



BUILDING THE FINANCIAL CAPABILITY OF NORTH CAROLINA'S CHILDREN AND FAMILIES

Understanding basic economic concepts has become an essential part of living and working in modern American society. Indeed, a stable and competitive North Carolina economy requires its workforce and consumers to be financially savvy.

In North Carolina today, students do not have access to the financial information or institutions that prepare them for decisions they must make as adults. There are only five days of financial education mandated in Civics & Economics, a course offered after 9th grade. Not surprisingly, North Carolina students consistently score below the national average in their grasp of basic financial concepts. Meanwhile, households are disconnected from mainstream financial institutions and therefore have limited access to financial products that are regulated, insured and conducive to saving.

Recent news on the economic downturn would seem to suggest that the lack of consumer sophistication in financial matters is to blame for the housing bubble, subprime mortgage products, and stock market crash. A closer look and a clear understanding of markets reveals, in fact, a dangerous combination of factors including the availability and use of information, institutional and individual behavior and the broader economic and policy context. Any approach to preparing young people for this environment and supporting adults must therefore proceed not with information alone but with a combination of information, experience and protection. Such an approach, founded in increasing capabilities, can forge understandings of the connections and relationships among individuals, money, work, investments, credit, banking and markets, and facilitate greater economic stability.

For North Carolina to ensure its economic stability and continued growth, every child must be trained through a combination of classroom lessons and real-world experiences to understand finances. Children will not only benefit from acquiring the life skills to make sound financial decisions but will also be encouraged to engage in entrepreneurial thinking and make stronger connections to the broader economy. Similarly, adults and communities statewide must have access to impartial financial advice and safe, affordable products that can facilitate sound financial decisions.

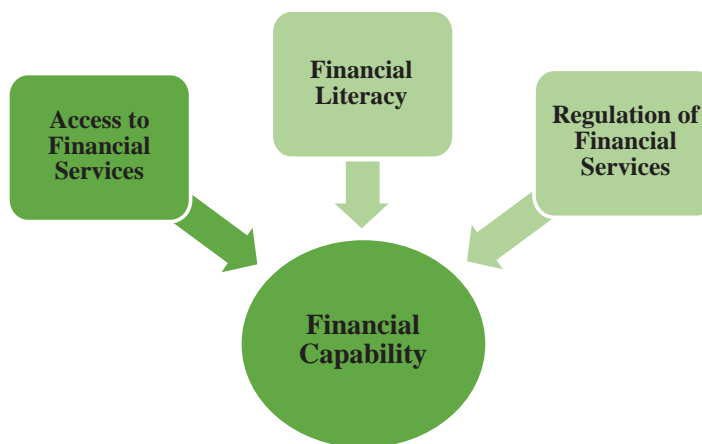
POLICY RECOMMENDATIONS

- ★ Establish a Financial Literacy Council to coordinate existing efforts and make financial institutions and information accessible to facilitate sound decision-making and greater opportunities to save for children and adults.
- ★ Integrate financial education in public schools, K-12, to start money management lessons early and repeat them throughout primary and secondary education.
- ★ Ensure adults have access to sound financial advice.
- ★ Connect more households to the financial mainstream to ensure that every child has the experience of going to a bank or credit union and families have low-cost options to manage their money.

**FINANCIAL
CAPABILITY**

Financial education is training on financial matters that can provide people with knowledge to make informed decisions and develop skills. There are numerous models for delivering financial education, through one-on-one financial planning sessions, community workshops and school-based lessons. Effective financial education is essential to ensuring that households have the tools to make sound financial decisions and achieve improved financial outcomes. A growing body of work suggests that taking a capabilities approach to personal finance can be most effective in reaching these desired goals of behavior change and improved outcomes. This approach to personal finance, based on the work of Amartya Sen and Martha Nussbaum, recognizes that the external environment impacts decision-making and that people must have not just knowledge and competency but also the ability and opportunity to act on them.¹ In the context of personal finance, people need access to financial products and protections that can facilitate the application of financial knowledge and can result in financial well-being.

ESSENTIAL COMPONENTS OF FINANCIAL CAPABILITY



Taking the goal beyond the acquisition of knowledge to building financial capability is additionally supported by the best available research on the effectiveness of financial education programming. Young people require a basic level of knowledge and exposure to the institutions and products offered to become effective managers of money in an increasingly complex financial marketplace. A 2005 study found that performance on a personal financial skills assessment was improved for young people who had a part-time job, had a savings account, or had a relatively higher family income.² Another study of workers’ participation in retirement savings plans found that those who participated in a workplace financial education session were 20 percent more likely to save in the offered retirement plan.³ Finally, an evaluation of matched savings programs or individual development accounts demonstrated that with each additional hour of financial education (up to 12 hours), the rates of savings increased.⁴ The combination of financial education and the opportunity to apply it can lead to better financial outcomes and will be increasingly necessary as more and more responsibility for financial decisions is left up to the individual.

**FINANCIAL
KNOWLEDGE
AND BEHAVIORS**

The Relationship between Financial Knowledge and Behaviors

There is a growing body of evidence showing a connection between individuals’ level of financial knowledge and their financial practices. For example, those who score higher on financial literacy tests are more likely to follow recommended financial practices such as budgeting and asset accumulation.⁵ Those with more financial knowledge are also more likely to plan for retirement and invest more efficiently.⁶ Despite these findings, the causal link between knowledge and behavior may be confounded by experiences generated from higher family income, prior savings or connections to

financial institutions. That is, having the experience of managing money and using financial products could inform consumers about financial matters.

