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Teaching about Saving and Investing in the Elementary and Middle School Grades

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For several years advocacy groups have recognized the need to strengthen financial education in the K-12 schools. Current statistics support their concerns. Financial illiteracy in the United States is astoundingly high. From 1992 to 2000, disposable personal income for Americans rose by 47 percent, but personal spending rose by 61 percent. In those eight years, the overall personal savings rate fell from nearly 6 percent to zero. Half of all Americans today are living paycheck to paycheck. Fifty percent of all adults have not started saving for retirement. For many Americans, unpaid credit card balances exceed 401(k) balances. These are but a few of the statistics that point out the importance of preparing young people to manage their personal finances intelligently.[1]

Information pertaining specifically to young Americans underscores the general problem. Young people aged 12 to 19 are big spenders. They spent $175 billion in 2003, and only 21 percent anticipated spending less in 2004. In spending these sums, many young people relied heavily on credit. A Teenage Research Unlimited study found that 32 percent of 18- and 19-year-olds have credit cards in their own names. But many of them apparently handle credit poorly, as evidenced by the fact that more young people filed for bankruptcy than graduated from college in 2001.[2] Not surprisingly, assessment data show that young people do not understand basic concepts about money.[3] High school students' scores on Jump$tart Coalition assessments have been declining since the first survey was administered in 1997.[4] The message is clear. Young adults are leaving high school without adequate preparation for managing their financial lives.

Curricular Responses to Date

The schools to date have not responded adequately to the problems described above. As of 2002, 48 states and the District of Columbia had curricular standards for economics.[5] Of these, however, only 34 states required implementation of their standards, and only 17 states required students to take an economics course in high school. Only 31 states, moreover, had standards for personal finance; only 14 of these states required that their standards be implemented; and only four states required students to take a personal finance course in high school.

For the most part, then, high schools offer courses in economics/personal finance as electives. This means in practice that most students continue, even after the advent of the standards movement, to graduate from high school with no personal finance or economic education at all. One might wonder whether subsequent college coursework will compensate for this shortcoming. But only about 40 percent of high school graduates go on to college, and only a small portion of those who do go to college take courses in economics or personal finance.[6]

Our young people themselves know that they need personal finance instruction—even those who think they do a good job of handling their money. A study conducted by the American Savings Education Council and Employee Benefit Research Institute showed that only 21 percent of students aged 16 to 22 reported having taken a personal finance course.[7] Only 15 percent of these students said they understood financial matters well, and only 18 percent thought that they did a very good job of managing money. Forty-nine percent of those who thought they did a very good job of managing money indicated that they didn't know as much as they should know.

Doing It Better: The Case for an Early Start

Observers generally have focused on weak financial understanding among young adults, thus building the case for financial education at the secondary school level. Less attention has been paid to the early grades. But building a rationale for economics and personal finance education in the elementary grades isn't difficult. Economics is the study of decision making in the context of limited resources. Even the youngest of our school-age children make such decisions every day—about what to wear, what to eat, what games to play, and how to spend their time and money. Few would doubt that children should be equipped with the tools required to make such decisions thoughtfully.

When they reach adulthood, moreover, today's children will face economic problems and make decisions that have far-reaching effects on their lives and the lives of others. These include personal decisions about pursuing education, choosing careers, saving and spending income, and using credit. Economically illiterate adults will make such decisions "based on incorrect assumptions, misunderstandings and misconceptions that could have been corrected during their school experience."[8]

Children aged 4-12 participate actively as consumers in the marketplace, making choices about how to use their money. Many of them have a surprising degree of control over their spending. For the past three decades, spending by children in this age group has roughly doubled every 10 years; in the 1990s, it tripled; and by 2004, spending by children aged 4-12 exceeded $40 billion.[9] Young children also influence the spending of others. According to one estimate, children 12 years old and younger influenced (directly and indirectly) more than $600 billion of household spending in 2000.[10]

Advertising strongly influences young children's spending patterns. Many children visit stores two to three times a week. More children go shopping than those who read, go to church, participate in youth groups, play outdoors, or spend time in household activity. In a recent study, Schor found that nearly two-thirds of the parents reported that their children defined their self-worth in terms of things they own. Schor concluded that American children are deeply enmeshed in the culture of getting and spending.[11]

In light of this background, getting an early start on financial education is critical. Financial education in the early grades can instill norms of saving and sound financial management, establishing the basis for saving and spending habits that will serve students well throughout their lives. It is a point that Alan Greenspan, chairman of the Federal Reserve, has emphasized: "Improving basic financial education at the elementary and secondary school level is essential to providing a foundation for financial literacy that can help prevent younger people from making poor financial decisions that can take years to overcome."[12]

More young people filed for bankruptcy than graduated from college in 2001.

