

# Financial Literacy

*Protecting the financial health  
of Kansas families and communities*

FISCAL FOCUS 

Budget and Tax Policy in Perspective

The economic stability of our state and our communities relies, at least in part, on the ability of individuals to understand and successfully navigate the world of personal finance. The ripple effect caused by the recent subprime mortgage crisis is a powerful illustration of the impact unwise decisions — many of which were rooted in a lack of understanding about personal finance issues — can have on communities as a whole. An important part of minimizing similar crises is to improve personal financial literacy in our state. This requires a two-step approach that addresses the financial educational needs of both children and adults.

## What is financial literacy and why is it important?

Financial literacy is the ability to use knowledge and skills to manage financial resources effectively for a lifetime of financial well-being.<sup>1</sup> This includes developing an understanding of financial products and services, and of the benefits and risks associated with those products and services.

The increasing complexity of financial products, coupled with a consumer-driven society, can lead to financial missteps that have lasting repercussions for families and communities. However, research indicates that there is a positive relationship between financial knowledge and responsible financial behavior.<sup>2</sup> By improving financial literacy in school-aged children and adults, we can strengthen the financial health of Kansas families and, ultimately, the financial health of our state.

## Financial literacy for school-aged children

One component of financial literacy is teaching school-aged children about personal finances, thereby providing them with knowledge and an awareness of these issues before they become economically independent. This has been the primary approach to financial education in Kansas.

In 2003, Kansas lawmakers enacted legislation to enhance

financial education coursework offered in public schools. SB 74 required the Kansas Department of Education to develop a curriculum, materials and guidelines that could be used by local school districts for instruction on personal financial literacy. Under the law, the State Board of Education is required to develop standards and objectives for personal financial literacy for all grade levels within the curriculum for math or another appropriate subject area. The Board is also required to encourage school districts to select textbooks with substantive provisions on personal finance for math, economics or similar courses.<sup>3</sup>

In an effort to strengthen the requirement for teaching personal financial literacy in Kansas schools, additional legislation was adopted in 2009. This legislation requires that financial literacy questions be included in state assessments as a way to measure comprehension of personal finance issues among Kansas students.<sup>4</sup>

Since the original enactment of personal financial literacy requirements in 2003, many Kansas school districts have succeeded in integrating financial education into the curriculum for students of all ages. However, because school districts are encouraged - rather than required - to teach personal financial literacy, instruction in this area is not consistent across the state. A 2008 survey on teaching practices regarding financial literacy in Kansas schools found that “only 17.7% of respondents indicated their district required instruction in financial literacy and, of that percent, only 6.67% reported having a specific curriculum framework for teaching financial literacy.”<sup>5</sup>

Efforts have been undertaken to increase the comfort level of Kansas teachers and school districts in implementing financial education coursework. Groups such as the Kansas Council on Economic Education have worked with the Kansas Department of Education to provide curriculum and training opportunities for Kansas educators. However, the goal of providing all Kansas students with a foundation of

knowledge in personal finances will continue to be difficult to achieve so long as personal finance is a suggested, rather than required, part of the curriculum in Kansas schools.

### Financial literacy for adults

While teaching school-aged children about personal finances is an important part of improving the long-term financial health of Kansas, adult education is a critical component of improving our state's financial health in the immediate future.

Without a foundation of knowledge about personal finances, we know that many adults struggle to effectively manage their personal finances. In fact, according to a report by the National Foundation for Credit Counseling, almost half of young adults – Americans born between 1977 and 1994 – have little to no understanding of how to budget and save efficiently.

However, one of the most significant obstacles to providing financial education for adults is motivating them to attend classes. Practices that have proven effective in other states include: subsidizing the cost of personal finance classes and requiring attendance for first-time homebuyers and participants in government benefit programs, such as TANF. However, the approach that appears to be the most effective is providing financial education opportunities in the workplace.

In addition to the benefits for the employee, there are a number of benefits for employers that offer personal financial education opportunities. These benefits include: avoiding or reducing costs associated with wage garnishment; helping employers meet federal requirements for non-discrimination in 401(k) savings programs (employers are required to have balance between 401(k) contributions for highly-compensated employees and lower-compensated employees); reducing embezzlement and absenteeism; increasing

productivity; and reducing stress in the workplace.<sup>6</sup>

Implementation of workplace-based financial education differs. In some cases, employers choose to pay for the cost of providing classes and financial counseling as a fringe benefit to its employees. In other cases, employees pay to enroll in classes, but the company provides a venue or paid time off to attend the class. In Nebraska, some companies are working through a partnership that provides employers with a financial risk assessment to help them understand the personal financial condition of their employees and helps them tailor financial education opportunities to best suit their employees' needs.<sup>7</sup>

While workplace personal financial education programs exist in Kansas, efforts should be undertaken to encourage more companies to implement similar programs.

### Future of financial literacy in Kansas

A conversation about the importance of personal financial literacy has begun in Kansas. Lawmakers have adopted legislation that encourages the teaching of personal financial education concepts to school-aged children. However, much more is needed to improve personal financial literacy in our state. The system for teaching school-aged children in Kansas must be strengthened to ensure that children in school districts across the state are receiving a consistent education in personal finance. Personal financial literacy also must become a priority for adults in Kansas with policies to encourage financial education in the workplace.

Research indicates that increased knowledge and understanding of personal finance issues results in improved financial behaviors. Improving financial literacy in our state is an important step toward protecting the Kansas economy from a large-scale economic crisis, such as the subprime mortgage crisis that affected so many states. The result will be a stronger financial outlook for Kansas families and communities.

### Sources and Notes

- 1 JumpStart Coalition. 2007. National Standards in K-12 Personal Finance Education.
- 2 Perry, V. G. and M. D. Morris, 2005. "Who Is in Control? The Role of Self-Perception, Knowledge, and Income in Explaining Consumer Financial Behavior," *Journal of Consumer Affairs*, 39(2), 299 – 313.
- 3 SB 74-L. 2003, ch. 39, § 1; July 1
- 4 SB 41; L. 2009, \_\_\_\_\_
- 5 Kansas State Board of Education meeting minutes, May 13, 2008.
- 6 Garman, E.T., I.E. Leech, and J.E. Grable, 1996. "The Negative Impact of Employee Poor Personal Financial Behaviors on Employers," *Financial Counseling and Planning*, Chapter 7, pages 157–168.
- 7 Kelly D. Edminston, Federal Reserve Bank of Kansas City, "Financial Education in the Workplace. Get on board: Moving Nebraskans Toward Financial Literacy," [http://www.kansascityfed.org/fineduOM/pdf/BusinessCase\\_Edmiston.pdf](http://www.kansascityfed.org/fineduOM/pdf/BusinessCase_Edmiston.pdf)