There is also a well-documented gap between financial knowledge and behavior.⁷ Despite knowing the best financial decision, many individuals fail to make that choice and tend to act “predictably irrational.” For example, of those who attended a seminar about their company’s retirement plan and the benefits of saving for retirement, 100 percent of the participants said in an exit interview they intended to join the plan, but only 14 percent actually signed up.⁸

The field of behavioral economics — the study of human decision-making in a complex world — can provide some insights into the gap between financial knowledge and behavior. A few of behavioral economics’ essential findings are based on an analysis of how people decide to save, take on debt and what information they use, and thus can provide important insights to a pursuit of improved financial outcomes for all.⁹

First, people tend to use rules of thumb when making financial decisions, and these ideas are not always based on sound financial analysis.¹⁰ One such rule of thumb is using an “anchor” or a known number of value when deciding what to do. Thus, in retirement plans, many workers select a contribution rate that will result in a full company match. People also depend upon experiences or relevant examples to assess the likelihood of risk. In low-income communities where many households are unbanked, people may not adequately assess the risk of financial products due to the lack of available reference points in the community.

Behavioral economics also shows that people pursue financial advice and support when information is needed immediately. However, people have difficulty seeking advice or taking action when a long-term decision is necessary. For example, it is largely recognized that households across the income spectrum are not saving enough for retirement.¹¹ A program called Save More Tomorrow was designed to encourage participants in a company’s retirement plan to pledge to increase their contribution rate based on future pay raises. Nearly 78 percent of the targeted employees joined the program to increase their contribution rate, resulting in an increase in their savings from 4 to 9 percent.¹² By making their decision automatic and tied to a future, but more short-term point in time, workers were more likely to save and saved more.

Finally, people learn from and are influenced by others, especially family and friends, in the realm of personal finances.¹³ Nearly half of all respondents to a national survey report learning about financial matters or receiving financial advice from their family or friends.¹⁴ In a study of individual development account participation, researchers found that savings in these matched savings accounts increased when participants attended meetings with peers.¹⁵ Social bonds are also potential motivations to save. Individuals are encouraged when savings can be pooled by financial institutions, when savings are made in the name of children or as gifts or when peer pressure or support, such as in the America Saves model, are used to reference others’ participation in savings and motivate households to conform to the group norm.¹⁶

Affinity marketing, or appealing to the identity of a person and their associations, is an effective tool to move more households into the financial mainstream and thus improve access to financial products.¹⁷ The Latino Community Credit Union in Durham is a successful model of providing banking and economic development services to the Latino community. With more than 50,000 members, the credit union has expanded to 10 branches in 2009 with \$65 million in assets and nearly 10,000

FINANCIAL KNOWLEDGE AND BEHAVIORS

Despite knowing the best financial decision, many individuals fail to make that choice and tend to act “predictably irrational.”

FINANCIAL KNOWLEDGE AND BEHAVIORS CONTINUED

North Carolina's children score below the national average on financial literacy assessments.

financial literacy participants.¹⁸ One of the keys to its success has been providing an environment that is open and welcoming to new immigrants as well as informed by the founders' experiences as recent immigrants.

The implications of these findings for the design of policies and programs that seek to build financial capability are significant. First, information and disclosure are necessary but not sufficient to facilitate better decisions and outcomes for households.¹⁹ Second, connecting households to others' experiences can support a sound decision-making process and provide greater exposure to the information needed to assess risks and rewards and take action. Finally, there is a significant role for policymakers to play in ensuring that choices are available and structured so as to secure household and community financial stability. The design of government regulation and private-sector products should align with the best research on how people make decisions so improved outcomes and resulting prosperity can be shared by households, government and the private sector.

North Carolina Children's Financial Skills

Nationally, evidence demonstrates that children and youth do not have the most basic knowledge about financial concepts. The national Jump\$tart survey provides an assessment of high school seniors. In 2008, only one in four high school seniors passed the test. For those students from higher income families, scores were slightly higher (52 percent) than for those from families earning less than \$20,000 (43 percent). Similar disparities exist across racial and ethnic groups. Caucasian students, for example, correctly answered 52.5 percent of the questions, while Hispanic students correctly answered 45 percent, African Americans correctly answered 41.3 percent and American Indians correctly answered 38 percent.²⁰ Given that low-income households and households of color are less likely to be banked, their lower scores are not surprising in light of the connection between knowledge and experience.

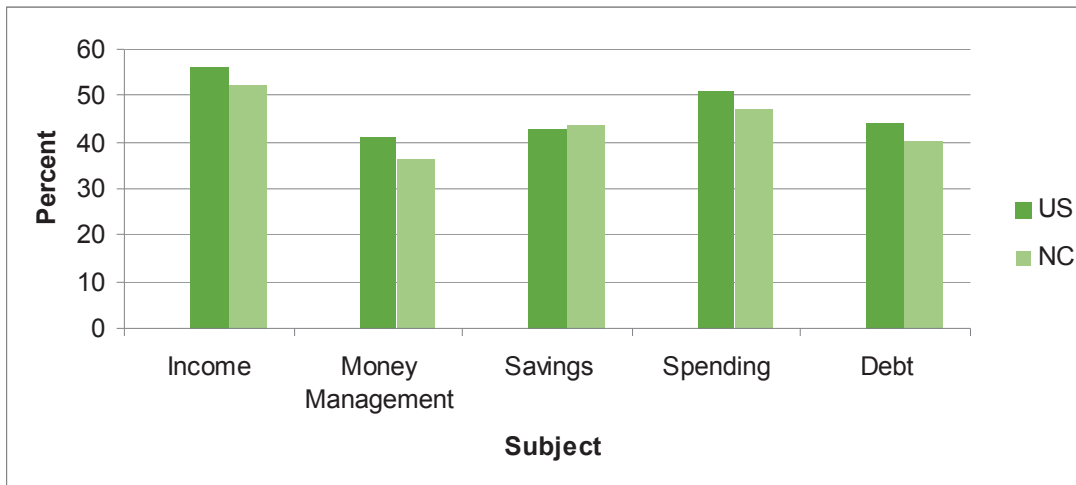
HIGH SCHOOL STUDENTS WITH NO BANKING RELATIONSHIP SCORE BELOW THOSE WITH A CHECKING OR SAVINGS ACCOUNT IN ALL MONEY TOPICS



Source: Special data request, April 2009. The Financial Literacy of Young American Adults: Results of the 2008 National Jump\$tart Coalition Survey of High School Seniors and College Students, Washington, D.C.: Jumpstart Coalition, (forthcoming) 2009.

