Thank you for joining us for today’s webinar:

Does State-mandated Financial Education Affect Subjective Financial Well-being?

The webinar will begin promptly at 12 PM CT
Does State-mandated Financial Education Affect Subjective Financial Well-being?

October 6, 2020
12:00 – 1:00 pm CT

Brought to you by:
Center for Financial Security
at the University of Wisconsin-Madison
Does State-mandated Financial Education Affect Subjective Financial Well-being?

- Welcome
- Presentations:
  - Research Presentation
  - Discussant: Education Field Implications
  - Discussant: Policy Implications
- Q & A
- Sign off
Our Presenters

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National Endowment for Financial Education (NEFE)

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The Effects of Financial Education on Financial Well-being

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Motivation

- The COVID-19 pandemic puts a spotlight on the financial precarity of many families.
- Policymakers have suggested one way to improve the financial security of future generations: requiring personal finance education in high schools.
- Financial security requires a strong objective financial situation (savings, earnings, ability to manage one’s money) and the skills and confidence to make sound financial decisions.
- Recent work has developed measures of subjective financial well-being (FWB).
- This paper asks “Does state-mandated financial education affect subjective FWB?”
What Is Subjective Financial Well-being?

Studies by U.S. Consumer Financial Protection Bureau to define FWB 2015–2018:

- feeling in control over day-to-day, month-to-month finances;
- having the capacity to absorb a financial shock;
- being on track to meet financial goals; and
- having the financial freedom to make the choices that allow one to enjoy life.
FWB Intended to Be Independent of Income:
Studies show state-mandated financial education in high school:
- increases credit scores and delinquency rates (Urban et al 2019 and Brown et al 2016);
- improves postsecondary financing decisions (Stoddard and Urban 2019);
- increases student loan repayment (Mangrum 2019);
- decreases high cost borrowing (Harvey 2018);
- increases savings and debt-to-income ratios for low-income populations (Harvey 2018)

...but what about subjective measures?
Gaps exist in FWB over the life course by education level and gender.
Research Questions

- Does state-mandated financial education affect FWB?
- Are the effects different for those who end education with a high school diploma? Or by gender?
Contribution

1. First to look at the causal effect of state-mandated financial education on a subjective measure of financial well-being.
2. Investigate the effect of state-mandated financial education on a longer-run outcome (through age 45), as policies with graduation requirements have been in existence for a long enough time to estimate these effects.
3. Heterogeneous effects: by educational attainment and gender.
Use updated state-level financial education requirements (from Schmeiser and Urban, 2014).

- Located at www.montana.edu/urban/research.html

Include states that require students to:

1. take a standalone course in personal finance prior to high school graduation,
2. take a class that integrates personal finance into another class (e.g., economics),
3. complete substantial standards in personal finance as part of a larger content area (e.g., social studies).

We define substantial to mean more than simply adding interest rates to a social studies curriculum, or having a set of math lessons that includes personal finance examples without actually teaching personal finance.
Map of Financial Education Graduation Requirements

Note: Year is the first graduating class required to complete personal finance coursework.
High School Financial Education

What happens in high school financial education courses?

- Calculating and comparing debt with different interest rates,
- Understanding credit scores,
- Incurring long-term debt: mortgages, auto loans, student debt,
- Using credit cards,
- Examining how incomes may fluctuate and insuring against risk,
- Comparing salaries across occupations and making monthly budgets.
How Might High School Financial Education Courses Affect FWB?

Expectation Change  Learning about future income and budgeting could give 17-18 year olds a better expectation of future financial situations. This could either (1) change goals or (2) change ability to meet current goals (perhaps more realistically).

Behavior Change  Learning about how to make smarter financial decisions early in life (e.g., not rack up credit card debt on unnecessary consumption early in life) could improve financial situations early in life, increasing FWB in the long-run.
National Financial Capability Study (NFCS)

- Nationally representative study (also state-representative).
- 2018 data includes FWB scale measure.
- Restrict sample to 18–45, population for which we can document policy effects in a pre- and post-period.
- Final samples: 12,228 (2018).
Method: Difference-in-Difference

- We compare students in states with financial education graduation requirements before and after the requirements took effect.
- We then compare students in states without financial education graduation requirements across the same time periods.
- Comparing the differences in growth rates gives us the causal effect of financial education on FWB.
NM has no financial education graduation requirement.

