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# Financial Education

Remarks by

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at

Conversation with the Chairman: A Teacher Town Hall Meeting

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Good afternoon and welcome. I am delighted to have the opportunity to speak today with educators throughout the country on the topic of financial education. Thank you for your participation and for the important work you do. As an educator myself, I understand the profound effect that good teachers and a quality education have on the lives of our young people. Today I hope you will learn from each other and share ways to best promote learning and, in particular, to help students achieve greater financial literacy.

Financial education supports not only individual well-being, but also the economic health of our nation. As the recent financial crisis illustrates, consumers who can make informed decisions about financial products and services not only serve their own best interests, but, collectively, they also help promote broader economic stability. Smart financial planning--such as budgeting, saving for emergencies, and preparing for retirement--can help households enjoy better lives while weathering financial shocks. Financial education can play a key role in getting to these outcomes. Research by Federal Reserve Board staff members on the effectiveness of financial education for young military personnel, for instance, found that those who had taken a high school financial education course were more likely to save regularly.[1]

Effective financial education is not just about teaching students about financial products or performing financial calculations. It also involves teaching them the essential skills and concepts they will need to make major financial choices. High school students might not recall specific information from a lesson about loans a year later when they go

[1] See Catherine Bell, Daniel Gorin, and Jeanne M. Hogarth (2009), "Does Financial Education Affect Soldiers' Financial Behaviors?" paper presented at the Federal Reserve System Community Affairs Research Conference, held in Washington, April 16-17, www.kansascityfed.org/publicat/events/community/2009carc/Hogarth.pdf.

to get their first car loan or student loan. However, if they understand and remember some basic ideas--for instance, that it's important to shop around for a loan to get the lowest interest rate, to review the fees charged, and to know how to contact financial counselors and advisers--they will be more likely to make a good decision.

A particularly valuable lesson we can teach students is how to apply an economic way of thinking to their decisions. For instance, the topic of student loan debt and whether students are prepared to service that debt upon graduation has received increased attention lately. Students with some exposure to economic thinking will be more likely to conceptualize their spending on postsecondary education as an investment in their own human capital and choose their school, course of study, means of paying for their education, and profession with that thought in mind. Likewise, the economic tool of cost-benefit analysis should help students make sounder personal and financial decisions.

Financial education also provides a context for students to develop important skills that can be applied more broadly. Making good financial decisions requires that consumers seek out relevant information from trustworthy sources, and that they use critical thinking, quantitative reasoning, and decisionmaking skills. These competencies are also some of the fundamental abilities our schools seek to inculcate in our children.

As with other types of education, the format and quality of the content matters a great deal. Providing financial education that is realistic, interesting, and relevant can help students retain information and remain engaged. Games and simulations can be particularly effective at keeping students interested. For example, in 2010, I spoke at the opening of the Junior Achievement Finance Park in Fairfax, Virginia.[2] This organization, as well as similar facilities throughout the country, allows students to play the role of a family head with financial challenges and opportunities, giving them a chance to practice financial decisionmaking in a realistic setting.

Students and their parents can become financially literate together through exercises such as intergenerational homework assignments, which reinforce the concepts taught in class. Such strategies allow educators to help adults who until then may not have been exposed to financial concepts.

To provide the most effective education, curriculums should also have clear standards and goals. To that end, the federal government's Financial Literacy and Education Commission, of which the Federal Reserve is a member, has identified five core competencies that should be covered by financial education: earning and income, spending, saving and investing, borrowing, and protecting. Behind each of these competencies is a set of related knowledge and skills, and corresponding behaviors. For example, in the category of earning and income, students are expected to know the difference between gross pay and net pay, and information about benefits and taxes. With this knowledge, they can understand their pay stubs and take full advantage of their workplace benefits. The five core competencies are reflected in the National Standards for Personal Finance being developed by the Council for Economic Education; several of our Federal Reserve System colleagues are working with the council on this project.

While it is important to begin teaching financial skills to children and teenagers, achieving and maintaining financial know-how is a lifelong undertaking. The types of

[2] See Ben S. Bernanke (2010), "Brief Remarks," speech delivered at the grand opening of the Junior Achievement Finance Park, Fairfax, Va., October 19, www.federalreserve.gov/newsevents/speech/bernanke20101019a.htm.

financial decisions that people have to make--from paying for school to buying a home to planning for retirement--vary through the course of their lives, and thus we need to ensure that access to financial education is readily available at all stages of life. Moreover, relevant, accurate, and reliable financial information must be readily available to consumers at the time they are making their decisions. Given the ubiquity of smartphones, applications for mobile devices may be one effective method of delivering this just-in-time information at a relatively low cost. For example, our colleagues at the Department of the Treasury are currently running an “app” contest to design mobile tools to help Americans make better financial choices.

Because financially capable consumers ultimately contribute to a stable economic and financial system as well as improve their own financial situations, it’s clear that the Federal Reserve has a significant stake in financial education. We demonstrate our commitment through numerous programs and resources offered by the Federal Reserve System staff and through partnerships our Reserve Banks have formed with local educators and institutions. For instance, the Federal Reserve Bank of Chicago, during its annual Money Smart Week, conducts free classes and activities to help consumers better manage their personal finances. And the Federal Reserve Bank of St. Louis offers a broad selection of online personal finance courses that teachers can use along with their students. To find out more about what is happening in your area, I encourage you to visit the Federal Reserve System’s education website, www.federalreserveeducation.org.

I would again like to thank you for your participation today, and I look forward to your questions.