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Starting Early – A Way to Improved Financial Literacy

Providing financial education to adults is not enough when the goal is to improve financial literacy of Canadians. Integrating financial literacy programs through the K-12 educational system is vital.

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The recent financial crisis and economic recession intensified interest in financial literacy among governments, financial institutions, businesses and educators. Conventional wisdom conveys that financial literacy contributes greatly to the stability of the financial system and enhances the performance of the broader economy. Concurrently, it is highly important to individual well-being as it determines households' capabilities to effectively manage money and to comprehend the real impact of alternative financial decisions. Conversely, poor financial literacy and financial planning skills can typically lead to excessive consumer credit, over-indebtedness and sub-optimal financial well-being.[1] Moreover, the lack of deliberate financial prowess can mask or otherwise impede households' ability to apprehend the true scale of exposure to financial risks and to meaningfully embrace remedial or corrective action.

Regretfully, the level of financial literacy of Canadians is relatively conservative. An assessment undertaken by Statistics Canada in 2009 reveals that Canadians scored as low as 67% on the financial knowledge quiz.[2] Not surprising then that some 20% of Canadians have serious difficulties in four out of five dimensions of financial capability (i.e. making ends meet, keeping track, planning ahead, choosing products and staying informed).[3]

The low level of financial literacy naturally attracts attention to the issue of efficacy of currently prevailing ways of acquiring and retaining financial knowledge by households. In adulthood, we know that a number of options exist for individuals to acquire financial knowledge; those may include for example workplace financial orientation, programs offered by community, financial and educational institutions, formal college or university-level financial education, and via experience garnered through a diversity of life events. Options for children's financial education are much narrower and expectedly rely on parents to influence and shape their children's spending and saving habits. As parents themselves may struggle with money management and financial planning, it may be challenging and sometimes unrealistic to simply presuppose that children are exposed to financial stewardship.

Compared to children, youth may have few additional options of acquiring financial education as finance, accounting, and economics courses are sometimes offered to secondary school students as elective courses. Given that this career-focused preparatory training is typically undertaken by an only small proportion of students who plan to pursue a post-secondary education in business or finance, these courses, in and of themselves, may not be sufficient in improving financial literacy of youth at large.

At the same time, research findings suggest that the bulk of financial knowledge is accumulated by individuals prior to entering core working age. For instance, young Canadians (those 18 to 24 years of age) score an average of 64.1% on the financial knowledge quiz; this is only slightly different from the average score of 67.2% for those aged 35 to 44 and 67.5% for older individuals (those aged 55 to 64) scoring the highest of all other age groups.[4] Other studies suggest that the level of financial literacy of high school students is not much different from that of adults as students tend to score between 50% and 60% on financial literacy tests.[5] The relatively small variance in scoring among different age groups suggests that young adults retain a large proportion of financial knowledge from childhood and adolescence, while acquiring only incremental knowledge as adulthood unfolds. As such, integrating financial literacy programs into the K-12 (Kindergarten to Grade 12) educational curriculum may be the key to improving the overall level of financial literacy of Canadians. A formal approach and an early start are prospectively the two fundamental elements to improved outcome.

Research shows that education delivered in a formal format may be effective in improving financial literacy. For instance, high school students having studied personal finance and economic courses as part of their curriculum have higher propensity to saving and are less likely to become compulsive buyers.[6] Lengthier and more rigorous formal financial education also has a significant positive impact on student's financial knowledge: college students majoring in business and finance tend to have a higher level of financial literacy compared to students majoring in other fields that include fewer (if any) financial courses.[7]

Much behavioural development occurs at younger ages as individuals acquire, construct, synthesise and use their knowledge gradually. As early intervention in learning improves children's skill development and cognitive ability,[8] early financial education may increase children's familiarity and the level of comfort in dealing with money matters. This may help in developing such positive financial behaviour and attitudes as differing gratification, recognizing trades-offs between priorities, needs and wants, and appreciating benefits of savings for future.[9] As such, basic money matter courses can represent important building blocks for children to develop their reasoning skills and to tap into the complicated world of personal finance. Naturally, financial literacy programs should be carefully designed, tailored, and integrated so as to capture children's interest and account for variances in cognitive development and learning ability of children of different ages. Availing resources to teachers and instructors may also prove essential.