The picture for North Carolina is similarly bleak. A 2006 sample of 7th graders in North Carolina failed an assessment of their basic knowledge of financial topics including saving, credit and budgeting.²¹ North Carolina high school students scored below the national average in assessments of personal financial literacy in 2008. Performance on the biennial Jump\$tart survey by high schoolers in North Carolina has actually declined over the past two years the survey was administered.

N.C. STUDENTS SCORE BELOW THE NATIONAL AVERAGE ON FINANCIAL LITERACY



Source: 2008 Survey of Personal Financial Literacy Among High School Students, Jump\$tart Coalition for Personal Financial Literacy, <http://www.jumpstart.org/>.

In addition to knowledge, the exposure of children and youth to real world financial services and the process of decision-making are important to future financial success. An estimated three million households are unbanked or underbanked in North Carolina. One-in-four households does not have a savings account.²² This lack of daily exposure to financial institutions and products limits young people's ability to acquire skills for managing their financial assets in the mainstream as adults and undermines their financial outcomes. Young people who had an allowance, investment or bank account as a child saved 36 percent more, 40 percent more and 108 percent more of their income, respectively, as adults.²³

Current Practice

While some schools, banks and other agencies provide financial education services in North Carolina, they are not coordinated, universally available or identified through one point of contact. It is therefore very difficult to assess where programs are available, who they are reaching and how effective they have been at achieving improved financial outcomes for participants.

Statewide offering of financial education in public schools is not assessed. According to a recent Elon University poll (released March 23, 2009) the majority of North Carolinians (91 percent) feel that financial training should be included in the public education that all North Carolina students receive. North Carolina's students are supposed to receive five days of financial education in Civics & Economics. Teachers from 64 counties have been trained as of spring 2008 to deliver the financial education curriculum for this course.²⁴ There is no available assessment of financial education delivery in Civics & Economics nor of student performance over time in this topic area. In a 2007 survey, nearly 90 percent of teachers in North Carolina reported that students should be financially literate when they graduate and

NORTH CAROLINA CHILDREN'S FINANCIAL SKILLS

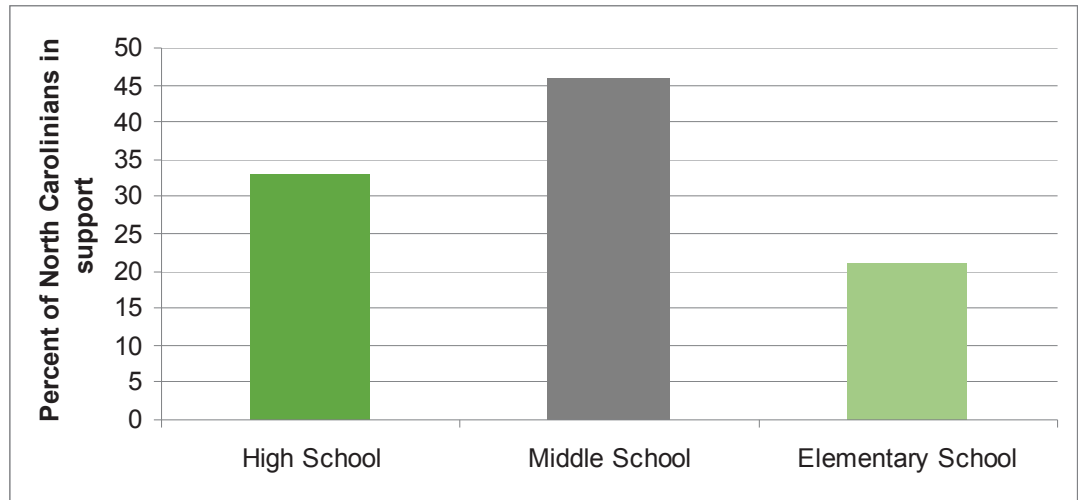
While some schools, banks and other agencies provide financial education services in North Carolina, they are not coordinated, universally available or identified at one point of contact.

CURRENT PRACTICE

CURRENT
PRACTICE
CONTINUED

that schools should play a prominent role in promoting financial literacy. That same survey found that 18 of 26 7th grade teachers devoted a minimal amount of instruction time (two hours or fewer) to personal financial education.²⁵

MOST IN N.C. SUPPORT A FINANCIAL PLANNING COURSE BY MIDDLE SCHOOL



Source: Elon University Poll, March 23, 2009.