Personal Finance as a School Subject for Children

Often people think that economics and personal finance are too difficult to teach to young children, and that personal finance education should wait until high school. No one would think of making such a statement about science, mathematics, or history, of course, and in fact the statement doesn't apply to personal finance either. Personal finance is a component of economics, and years of research in economic education demonstrate that K-12 students can and do learn economic concepts—including concepts of personal finance.[13]

Children throughout the K-12 grades, including children who differ in ability levels and socio-economic backgrounds, can learn worthwhile content in personal finance if their teachers use appropriate strategies and materials.[14] Children's understanding of economics, and hence personal finance, develops through a series of levels or stages.[15] Nothing about the subject matter *per se* makes personal finance inappropriate for study by children in the early grades. And postponing the study of personal finance is unwise for other reasons. First, children certainly acquire some ideas and information about personal finance information from non-school sources. Some of what children acquire in this way will be incorrect or misleading. The longer we wait to provide personal finance education, the more time teachers will need to spend correcting misinformation. Second, many students drop out of school well before their senior year. If personal finance education is postponed until the senior year, these students—those who may be most in need of personal finance education—are deprived of receiving any.[16]

The Problem for the Teacher

Young children bring information about money into the classroom from their personal experience with trial and error, hearsay, and advice from various sources. Some of what they learn in this way is correct and some is not. Teachers therefore need to understand and correct the misconceptions about personal finance concepts that children bring into the classroom.[17] Failure to correct misconceptions early on may mean that misunderstandings about personal finance will persist even when economics is taught in the elementary classroom.

If financial education is not taught in the schools, children may seek financial advice from their parents or other adults.[18] But only 32 percent of American parents talk to their children regularly about personal finance. And what parents say when they do talk about financial matters may not be very helpful. Ronni Cohen, executive director of the Delaware Financial Literacy Institute, made it a practice to ask her fourth-grade students if their parents ever talked to them about money. They overwhelmingly responded "yes." When asked what their parents talked about, these were the predominant responses: *you can't have any; we don't have enough; and wait until payday*.[19] In this vein, Mandel found that children of parents who did provide personal finance instruction scored no higher on a test of personal finance than children whose parents did not provide such instruction.[20]

We can no longer assume that children learn the financial information they need at home. Given the complexity of financial matters in this day and age, we can't assume that students will learn the financial knowledge they need through hearsay or the experience of trial and error.

Nor can we wait until high school to provide the instruction in personal finance that is needed. If we want our children to have the foundation for financial literacy that Alan Greenspan speaks of, it is essential that we improve basic financial education throughout the K-12 curriculum.[21]

How Can This Important Content be Taught?

Personal finance and economic content can be taught using a variety of strategies and practices in the K-12 classroom. For example, in "What Happens When a Bank Makes a Loan?" (see lei.ncee.net), children participate in a role-playing activity designed to help them recognize the impact of loans on the community. Although children may know that banks are a place to keep savings, they are less likely to know that banks make loans and even less likely to know about the impact that those loans have on the community. This lesson demonstrates that impact in an engaging way.

Many instructional materials now available emphasize other active-learning practices including group work, simulations, and inquiry. Teachers can find such materials in printed sources, at certain websites, and through various community partnerships.

Print Materials

- *Personal Finance and Children's Literature* is a set of 15 lesson plans for the primary grades. Each lesson is linked to a specific children's book. This approach addresses teachers' needs to integrate financial instruction into subjects such as reading and language arts because of an overcrowded curriculum. *Personal Finance and Children's Literature* is published by SPEC Publishers of St. Louis, Missouri.
- *Learning, Earning and Investing (LEI)* is a comprehensive investor education program for students in grades four through 12, published by the National Council on Economic Education. The program includes three main components. One is a set of four online lessons for fourth- and fifth-grade classes; these lessons can be printed off from the Learning, Earning and Investing website, lei.ncee.net. The second component is a book of 16 lessons for use in middle schools; the third is a book of 23 lessons for use in high schools. LEI is designed to teach the benefits of, and strategies for, long-term investing success.
- *Financial Fitness for Life (FFFL)* is a financial literacy program for grades K-12, developed by the National Council on Economic Education. The program includes teacher guides for grades K-2, 3-5, 6-8, and 9-12; a set of stories for grades K-2; student workbooks for grades 3-5, 6-8, and 9-12; and parent guides for grades K-5 and 6-12. The program is available at www.ncee.net.
- *Money Math: Skills for Life* is a publication developed through a partnership between the U.S. Treasury Department, the Jump$tart Coalition for Personal Financial Literacy, and the University of Missouri-St. Louis Center for Entrepreneurship and Economic Education. It is intended for use in middle school classrooms. The publication focuses on income, saving, taxes, and budgeting. It is available at www.publicdebt.treas.gov/mar/marmoneymath.htm.
- Stock market simulations provide another means by which teachers can incorporate financial education in their classrooms. There are several stock market simulations including The Stock Market Game™ and STOCK-TRAK. These simulations allow students to buy and trade a portfolio of stocks. While doing so, the students learn about financial markets; they also learn basic vocabulary related to the stock market.

