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Financial Literacy Courses Take Hold in Schools

By Eric Hammesfahr, CQ Staff

The 90,000 students who graduated from Virginia's high schools last month did so after meeting a new state requirement that they take a course in financial literacy.

The graduates were the first to be required to pass such a course, which they could take online or in a classroom. Virginia joins Georgia, Texas and Idaho in trying to help young adults avoid delinquent payments and reduce personal indebtedness that hurts the economy.

It will take time to see if such educational requirements really help people make better decisions about how to use their money, although credit scores for residents of states that have had such programs for several years have improved.

More lawmakers are mandating courses on taking out loans, managing debt, the importance of credit scores and even, in Georgia, the stock market, to try to stem bankruptcies, which ballooned after the economic collapse of 2008.

More Americans filed for bankruptcy than graduated from college in 2010, according to the Institute for Financial Literacy. Fifty-six percent of Americans don't have a budget, while more than one in five aren't sure what they spend on housing, food and entertainment, the National Foundation for Credit Counseling found in 2012.

"Each Virginia student will be better prepared for life" by the financial lessons, says Dan Mortensen, the executive director of the Virginia Council of Economic Education. Individuals with better financial habits make better employees and citizens, he said.

Requiring or promoting financial or economic literacy is becoming popular in states. This year, 18 bills were introduced in 10 state capitals to require or promote better financial habits, according to the National Conference of State Legislatures. Three of the bills became law in Connecticut, Indiana and Maine. Another in Florida garnered support, but failed to pass.

Those states join 22 others already requiring high school instruction in economics, and another 17 that require direction in personal finance, according to the Council for Economic Education.

Program implementation is often uneven, with most states allowing individual school districts to decide how the requirements should be administered, and only 16 states require testing in the subjects.

Some states mandate as little as one question on an examination, says Carly Urban, an assistant professor of economics at Montana State University. She joined two Federal Reserve researchers and a fellow academic on a Financial Industry Regulatory Authority-funded study this year detailing the effects of such programs.

“The programs generally do not produce measurable results until their second or third year,” as teachers become comfortable with the subject matter, Urban says. Instructors in these classes are often gym or art teachers who need a refresher on the topic.

In Texas, Idaho and Georgia, after three years, the graduation prerequisites that were added between 2003 and 2006 coincided with increased credit scores. Credit scores for young people of college age increased by 11 points in Georgia, 16 points in Idaho and 32 points in Texas.The gains represent bumps of 2 percent, 3 percent and 5 percent, respectively.

The advantage of financial literacy courses may be short-lived: People in states with no requirement seem to eventually catch up to those who were required to take the classes, according to Urban. Even so, lawmakers are betting that investing in education will reap above- average economic returns.