Many state agencies offer financial education programming, but greater coordination and public outreach is needed. For young people and adults, a number of state agencies provide a range of financial education programming, from investor education to consumer education to training for specific asset purchases such as homes. These state agencies serve children, college students, adults, workers and seniors, each with a unique curriculum and delivery mechanism. For example, the Secretary of State's office provides information to investors about sound investment decision-making and potential scams. The office additionally receives complaints from investors who have been the victims of investor fraud or other investment scams. Similar work to protect consumers is conducted by the N.C. Department of Justice, where the focus is on college students and financing higher education and on seniors and identity theft, predatory mortgage products and home repair fraud. The N.C. Department of Labor supports the statewide network of individual development accounts which provide adults with access to a matched savings account and companion financial education. Additional financial education efforts are underway in the Office of the State Treasurer, the N.C. Commissioner of Banks, the Housing Finance Agency, and the Department of Public Instruction, the Community College System, the North Carolina Cooperative Extension and the State Education Assistance Authority. There currently exists no agency that can bring these groups together to share information, coordinate efforts, or provide up-to-date analysis of outreach of research and innovative practice. Individually, these institutions will struggle to get to scale, but by combining efforts, there is the potential to create a system that serves the financial needs of North Carolinians from birth to retirement.

Private sector institutions invest resources and time in financial education efforts. Financial institutions and employers across the state have invested in financial education efforts and deliver financial education to their employees and communities. The North Carolina Bankers' Association has members statewide delivering financial education. Members of the association have additionally invested in the development of an exhibit at Marbles Museum in Raleigh that will provide young people with an interactive introduction to financial concepts and practice in a "real-world" setting. The State Employee's Credit Union has trained

teachers statewide and engages young people through its Fat Cat program which offers a savings product and financial education lessons through newsletters and take-home workbooks. Finally, employers in North Carolina are increasingly recognizing the importance of providing financial advice and education in the workplace as a way to reduce employee stress, absenteeism and increase retention. SAS, headquartered in Cary, provides its employees with financial planning sessions, access to a retirement plan and financial advisors.

Nonprofit organizations offer a range of financial education programming from cradle to retirement. There are a significant number of nonprofit organizations that offer financial education, but there is no available information about the scope and location of these services statewide. A brief review of the N.C. Jump\$tart Coalition membership and other financial education listings suggests that the majority of programs are delivered on a small scale through community-based programs like childcare centers, after-school programs, churches and adult education programs. In some cases, membership organizations such as the AARP, provide information, advice and training to their communities.

Programs that integrate financial education with access to financial products and institutions are delivered at limited scale. There are few programs in North Carolina combining financial education with access to financial products even though such programs have had a significant impact. The individual development account program in North Carolina is currently operating in 32 counties statewide. From 1999 to 2007, the cumulative savings by IDA account holders in North Carolina was \$1,770,821, which allowed for the purchase of 448 homes, the start-up of 32 businesses and the investment in education for 31 participants.²⁶ The Housing Finance Agency delivers housing counseling to potential borrowers through seminars and one-on-one counseling. Borrowers who have completed these education sessions are then eligible for downpayment assistance and access to other mortgage-related products. In 2007, nearly \$10 million in zero-interest mortgages and downpayment assistance was received by low-income buyers, and housing counselors arranged for stays of foreclosure for 150 households.²⁷

CURRENT
PRACTICE
CONTINUED

**NORTH CAROLINA
JUMP\$TART COALITION**
North Carolina
Jump\$tart is a coalition
comprised of individuals,
nonprofit and
governmental agencies,
corporations and
educational institutions
united to improve the
personal financial literacy
of North Carolina's
youth. For more
information, visit:
www.ncjumpstart.org

Project G-7

The North Carolina Indian Economic Development Initiative (NCIEDI) has developed a financial education curriculum based on blending American culture with American Indian values. The curriculum developed by NCIEDI is called Project G-7: Building Financial Skills for Indigenous Youth in North Carolina (Project G-7).

NCIEDI believes that financial education curricula designed to teach American Indian youth basic financial skills will lead to greater economic self-determination for American Indians. Since current national data show that American Indian students lack strong financial skills and consistently score lower than other ethnic and racial groups, experts suggest that the methods used to teach financial skills to students of other ethnic and racial groups are not effective at teaching American Indian youth.

In its pilot phase, Project G-7 has resulted in impressive improvements in the financial behaviors and confidence levels of the participants. Findings include: 70 percent improvement in behavior with respect to understanding how current spending will affect the future; 60 percent increase in ability to save money to meet financial goals; 50 percent improvement in behavior with respect to saving money regularly and maintaining a savings account; 50 percent increase in confidence level to save; 40 percent increase in confidence level to pay for all needs first and then buy wants; and 40 percent increase in confidence level to identify financial goals.

For the next phase of Project G-7, coordinator Christina Theodorou and researcher Amy Locklear Hertel aim to work with the Cumberland County School District and Cherokee Tribe of North Carolina and provide participants with a matched savings accounts in addition to financial education.

LESSONS FROM
CURRENT
PRACTICE IN
NORTH CAROLINA
AND BEYOND

Financial products oriented for children’s use are also not widely available. Available financial products are not tailored to the small deposits that are often made by children and households on a tight budget. Many households forego setting up savings accounts because the products are not designed to meet their short-term or perceived needs, or because they are not marketed to the underbanked segment.²⁸ The most recent data, a 1999 survey by the UNC Center for Community Capital, demonstrate that just nine North Carolina financial institutions provide accounts that have monthly fees waived for minors and no minimum deposit requirement.²⁹

More information about what is currently being done is an essential first step to assessing where North Carolina can improve the preparation of young people and support adults in personal financial matters. It is also important to follow the best available research on what works in the delivery and design of financial education and connect to existing efforts at the national level.