Websites

- Financial Fitness for Life (FFFL), at fffl.ncee.net, is designed to complement the FFFL print materials. It includes related lessons, links to appropriate sources, interactive supplements, and online teacher support.
- Learning, Earning and Investing, at lei.ncee.net, is designed to complement the *Learning, Earning and Investing* print publications. The site offers a wide array of current data, investment education links, downloadable classroom visuals, interactive lessons, and classroom-tested print lessons including "What Happens When a Bank Makes a Loan?"
- The National Council on Economic Education website at www.ncee.net provides educators with access to a wide range of materials for K-12 instruction in economics and personal finance. Possibilities include online sources, printable lessons, academic competitions, teacher support, and links to other valuable sites. Many of the NCEE's recent publications have multifaceted web pages. These websites include related lessons, links to appropriate sources, interactive supplements, and online teacher support. Financial Fitness for Life (fffl.ncee.net) and Learning, Earning and Investing (lei.ncee.net) are two examples. They complement each instructional package with an array of materials, sources, links, interactive student activities, and teacher support.
- The Jump$tart Coalition for Personal Financial Literacy website at www.jumpstartcoalition.org includes a clearinghouse section. This is a database of personal finance resources available from a variety of education providers such as government, business, and non-profit organizations. Teachers often use these personal finance teaching materials to support their states' standards in economics, business, math, and family and consumer science. (See Frederick Risinger's column on page 96 for more on the Jump$tart Coalition.)
- H.I.P. Pocket Change: The U.S. Mint Site for Kids (www.usmint.gov/kids). The Pocket Change section of this site uses games, stories, and other activities to bring to life the individuals who appear on U.S. coins and the generations of U.S. citizens who have used these coins.
- Bureau of Engraving and Printing: www.moneyfactory.com. Here children and youth can learn about the history of U.S. currency, the most recent currency changes, and the reasons behind them.
- Fedville, of the Federal Reserve Bank of San Francisco: www.frbsf.org/education/fedville. On this site, children play a game designed to help them learn about earning, spending, and saving

income. Children open a savings account at a bank in Fedville. They receive clues and make decisions based on those clues. (See Frederick Risinger's column, page 97.)

Partnerships within the Community

- Teach Children to Save Day. The American Bankers Association supports a day each year devoted to teaching children about the importance of saving. In St. Louis and Delaware, bankers go into elementary classrooms armed with lessons, having attended training classes on how to teach financial concepts to young children. Such activities draw student attention to the importance of saving and model for teachers grade-appropriate ways to teach about why, how, and where to save.
- Banks in Schools. Banks partner with schools to open a bank at a local school. Bankers come to participating schools weekly; they help students open accounts, and they accept deposits on a regular basis. Teachers provide instruction, using classroom-appropriate materials and drawing on the students' experience. Several programs allow students to serve as tellers under the supervision of the bank employee. Active programs of this sort exist in Nebraska, Louisiana, and Delaware.

How Can Personal Finance be Taught in the Home?

As pointed out earlier, some young people learn about personal finance from their parents, but many do not. A survey conducted by the American Savings Education Council and the Employee Benefit Research Institute indicated that only seven percent of parents think that their children understand personal finance well.[22] For children who rely on their parents, the parents need high-quality materials that help them understand the content and provide instruction.

- The *Financial Fitness for Life* program includes parent guides for children in grades K-5 and 6-12. The materials in the K-5 guide provide readings and vocabulary items to help parents in their efforts to promote children's personal finance literacy. The K-5 guide also includes a list of children's books that parents can read to their children to enhance their personal finance knowledge. The 6-12 guide includes background content for parents and topics parents can discuss with their children. Both sets of guides are designed to complement classroom instruction.
- Wise Pockets World is a website developed by the Center for Entrepreneurship and Economic Education at the University of Missouri-St. Louis. The site is found at www.wisepockets.com. The stars of this site are Wise Pockets, a friendly Koala, and his sidekick, Money Mouse, who help kids learn about personal finance. The site provides insights for parents along with activities parents can use with their children. The site also provides stories for parents to read with their children and special activities for the children to complete.

Notes

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