Building Financial Capability: Children & Youth
Strategies and Impact

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Audience Question:

I remember learning about “personal finance” at school or from my teachers by at least the time I was 10 years old.

... Agree or Disagree?
Audience Question:

When I was just starting out, at age 18 to 21, I was not very well prepared to manage my own finances.

... Agree or Disagree?
Financial Capability’s 3 Legged Stool

- **Financial Literacy**  
  - Knowing What to Do

- **Financial Capability**  
  - Skills to Do

- **Financial Inclusion**  
  - Opportunity to Do
Teaching Financial Content

– Eau Claire, Wisconsin in 2012-13
  • Replicated in Amarillo, Texas in following year
  • 1,400 students across 149 classrooms

– **Learning Objectives**
  • Opportunity costs
  • Saving
  • Goals, plans, needs and wants
  • Income, expenses, budgets
  • Costs and benefits
Teaching Financial Content

• 10 year olds
  – develop self-control, planning & decision making ability
• 5 lessons (45 minute each)
• Not special classes, but integrated into classes:
  – Language: Trade-offs between present and future consumption:
    • “The Grasshopper and the Ant”
  – Maths: Make savings goals and savings plans
    • Using a register
• Teachers attended a 3-hour training session during in-service day
  – 85% reported being “well prepared”
Impact of Financial Education

Change after 5-hour financial education class randomly assigned by classroom, relative to controls

- Knowledge: 11%
- % Banked: 10%
- Savings Attitude: 38%
- Banking Attitude: 38%
Financial Capability’s 3 Legged Stool

• Financial Literacy — Knowing What to Do

• Financial Capability — Skills to Do

• Financial Inclusion — Opportunity to Do
Practicing Financial Content

• MyClassroom Economy
  – Simulated Economy
  – Not a course
    • Classroom management tool
• Palm Beach County, Florida
  – 10 year olds
  – 100 classrooms
  – Randomly assigned by school
• Measure knowledge gains
MyClassroom Economy

- Students assigned classroom jobs (e.g. take attendance)
- Pay “rent” for desks (option to purchase), and record transactions in bank ledger
- Earn “money” by completing their job, bonuses and fines for good and bad behavior
- Spend earnings in a classroom store, discuss lessons learned
Knowledge Gain

• 10 weeks of simulated economy
  ✓ 6% higher scores

• Less than first study, but no formal instruction... – all “learned by doing”
Ask Parents: How Much Does Your Child’s School Teach About Managing Money?

- Not At All: 32% Control, 3% Treatment
- A Little: 32% Control, 13% Treatment
- Some: 26% Control, 33% Treatment
- Quite A Bit: 8% Control, 34% Treatment
- A Lot: 3% Control, 17% Treatment
Financial Capability’s 3 Legged Stool

• Financial Literacy  
  — Knowing What to Do

• Financial Capability  
  — Skills to Do

• Financial Inclusion  
  — Opportunity to Do
Effects of Financial Education on Behavior

• One-in-five 18-21 year olds are 90+days behind on an account.
  – Learning by ‘hard knocks’ is a costly way to gain knowledge.

• Financial education requirements
  – Dedicated economics and finance class
  – Starting with High School Class of 2007
Three States: Idaho, Texas, Georgia

- Compare graduates across “neighbor” states
- Before and after class of 2007
- Focus on border areas
Outcome: Credit Behavior By Age 22

- Grad year 2004: Age 18
- Grad year 2005: Age 22
- Grad year 2006: Age 18
- Class of 2007: Age 22
- Class of 2008: Age 18
- Class of 2009: Age 22
Reduction in Loan Defaults

- **Texas**: 5,300 fewer young people experienced a serious credit default (90 days+) by age 22
  - Students are likely better off in terms of lower interest rates and fees, as well as future credit access
  - Benefits for lenders and communities

![Bar Chart: Reduction in Loan Defaults in Georgia, Idaho, and Texas](chart.png)
Higher Credit Scores: More over time

Average Baseline Scores:

610

Georgia
5 14 22

638

Idaho
5 6 17

612

Texas
7 15 22

Class of 2007
Class of 2008
Class of 2009
Learning over the Life Course

• Age 3-5: Family
  – Currency, banking, decision-making

• Age 6-15: Family+School
  – Experiences saving and budgeting

• Age 16-20: Family+School+Employer+Community
  – Building human capital
  – Managing challenges
Not Just One Solution

- Broaden & build
- Across ages
- Across institutions

Information
- Knowledge
- Access
- Application
References


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