TEACHING FINANCIAL EDUCATION

The New America Foundation synthesized the following lessons learned from the emerging body of literature and evaluation on financial education programs:³⁰

- ◆ Financial education is most effective when it is timely and relevant, and builds on people’s experiences.³¹
- ◆ Identifying and capitalizing on “teachable moments” is critical.³²
- ◆ Financial education providers must adapt content and services to meet the needs of the target population.³³
- ◆ Aligning content to goals is crucial to motivating consumers.³⁴
- ◆ The best financial education programs are highly interactive and include activities that engage participants and allow them to practice their skills.³⁵
- ◆ There is a lack of standardized delivery approaches and curricula for financial education.³⁶
- ◆ Ten to 12 hours may be the best amount of financial education.³⁷

Many of these lessons are included in the national Jump\$tart coalition’s guiding principles in the delivery of personal financial literacy:

- ◆ Objectivity
- ◆ Aligned to standards
- ◆ Materials are regularly revised to be accurate, relevant and current
- ◆ Materials are tailored to the intended audience
- ◆ Materials promote teaching and learning in clear language with minimal teacher preparation and with lesson plans and assessment tools
- ◆ Materials are tested before publication under conditions that realistically replicate the target settings and audience

Once programs have been identified in North Carolina, it is important to assess the degree to which they have incorporated elements of these promising or best practices. Ensuring ongoing evaluation of financial education efforts is essential to providing all North Carolinians with quality financial advice and education services. The National Endowment for Financial Education has developed an online evaluation toolkit that could effectively be implemented at scale in North Carolina to collect information and assess the impact of current programming.³⁸ Such evaluations and information-gathering can inform the development of a certification or credentialing process that would allow consumers to be smarter shoppers for financial services, education and advice.

NATIONAL STRATEGY ON FINANCIAL LITERACY

Congress established the Financial Literacy and Education Commission in 2003 under provisions of the Fair and Accurate Transactions Act. The Commission, which is comprised of 20 federal agencies, is charged with promoting financial literacy, coordinating financial education efforts of the federal government and creating a national financial literacy strategy. In its first report released in 2006, the Commission laid out the following general categories of importance to a financial literacy strategy and the approaches that have been demonstrated to work and those that should be pursued.

General Saving

- ◆ Shifting public discussion from consumption to saving through public awareness campaigns
- ◆ Using existing tax incentives to make saving more convenient and affordable
- ◆ Tailoring communications to make saving relevant to everyone

Homeownership

- ◆ Using grassroots approaches to deliver counseling and training programs
- ◆ Highlighting success through quality education and public awareness
- ◆ Community collaboration in developing and distributing programs

Retirement Saving

- ◆ Educating workers on all retirement saving opportunities
- ◆ Encouraging retirement saving for employees of large firms
- ◆ Retirement saving options for employees of small businesses
- ◆ Taking advantage of tax-preferred individual retirement saving products

Credit

- ◆ Increasing public understanding of credit, credit reports and credit scores
- ◆ Using reputable credit counseling services

Consumer Protection

- ◆ Educating consumers about reducing their risk of identity theft
- ◆ Guarding against fraudulent business opportunities
- ◆ Safeguarding senior citizens from targeted consumer threats

Investor Protection

- ◆ Equipping consumers with unbiased, neutral investment information
- ◆ Encouraging greater understanding of investment characteristics, particularly fees
- ◆ Protecting investors from fraud through increased education efforts

Taxpayer Rights

- ◆ Helping individuals to identify and utilize available programs and services
- ◆ Education and outreach to individuals and employers
- ◆ Reducing taxpayer risks and costs by encouraging direct deposit
- ◆ Taking advantage of important, new benefits to realize financial saving

The Unbanked

- ◆ Using banking industry-driven products and services to increase understanding and utilization
- ◆ Encouraging collaboration and use of existing relationships to increase familiarity with the financial system

Multilingual Multicultural Populations

- ◆ Promoting participation in the financial services process through increased understanding of the system
- ◆ Changing perceptions about the accessibility of homeownership
- ◆ Improving access to financial services

Kindergarten to Postsecondary Financial Education

- ◆ Finding room for financial education in K-12 curricula through integration
- ◆ Providing teachers with training and support to effectively teach financial education topics
- ◆ Providing teachers with effective financial literacy materials, curricula, and resources
- ◆ Increasing financial literacy by reaching youth in non-traditional educational venues
- ◆ Increasing the financial skills of post-secondary students

For more information about these strategies and promising practices, visit:

www.mymoney.gov/pdfs/ownership.pdf

NATIONAL MODELS COMBINE FINANCIAL EDUCATION WITH ASSET-BUILDING AND SHOW POSITIVE RESULTS IN STUDENTS’ MONEY MANAGEMENT AND BROADER EDUCATIONAL ACHIEVEMENT

Ariel Community Academy in Chicago, Ill., teaches financial education through a hands-on investment program that begins in 1st grade. Each graduating class receives an endowment of \$20,000 from Ariel Capital Management and Nuveen Investments in 1st grade and lessons in the basics of economics and personal finance begin. In 6th grade, students assume management responsibility for the class funds, and at graduation from the Academy in 8th grade, the original \$20,000 is returned to the incoming first grade class and portfolio gains are divided among a philanthropic organization and the graduates. Graduates can then decide to open a 529 account which will be matched by Ariel Capital Management with an additional \$1,000. Eighty-eight percent of Ariel's students met or exceeded Illinois' math standards, compared to 67 percent of Chicago public students overall.

For more information about Ariel Community Academy, visit: www.arielinvestments.com/content/view/107/1067/ and <http://schools.cuip.net/ariel/>.

Delaware’s Bank at School program is coordinated by the State Treasurer’s Office and connects public, private and charter schools with financial institutions. The financial institutions visit schools weekly and work with “junior tellers” – students employed to serve as the customer interface with their classmates – to collect deposits. Companion curricula are available for the program that align with the state standards for economics. Twenty-seven schools participate, and in the first year of launching the program, more than 60 percent of students enrolled in the Bank at School program.

For more information about the Delaware Bank at School program, visit: www.bankatschool.com.

