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Financial Literacy Education: Navigating a Paradox

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While financial knowledge is indisputably useful, financial literacy education is far from a recipe for individual or collective prosperity. What can educators do to cultivate financially literate students?

At a basic level, financial literacy education focuses on the ability to conduct routine, day-to-day transactions, and manage money – for example, how to make change, open a bank account, create a budget, save and invest, and take on debt in a responsible manner. While seemingly uncontroversial, all forms of literacy, including financial literacy, are socially constructed and political. Definitions contribute to the reality in which they operate, while simultaneously being influenced by that reality.

Most definitions of financial literacy include a financial knowledge component, which centres on a person's ability to get, understand, and evaluate information needed to make financial decisions, and an awareness of the likely consequences. The goal of financial literacy is to be able to apply this knowledge in everyday life in the form of decisions and transactions. This is a fairly linear and rational definition: A person gets information that results in a general understanding of financial systems and uses it to carry out routine transactions and make informed decisions. Financial literacy, in this sense, attempts to define minimum criteria for a "literate" individual and results in the sorting of people as financially literate or illiterate. Financial literacy education attempts to provide learning experiences that result in learners achieving these minimum criteria of financial literacy.

Tips to Cultivate Financially Literacy

- Draw students in with financial activities that are immediately relevant to them.
- For young learners, make financial learning active and concrete; for adolescent learners, focus on immediate relevance and applicability.
- When selecting examples and activities, be sensitive to the cultural values and financial circumstances of students and their families.

*A caveat: Ontario's approach to financial literacy education is broad and cross-curricular in contrast to the many U.S. stand-alone courses and pre-packed units described here. **Learn more**.*

The Financial Education Paradox

While financial knowledge is indisputably useful, financial literacy is far from a recipe for individual or collective prosperity. The reality is much less tidy. Paradoxical effects[1] of financial knowledge abound. Predatory lending and fraud victims and bankruptcy applicants all tend to be more financially literate; and large-scale, long-term studies suggest little retention and change in behaviour among those who complete financial-education programs. While there appears to be no clear direction for how to "get it right," we nonetheless need to ensure we don't repeat the mistakes of others. Moreover, we must acknowledge the paradox that teaching financial skills and knowledge does not necessarily result in retention or application. The research offers clues on where financial literacy education has gone wrong and suggests potential ways to overcome problems.

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Despite much recent media and policy emphasis on the need for K–12 financial literacy education, surprisingly little research has been conducted. So far, most large-scale research has been conducted in the United States, with mixed results. Most recent research concludes that it has little effect on adolescent students' immediate comprehension[2,3] or subsequent adult behaviour.[2,3,4,5] The largest study to date, involving tens of thousands of U.S. students who completed a semester-long course, found these students made no gains in financial knowledge or behavior.[2] Some researchers, however, report success in immediate retention,[6,7] and others report mixed results depending on contextual factors, such as comprehension and immediate usefulness of the curriculum.[8,9] Like their high-school counterparts, elementary learners struggle with retention of concepts when they are beyond their developmental reach.[7,10,11]

The ineffectiveness of financial literacy education has been attributed to several factors, regardless of learners' ages. Non-cognitive factors, many of which cannot be controlled by teachers (including self-confidence, maturity, socio-economic characteristics, and parents), have the greatest impact on outcomes.[10,12] Research also points to the need for financial education to be age appropriate,[11] inclusive,[8,13] and immediately relevant to students' lives.[10,14]

Relevant Financial Literacy Education

Most researchers emphasize that financial literacy education must be immediately relevant to be effective (e.g., learning about stocks is retained and applied when that learning occurs at the time a person invests, not before).[10,14] Similarly, provided such activities are consistent with experiences in their home lives, young children can engage in simulated stores to practise performing basic transactions linked to math curriculum, while mid-elementary students might benefit from field trips to banks to open accounts.

Consider the following strategies when selecting or designing lessons and learning activities:

- Poll students about what financial activities they conduct right now, and use that as a basis for instruction in the classroom. Without asking students directly, it may be impossible to know what is immediately relevant.
- Ask parents for input into what aspects would be immediately relevant to their children or families.
- Critically analyze pre-packaged material to determine when students may need this information for real-life (not simulated) contexts. If the material is not immediately relevant, consider adapting it, or seeking different resources or topics.

Age-Appropriate Financial Literacy Education

A main concern about contemporary programs is whether much of the material available to teachers is developmentally and age appropriate for K–12 students. This mismatch may be a main cause of failings, especially in elementary schools.[11] Children progress through cognitive development in stages and learning experiences should be carefully aligned to these stages. Early elementary school learners excel in concrete operational tasks, making abstract financial concepts and dispositions, such as self-restraint and emotional regulation, in pre-packaged units developmentally inappropriate.[10] For example, young elementary students have surprisingly naïve understandings about piggy banks used in school (e.g., a belief that piggy banks have magical tubes connecting them to a bank or an inability to differentiate a piggy bank from a bank account).[7] Students do not develop more sophisticated understandings of such concepts until at least Grade 4.

When planning, teachers should think about what is developmentally appropriate for students. Consider the following approaches:

- Make financial learning active and concrete (e.g., create a "store" for practising cash transactions or open a real bank account).[7,14]
- Build in repetition of concepts and tasks to address children's physiological brain development, such as repeating the practice of making change in a store simulation.[7,11]
- Focus on immediate consequences over the longer term for secondary school students, keeping in mind that the longer term for this age group is one to two years at best.[2,10] Popular activities like stock market simulations, budgeting for independent living, and applying for loans would not be appropriate to their age and life stage. Instead, incorporate school-based activities, such as tying financial literacy to the costs of attending a school sporting event, or budgeting for an upcoming dance or field trip, while remaining sensitive to students' individual financial circumstances.

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Inclusive Financial Literacy Education

People experience their financial lives differently depending upon factors like gender, culture, social position, and socio-economic status.[15] For example, women experience unique financial challenges ranging from the implications of pay inequity, to gender pricing that disadvantages them (e.g., the same hair cut often costs more for a woman than a man).[16] Cultural norms may also impact financial activity, for example, traditional bank financing for Aboriginal peoples living on-reserve is rarely possible because land titles are collectively owned by Band members and cannot be mortgaged or pledged.[13]

Inclusive education – not limited to financial literacy education – has the advantage of drawing students into learning. When a lesson contradicts students' identities and lived experiences, those students are more likely to be disengaged.[17] These strategies will help achieve inclusive programming and delivery:

- Research financial customs, norms, and restrictions based on the ethno-cultural composition in your school and adapt curriculum and learning strategies accordingly.
- Ask students to share insights about unique financial perspectives in the school community, either through autobiographical or anthropological projects. This may involve structured interviewing techniques (so younger children can interview parents using teacher- or class-generated questions), or more sophisticated research for older learners (such as researching and reporting on gender wage gaps or poverty in the community).
- Be aware of and sensitive to the financial circumstances of students and parents when selecting examples and activities. While creating a budget based on a weekly allowance may be appropriate for some students, the family financial circumstances of other students may preclude an allowance.
- Integrate parents into the process of financial education where possible[10] to ensure that it is sensitive to familial and cultural realities.

In Sum

Given its paradoxical nature, delivering effective financial literacy education poses educational challenges. History has shown that despite great enthusiasm for complex concepts such as banking and long-term savings for young learners and stock market simulations and mortgage information for adolescent learners – are often ineffective. Instead, financial literacy education must be scaled back to reflect age-appropriate, immediately relevant, and inclusive topics and activities. Without this scaled-back approach, financial literacy education cannot overcome decades-long failings in order to cultivate financially literate students.

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