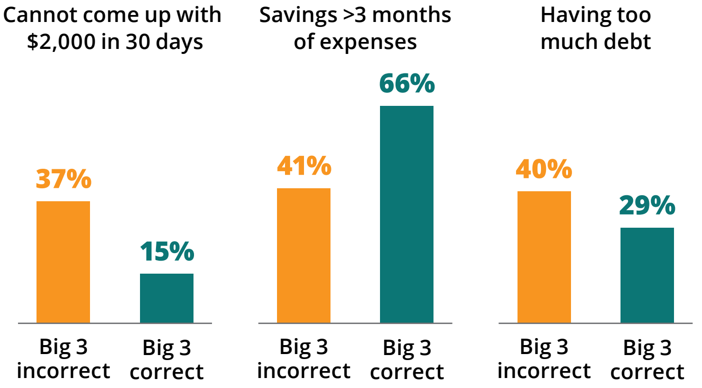
A recent study by the Stanford Center on Longevity and the Global Financial Literacy Excellence Center (GFLEC) at the George Washington University School of Business analyzed the factors that may place individuals at higher risk of financial vulnerability. Alongside debt and cash flow management, as well as assets and wealth, the researchers found that financial literacy and an understanding of financial risk are crucial tools in building financial resilience.

And yet financial literacy levels in the United States remain low. According to the FINRA Foundation's 2018 National Financial Capability Study (NFCS), only a third of Americans could correctly answer three questions (Big 3 questions) on numeracy, inflation, and risk diversification that measure basic financial literacy. This means two-thirds of the population are at a significant disadvantage when it comes to making complex financial decisions, including decisions that carry long-term consequences and impact financial resilience.

The data show a strong correlation between financial knowledge and wise financial decision-making and good outcomes, the factors that ultimately lead to financial resilience. Individuals able to answer the Big 3 basic financial literacy questions are, for example, also more likely to have emergency funds and be able to handle a mid-sized financial shock (see Figure 1). In 2018, among the financially literate, only 15% would have been unable to cover a $2,000 emergency expense within 30 days. That compares to 37% of those who could not answer the Big 3 questions correctly. Furthermore, 66% of the financially literate had emergency funds to cover three months of living expenses pre-pandemic; among those who could not answer the Big 3 questions correctly, only 41% had adequate rainy-day funds.

The Stanford-GFLEC study found that debt, too, has a significant impact on financial resilience. The financially literate are more comfortable with the financial obligations they carry. Around 29% felt they had too much debt in 2018. By contrast, among Americans who could not answer the three financial literacy questions correctly, 40% felt overwhelmed by debt.

Figure 1: Link between financial condition and literacy



Source: 2018 NFCS. National weights are used.

These findings indicate that knowledge and skills for managing financial resources and evaluating risks are critical in minimizing the adverse impacts of financial shocks. The Stanford-GFLEC study discusses the importance of financial literacy in more detail, provides information on other factors contributing to financial fragility, and identifies the subpopulations that seem to be among the most vulnerable, which include the least financially literate.

Too many American families have been struggling financially from the economic consequences of the pandemic. Now is the time to advocate for financial education that builds financial literacy on a broad scale for all. There are many benefits from financial education, from improved financial knowledge and behavior to increased awareness and financial confidence. We recommend a holistic approach in which financial education begins no later than high school and continues through an individual's adult life.

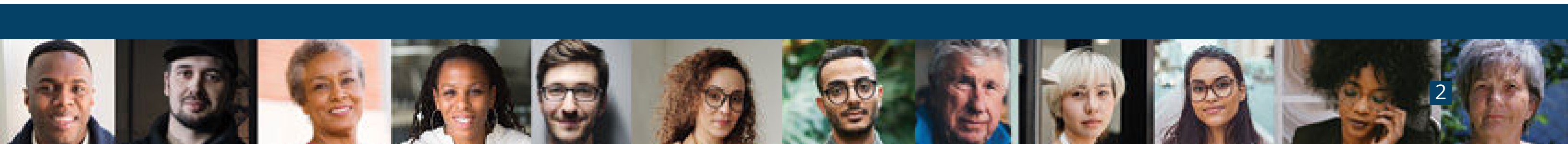
The young have the most to gain from financial education, which is why it should begin early. Financial education for students opens the way for them to build financial knowledge that can be applied to the many consequential decisions they face as young adults, including whether to pursue and how to finance a college degree. High school financial education mandates play an essential role in this goal. As of 2020, there were 21 U.S. states that required high school students to take a personal finance course. This is a significant jump from 1998 when just one state mandated personal finance education.[1] However, there is still room for improvement. More states could—and should—make financial education mandatory, and the quality and delivery of personal finance courses should be enhanced. Research studies have shown that financial education in school is most effective when it takes the form of a required course with a rigorous curriculum and is taught by trained teachers.

Mandates and minimum requirements regarding the delivery of such courses can help close opportunity gaps by ensuring that all students—not just the ones from highly resourced schools—receive essential knowledge and skills. Everyone needs to become an advocate for nationwide personal finance education in schools. GFLEC's Fast Lane (fastlane-education.org) is a great start. The website provides free resources designed to promote financial education in U.S. high schools.

The workplace is another ideal setting for financial education. Most adults spend a significant portion of their lives in the labor force, meaning that workplace education programs reach a large swath of the population. Recent research has shown that people spend an average of seven hours per week thinking about and dealing with financial issues and problems. That equates to almost an entire workday. Of interest to employers who value productivity is the revelation that, on average, three of those seven hours occur at work.[2]

1 See the 2020 Survey of the States: Economic and Personal Finance Education in our Nation's Schools administered by the Council of Economic Education for further details: 2020-Survey-of-the-States.pdf (councilforeconed.org)

2 Yakoboski, P., Lusardi, A., and Hasler, A., 2021. Financial well-being and literacy in the midst of a pandemic. TIAA_GFLEC_Report_PFinIndex_April2021_04.pdf



Not surprisingly, there is a large difference between the number of hours that financially literate workers spend thinking about their finances and the number that adults with low financial literacy spend worrying about money. Those with the poorest scores on the financial literacy questions spend on average 11 hours per week distracted by financial worries. This drops to three hours a week for those with the highest financial literacy levels. Clearly, there are far-reaching gains to be made by raising employer awareness of the benefits of workplace financial education while also providing employers with guidelines that streamline the implementation and evaluation of such programs.[3]

The current public health crisis is revealing stark and troubling examples of just how financially vulnerable many American families are. At the same time, it is providing opportunities to reimagine the future. Because financial literacy is one of the crucial contributors to financial resilience, we invite everyone to build awareness of the importance of improving financial literacy. Financial knowledge and resilience carry a powerful payoff: more financially secure households and communities—and a safer tomorrow for everyone.

3 A detailed discussion of the benefits of mandating workplace financial education and our recommendations for doing so can be found in Fisch, J., Lusardi, A., and Hasler, A., 2020. Defined contribution plans and the challenge of financial illiteracy. [Defined Contribution Plans and the Challenge of Financial Illiteracy – Cornell Law Review]

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