I CAN SAVE Program in Missouri provided all kindergarteners and first graders with bank accounts and seeded them each with an initial \$500. All additional savings deposits were matched \$1:\$1. Once a week, students participate in an after-school I Can Save club where they learn financial concepts and entrepreneurship principles. During the school day, teachers provide students with financial education as well, and parents are able to access financial education workshops. Monthly, students take a field trip to the Commerce Bank branch where the accounts are held to make deposits and experience banking firsthand. The average child accumulated \$1,376 after four years and saved \$20 per quarter. In qualitative interviews, more than half of the children aspire to attend college and nearly one-third feel that saving is a way to finance college.

For more information about the I CAN SAVE program, see Sherraden, M., Johnson, L., Elliott, W., Porterfield, S. and Rainford, W. 2006. The I Can Save Program: School-Based children’s savings accounts for college. Working Paper 06-02. Center for Social Development, Washington University and visit: <http://csd.wustl.edu/Publications/Pages/DispForm2.aspx?ID=180>.

FINANCIAL CAPABILITY CAN LEAD TO BETTER FINANCIAL OUTCOMES

Improving North Carolinians’ financial capabilities can lead to better financial outcomes for them and their communities. Young people’s connection to financial products and training in financial matters has been demonstrated to have social and psychological impacts, for example, on aspirations and expectations for attending college. There are additional financial outcomes that have been demonstrated to result from greater financial capability in the general population. Compared with those who have less financial knowledge, those with more financial knowledge are also more likely to engage in recommended financial behaviors – such as paying all bills on time, reconciling the checkbook every month, and having an emergency fund.³⁹ Five years after high school, students with mandated financial education in high school had higher self-reported savings rates and increased their average net worth by roughly one year’s earnings.⁴⁰

2005-2006 Session		2007-2008 Session	
House Bill 16 Senate Bill 912 Required Public Schools to Teach Personal Financial Literacy in High School	House Bill 719 Senate Bill 622 Funds for a pilot program to implement personal financial literacy on consumer education, personal finance and personal credit in high school	Senate Bill 1113 Requires financial literacy integration in Algebra and Integrated Mathematics by school year 2008-2009 and appropriates funds for personal financial literacy in the schools	House Bill 1473 Senate Bill 278 Funds for instruction in personal financial literacy in high school Civics and Economics course

Conclusion. There is a growing recognition among states that economics and personal financial literacy are essential lessons to be taught in the classroom. Each state’s approach has varied from requiring courses for graduation to integrating learning standards in the K-12 classroom. It is clear, however, that there is national momentum behind teaching economics and personal finance in our nation’s schools. North Carolina has had important accomplishments in this regard by identifying objectives in the standard course of study that align with economics, personal finance K-12 and requiring personal financial literacy in specific courses. There remains more for North Carolina to do including ensuring personal finance lessons are taught in all classrooms, providing teachers in all disciplines with the resources to deliver innovative and evidence-based curricula and requiring personal financial proficiency by graduation.

CONCLUSION

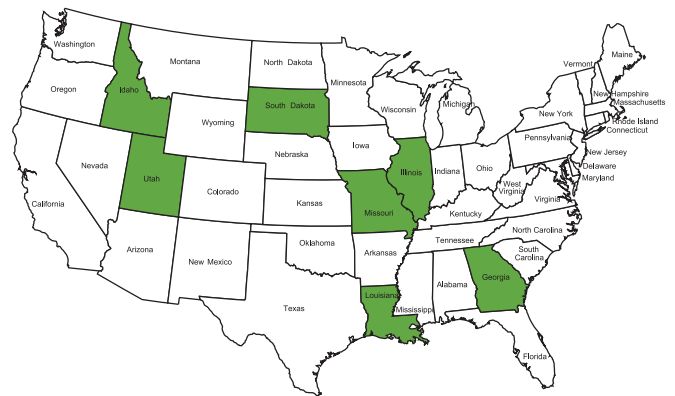
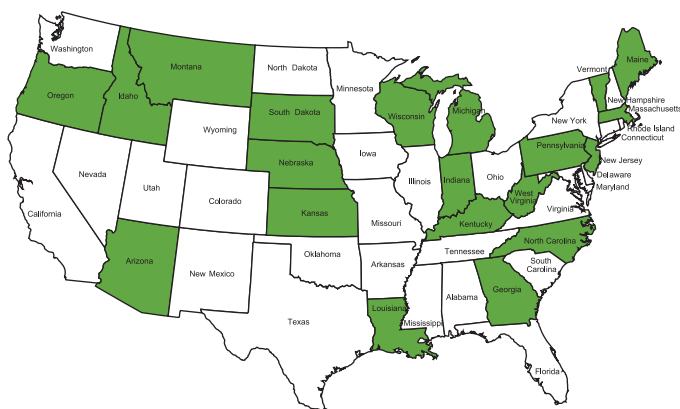
Expanding individuals’ financial capabilities will not only improve their future outcomes, but it will also enhance the outlook for their communities as well. The recent economic crisis has clearly shown that all parts of our economy are connected. Ensuring the financial stability of North Carolina requires that all North Carolinians have the financial capability to make sound financial decisions and achieve improved financial outcomes, such as earning a higher wage, saving on a regular basis or investing for the long term. These individual outcomes generate significant returns to local communities and to the state as a whole.

NATIONALLY, STATES ARE EMBRACING PERSONAL FINANCE TRAINING IN THE CLASSROOM

States are increasingly mandating completion of a personal finance course as a condition for graduation from high school. Currently, seven states mandate completion of a personal finance course for graduation while 20 have personal finance standards in K-12, although their implementation is not explicitly required by all states.