Money management, while a simple concept, is a complicated matter which includes (but is not limited to) budgeting effectively, investing wisely, and planning both tactically and strategically. One course or a seminar cannot make an individual financially literate. For instance, high school students that take one isolated course in money and financial management do not possess a higher level of financial literacy when compared to students not having taken such a course.[10] Therefore, the longer-term nature of financial education is important as too is the integration of financial literacy through the K-12 curriculum.

Some work has already been undertaken to integrate financial literacy in the K-12 system. For instance, Ontario and British Columbia now offer financial literacy related courses to elementary and secondary school students. Since September 2011, Ontario integrates financial literacy education into the entire Grade 4 to Grade 12 curriculums. The program provides students with real-life scenarios that help them in making the connection between taught matters and real life. Core finance courses are also introduced at Grade 9 through Grade 12; covering such subjects as budgeting, investing, and financial planning. Similar measures have also been undertaken in British Columbia. However, several issues may interfere with the success of these advancements. School boards continue to play a pivotal role in implementing the curriculum policy; this is beneficial in reflecting the local needs of students and communities, but may also lead to an uneven integration of finance-related topics in school programs depending on a number of competing variants. Moreover, the presence of financial matters in the educational curriculum may not, in itself, ensure the rigor of the training while the absence of a formal evaluation process impedes our ability to assess the impact of finance-related courses on the students' literacy.

Although the integration of financial literacy programs in the K-12 system is noticeable in some of the provinces, pan-Canadian progress is inconsistent. Variations in educational standards across provinces add complexity in implementing uniform formal financial education in K-12 and render progress and development uneven. In the longer-term, this may lead to unbalanced levels of financial literacy across Canada. A collaborative, integrative approach that ensures uniform progress through the K-12 system in all provinces may significantly increase chances of improving financial literacy among Canadians. This, in turn, could enhance financial well-being of Canadians, contribute to the efficiency of the social and financial systems, and strengthen the competitiveness of the Canadian economy.

In closing, we applaud those working to alter current behaviours around financial responsibility and recognize the significant public progress made in bringing attention to the financial culture inherent to the world's developed economies.

Notes

1 Gathergood, J. (2012). *Self-Control, Financial Literacy and Consumer Over-indebtedness*, Journal of Economic Psychology, Volume 33, Issue 3, pp. 590-602.

2 Keown, L.A. (2011). *The Financial Knowledge of Canadians*, Canadian Social Trends, No. 91, Statistics Canada Catalogue no. 11-008-X, p. 31.

3 McKay, S. (2011). *Understanding Financial Capacity in Canada – Analysis of the Canadian Financial Capability Survey*, Research paper prepared for the Task Force on Financial Literacy, p. 4.

4 Keown, L.A. (2011). *The Financial Knowledge of Canadians*, Canadian Social Trends, No. 91, Statistics Canada Catalogue no. 11-008-X, p. 33, Table 1.

5 Schwartz, S. (2010). *Can Financial Education Improve Financial Literacy and Retirement Planning?* Institute for Research on Public Policy, Study No. 12.

6 Kaufman, H. (2011). *Early Training in Economics and Finance Will Go a Long Way towards the Creation of a Stable Society in the Future*, Council for Economic Education.

7 Chinen, K. et al (2012). *Effects of Attitude and Background on Students' Personal Financial Ability: A United States Survey*, International Journal of Management, Volume 29.

8 Cunha, F. (2006). Chapter 12 – *Interpreting the Evidence on Life Cycle Skill Formation*, Hand Book of the Economics of Education, Volume 1, 2006, pp. 697-812.

9 Rabbior, G. (2011). *Canadian Foundation for Economic Education – Case Studies of International Financial Education Initiatives*. Research paper prepared for the Task Force on Financial Literacy, p. 10.

10 Mandell, L. (2006). *Financial Literacy: If It's so Important, Why isn't It Improving?* Networks Financial Institute at Indiana State University, Policy Brief No. 2006-PB-08.

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