TX introduces graduation requirement with graduating class of 2007.
Results

![Graph showing the effect of financial education on FWBS for different groups.](image-url)

The graph displays the effect of financial education on FWBS for various groups, including overall, male, female, some college, and college+.
Results: Which Questions Drive the Effects?

<table>
<thead>
<tr>
<th>Group</th>
<th>financial education mandate...</th>
</tr>
</thead>
</table>
| Men    | ↓ concerned money they have won’t last.  
         | ↓ likely to feel like they will never have the things they want in life because of their money situation.  
         | ↓ likely to feel like their finances control their lives. |
| Women  | see no changes. |
### Results: Which Questions Drive the Effects by Education?

<table>
<thead>
<tr>
<th>Group</th>
<th>financial education mandate...</th>
</tr>
</thead>
<tbody>
<tr>
<td>HS Diploma Only</td>
<td>↑ likely to feel like they will never have the things they want in life because of their money situation.</td>
</tr>
<tr>
<td>Some College</td>
<td>↑ likely to say they have money left over at the end of the month.</td>
</tr>
<tr>
<td>College Degree +</td>
<td>↓ likely to feel like they will never have the things they want in life because of their money situation. ↓ concerned that the money they have or will save won’t last.</td>
</tr>
</tbody>
</table>
Interpreting Effect Sizes

Compare to another shock: job loss.

- Prior study: job loss reduces FWB by 4.2 points for the full population.
- State-mandated financial education increases FWB for men in the full sample by 1.8 points, roughly one quarter of the effect of job loss. This is 44% of the effect size of a job loss.
- Caveat: job loss is episodic; financial knowledge is ideally retained/augmented over life course.
- Further, only 48% of schools within states that have graduation requirements comply. This makes the effect of the education itself likely double the estimated size.
Changes to *Objective* Financial Situations

- We see some improvements in objective financial situations due to state-mandated financial education:
  - increased likelihood of holding a rainy day account or checking/savings account for both men and women.
  - increased likelihood to figure out how much is needed for retirement, among people with at least some college.

- While there are no clear gains for those who only hold a high school diploma, there is also no harm to FWB due to financial education.
What is Not Driving Our Effects?

We can rule out the following alternatives:

- household formation: effects are similar for single and married individuals.
- changes in income: financial education does not really affect earnings.
- one specific state: drop each state one at a time and results do not change.
- objective financial situation: controlling for asset levels or household income does not change effects.
Conclusions

- Based on previous research, state-mandated high school financial education improves financial behaviors.
- It also improves FWB for men and those with at least some college.
  - Both effects are observed over many years post-high school.
- People who end their education with a HS diploma in states with mandated financial education policies show gains for other outcomes, but not FWB in our study. It lowers FWB...
  - Financial education may raise awareness of financial fragility and result in lower expectations about one’s financial future, particularly for individuals from economically disadvantaged groups.
  - Policies promoting financial education in high school may be increasing the FWB gap between those with and without a college education by contributing to differences in aspirations and disparities in life trajectories.
How Does Financial Education in High School Affect the Subjective Financial Well-being of Adults?

Jill Jones, Ph.D.
October 6, 2020
About NEFE

Vision
NEFE envisions a nation where everyone has the knowledge, confidence and opportunity to live their best financial life.

Mission
NEFE champions effective financial education.
We are the independent, centralizing voice providing leadership, research and collaboration to advance financial well-being.
The Personal Finance Ecosystem

Financial Well-Being

Financial Actions and Outcomes
- Actual decisions and (in)actions from behaviors and shocks
- Outcomes (objective and subjective)

Financial Capability
- Knowledge and skill to decide or act
- Ability to exercise choice or take action within the financial system

Foundational Factors
- General skills and abilities: numeracy, problem solving, critical thinking, information literacy, etc.
- External factors: general economic conditions, socioeconomic factors, personal health, cognitive faculties, family factors, cultural factors, economic inequality, social welfare programs, regulations, etc.