STATES WITH K-12 STANDARDS IN PERSONAL FINANCE

STATES WITH A PERSONAL FINANCE COURSE REQUIREMENT FOR GRADUATION



Sources: National Council on Economic Education. 2007. Survey of the States: Economic, Personal Finance and Entrepreneurship Education in our Nation’s Schools and National State Board of Education. October 2006. Who Will Own Our Children?: The Report of the Commission on Financial and Investor Literacy.

RECOMMENDATIONS

Coordinate efforts: Establish a Financial Literacy Council. A Financial Literacy Council can leverage private-sector resources, coordinate financial education efforts and make the connection to real-life experiences and mainstream financial institutions for all North Carolinians. The Financial Literacy Council would be comprised of key government agencies, private financial institutions and consumer advocates. The Council would be charged with documenting existing programs and policies related to financial education in the state, establishing financial literacy goals and benchmarks, monitoring implementation of financial education statewide and connecting students and adults to financial institutions and curricula. The Council should meet regularly and report annually on the progress of financial education to the Governor and Legislature by documenting the outcomes for children, adults and seniors.

Integrate training in financial decision-making early and often: Provide teachers with resources to implement K-8 learning standards in financial education and economics and assess students through a competency-based test. Existing learning standards that integrate financial education into the K-8 curricula should be taught and assessed on an annual basis. Starting early and repeating lessons throughout a child's development provides a better platform for ensuring retention of the lessons as well as changing behaviors. Integrating these lessons across disciplines provides students with an appreciation of the interconnectedness of financial issues in many aspects of their lives. For example, the N.C. Department of Public Instruction currently assesses young people's tech-savvy with an exit assessment from the multi-year curricula, a competency-based test on financial concepts could be required for graduation.

Ensure adults have access to sound financial advice: Certify a Financial Services Corps to provide financial advice to low- and moderate-income households. A "Financial Services Corps" could broaden access to one-on-one financial planning and "just in time" advice for low- and middle-income adults. These third-party, unbiased advisors could be recruited from business schools, retirees and potentially from the growing field of certified financial planners in North Carolina. The advisors would be available to households at key community locations and in moments when financial information is needed—such as at tax time. The Financial Services Corps could build the financial skills of North Carolinians while also connecting them to mainstream financial products and helping to develop long-term financial plans.

Connect more households to the financial mainstream: Develop a Bank on North Carolina model that includes a school-based component. Unbanked or underbanked households, meaning that they do not have more than a basic checking account, are disproportionately low- and moderate-income, are paying higher prices for financial services and are more vulnerable to economic shocks. "Bank on" initiatives have been implemented in various locations across the country as a way to provide access to affordable banking relationships and connect financial institutions to new markets. In North Carolina, a public-private effort could set targets to reduce the number of unbanked households by developing and marketing products that can be offered across the state and encouraging financial institutions to modify their systems to accept small deposits from unbanked households. As part of this initiative, greater information could be distributed regarding the benefits of saving and learning basic money management skills. A school-based component will ensure that children are connected to financial services at an early age and reap the benefits of learning through experience.

DATA SOURCES

1. Johnson, Elizabeth and Margaret S. Sherraden. 2007. From financial literacy to financial capability among youth. *Journal of Sociology and Social Welfare* 34(3), 119-145.
2. Valentine, G. and M. Khayum. 2005. "Financial Literacy Skills of Students in Urban and Rural High Schools." *Delta Pi Epsilon Journal* 47(1), 1-34.
3. Bernheim, B. Douglas and Daniel Garrett. 1996. *The Determinants and Consequences of Financial Education in the Workplace: Evidence from a Survey of Households*. Stanford University: Stanford, CA.
4. Schreiner, Mark, Michael Sherraden, Margaret Clancy, et al. 2001. *Savings and Asset Accumulation in Individual Development Accounts*. Center for Social Development, Washington University.
5. Hilgert, Marianne A. and Jeanne M. Hogarth. July 2003. "Household Financial Management: The Connection between Knowledge and Behavior." *Federal Reserve Bulletin*. And Hogarth, Jeanne M. and Marianne A. Hilgert. 2002. "Financial Knowledge, Experience and Learning Preferences: Preliminary Results from a New Survey on Financial Literacy." *Consumer Interests Annual*, Volume 48.
6. Lusardi, Annamaria and Olivia Mitchell. 2007. "Baby Boomer Retirement Security: The Role of Planning, Financial Literacy and Housing Wealth." *Journal of Monetary Economics*, 54. Pp. 205-224. And Calvet, Laurent, John Campbell, and Paolo Sodini. 2005. "Down or Out: Assessing the Welfare Costs of Household Investment Mistakes," *Harvard Institute of Economic Research Discussion Paper No. 2017*.
7. National Endowment for Financial Education. 2006. *Closing the Gap between Knowledge and Behavior: Turning Education into Action*. Symposium Summary. Denver, CO, August 10-12, 2005.
8. Choi, James and Brigitte Madrian. June 2004. "Plan Design and 401(k) Savings Outcomes." *National Tax Journal*, 57(2) and Choi, James, Brigitte Madrian, and Andrew Metrick. 2002. "Defined Contribution Pensions: Plan Rules, Participant Decisions and the Path of Least Resistance." *Tax Policy and the Economy*. 16.
9. Ariely, Dan. 2008. *Predictably Irrational: The Hidden Forces that Shape our Decisions*. HarperCollins Publishers: New York, NY; Camerer, Colin F., George Loewenstein and Matthew Rabin, eds. 2004. *Advances in Behavioral Economics*. Russell Sage Foundation: New York, NY and Thaler, Richard H. and Cass R. Sunstein. 2008. *Nudge: Improving Decisions About Health, Wealth and Happiness*. Penguin Books: New York, NY.
10. Tversky, Amos and Daniel Kahneman. 1974. "Judgement Under Uncertainty: Heuristics and Biases." *Science* 185 pp 1124-31.
11. Munell, Alicia H., Francesca Gloub-Sass, Pamela Perun, and Anthony Webb. October 2007. "Households 'At Risk': A Closer Look at the Bottom Third." Aspen Institute, Initiative on Financial Security. New York, NY and The Retirement Security Project, Pew Charitable Trust, *Fast Facts on Retirement at: www.retirementsecurityproject.org*.
12. Thaler, Richard H. and Shlomo Benartzi. 2004. "Save More Tomorrow: Using Behavioral Economics to Increase Employee Saving." *Journal of Political Economy*. 112.
13. Thaler, Richard H. and Cass R. Sunstein. 2008. "Following the Herd" in *Nudge: Improving Decisions about Health, Wealth and Happiness*. Penguin Books: London, England.
14. Hogarth, Jeanne, Sondra Beverly and Marianne Hilgert. February 2003. *Patterns of Financial Behaviors: Implications for Community Educators and Policymakers*. Discussion Draft.
15. Grinstein-Weiss, Michal, Kristen Wagner and Fred M. Sweamala. 2006. "Saving and Asset Accumulation among Low-income Families with Children in IDAs." *Children and Youth Services Review*. 28.
16. Tufano, Peter and Daniel Schneider. 2008. "Using Financial Innovation to Support Savers: From Coercion to Excitement." *NBER Working Paper 08-075*.
17. Jacob, Katy and Melissa Koide. July 2006. "Accessing the American Dream: Affinity Marketing Partnership Strategies for Financial Institutions and Nonprofits." *Center for Financial Services Innovation: Chicago, IL*.
18. Latino Community Credit Union, impact statement accessed at: www.latinoccu.org.
19. Barr, Michael S., Sendhil Mullainathan, and Eldar Shafir. October 2008. *Behaviorally Informed Financial Services Regulation*. New America Foundation: Washington, DC.
20. JumpStart Survey, 2008. Accessed at: www.jumpstart.org
21. North Carolina Department of the State Treasurer. 2007. "The Road to Financial Literacy: The Situation in North Carolina is Half Empty and Half Full." \$kill \$et Survey Results.
22. CFED. 2007-2008. *Assets and Opportunity Scorecard*.
23. Kotlikoff, Lawrence J. and B. Douglas Bernheim. 2001. "Household Financial Planning and Financial Literacy" in *Essays on Savings, Bequests, Altruism and Life Cycle Planning*. MIT Press: Cambridge, MA.
24. N.C. Department of Public Instruction, *Personal Financial Literacy Group*.
25. North Carolina Department of the State Treasurer. 2007. "The Road to Financial Literacy: The Situation in North Carolina is Half Empty and Half Full." \$kill \$et Survey Results. 7.
26. North Carolina Department of Labor, 2007 Annual Report on the Individual Development Account Program. Accessed at: http://www.nclabor.com/ida/Ida_Annual_Report_2007.pdf
27. N.C. Housing Finance Agency. 2007. *North Carolina's Prosperity Begins at Home: Report on Achievements*.
28. Center for Financial Services Innovation and Assets Funder Network. October 2008. *Financial Services and Asset Building Brief*.
29. Center for Community Capitalism. 1999. *A guide to low-cost financial products in North Carolina*. Financial institutions offering accounts for minors included Centura Bank, Cooperative Bank, Kenly Savings Bank, Lexington State Bank, Macon Bank, Piedmont Bank, Preferred Credit Union, Richmond Savings Bank and SOUTHBank.
30. Baker, Christi and Doug Dylla. September 2007. *Analyzing the Relationship between Account Ownership and Financial Education. A Report for the Financial Services and Education Project, An Initiative of the Asset Building Program at the New America Foundation*.
31. Costin, 1988, Mezirow, 1991 and NEFE, 2004.
32. Duflo et al, 2005 Parrish and Servon, 2006.
33. Hogarth and Swanson, 1995, Anderson et al 2004, Shirer and Tobe, 2004, Ciccotello and Elger, 2004.
34. Shirer and Tobe, 2004.
35. Kolb, 1984, Mezirow, 1991.
36. Anderson et al, 2004.
37. Schreiner et al. 2001.
38. National Endowment for Financial Education, *Financial Education Evaluation Toolkit* can be accessed at: <http://www.nefe.org/eval/intro.html>.
39. Hogarth, Jeanne, et al "Household Financial Management: The Connection between Knowledge and Behavior." *Federal Reserve Bulletin*, July 2003.
40. Bernheim, B. Douglas, Daniel M. Garrett, and Dean M. Maki. 2001. "Education and Saving: The Long-Term Effects of High School Financial Curriculum Mandates," *Journal of Public Economics* 80(3): 435-465.



North Carolina

www.ncchild.org

WITH FINANCIAL SUPPORT FROM



expanding economic opportunity



© Copyright 2009.

Any or all portions of this report may be reproduced without prior permission, provided the source is cited as "Building the Financial Capability of North Carolina's Children and Families," Action for Children North Carolina, April 2009, Raleigh, NC.

This publication was funded by the Annie E. Casey Foundation, CFED and The Redwoods Group Foundation. We thank them for their support but acknowledge that the findings and conclusions presented in this report are those of the authors alone, and do not necessarily reflect the opinions of these organizations.



1300 Saint Mary's Street, Suite 500
Raleigh, NC 27605-1276

VOICE 919.834.6623 x 229
FAX 919.829.7299

Visit us online at
www.ncchild.org

Working to make North Carolina
the best place to be and raise a child

Nonprofit Org.
US Postage
PAID
Raleigh, NC
Permit No. 2156