Behavior Influencers
- Coaching, advice, choice architecture, nudges, etc.

Knowledge Influencers
- Financial Education
- Financial Information and Tools

Protection, Policy and Regulation

Basic Education
Gender differences: Are curricula taught in a way that caters to men over women?

Education differences: Too much emphasis on traditional postsecondary planning and too little emphasis on students’ diverse experiences after high school graduation?
Debt Pathways by Degree

Types of Debt by Educational Attainment

Source: Authors’ analysis of National Longitudinal Survey of Youth data
Major Life Events by Degree

AVERAGE AGE AT LIFE EVENTS

NO COLLEGE DEGREE

ASSOCIATE’S DEGREE

BACHELOR’S & GRADUATE DEGREES

20  22  24  26  28

FIRST MOVE OUT  FIRST COHABITATION  FIRST MARRIAGE  ASSOCIATE’S DEGREE  FIRST CHILD  BACHELOR’S DEGREE

Source: Authors’ analysis of National Longitudinal Survey of Youth data
Wisconsin Department of Financial Institutions

Vision:
Financial Well-Being for Wisconsin

Mission:
The Wisconsin Department of Financial Institutions (DFI) is dedicated to protecting the safety and soundness of Wisconsin’s financial institutions, safeguarding the investing public, facilitating commerce, and increasing financial capability throughout the state.

Learn More: www.wdfi.org
Modernize the Agency
- Governing Statutes & Rules
- Processes
- Technology

Build Financial Capability
- Promote Financial Literacy Education for Students, Workers, & Seniors
- Provide Free College Planning & Student Debt Resources
- Academic & Career Planning

Invest in Our People
- Diversity, Equity, & Inclusion
- Employee Development
- Employee Engagement & Recognition
Wisconsin’s Initiatives to Elevate Personal Finance

- Governor’s Council on Financial Literacy
- Interagency Financial Capability Committee
- College Savings Program
- Virtual Reality Fairs
- Workplace Financial Literacy
- Grants for Schools
- College Affordability
- Student Debt Resources
- ABLE Savings Accounts
Academic Standards

WISCONSIN RELEASED VERSION 2.0
(JUNE 2020)

DPI.WI.GOV/FINANCE
Academic Standards: Putting the Personal in Personal Finance

Academic standards define what students should know and be able to do at each grade level.

**Strands:**
- Education and Employment
- Money Management
- Saving and Investing
- Credit and Debt
- Risk Management and Insurance
- Financial Mindset – **New!**

**Financial Mindset:** Combination of the values, emotions, attitudes, behaviors, and external influences that lead to mental habits for thinking about and responding to any financial circumstances. The financial mindset offers the “why” while the other strands outline the “how.”
Wisconsin State Policies

Established in 2013 & 2017
Wisconsin State Policies

Academic and Career Planning (ACP)
• Established in 2013.
• Wisconsin school districts required to implement an ACP strategy.
• Apply to 6th – 12th grades.

State Requirement for Personal Finance
• Established in 2017.
• Wisconsin school districts required to adopt and implement personal finance standards.
• Apply to Kindergarten – 12th grades.
• Note: This is not a mandate for a standalone one semester course required for graduation.
Wisconsin School District Policies

426 School Districts are responsible for operations & curriculum
School District Policies

- 56% One Semester Course
- 8% Embedded
- 7% Choice
Wisconsin High Schools

137 high schools implemented a one semester personal finance graduation requirement.
Next Gen Personal Finance

Pick Your State To Get Started: www.ngpf.org/got-finance
Thank you!
Q & A

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Please remember that today’s webinar was recorded and will be posted on our website: cfs.wisc.edu within two business days.

Please contact Hallie Lienhardt with questions: 
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