



## **Solving America's Financial Literacy Crisis**

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By Doug Tillett and Joe Carberry

In the coming weeks, millions of young adults will graduate from high school and college without the rudimentary skills necessary to manage their personal finances – such as balancing a check book or comparing credit card offers. These new graduates are at risk of making financial mistakes that could have serious long-term consequences.

We see this problem all too often from our unique vantage points at the Federal Reserve Bank and Visa USA.

The warning signs are clear. A 2006 survey by the Jump\$tart Coalition for Personal Financial Literacy found the average high school senior answered only 52 percent of the questions correctly on a basic financial knowledge test – a failing grade by any measure. As key members of the nation's financial infrastructure, this concerns us professionally. As parents, it alarms us personally.

The good news is, we know what to do: build up our young people's financial literacy muscles. The question is: how?

The Federal Reserve Bank of Chicago and Visa recently hosted a national financial literacy summit that brought together experts from education, government and the private sector to identify potential solutions to this problem. It is rare that such a diverse group can achieve consensus on anything, but one thing was clear: parents, teachers, business and government must all take decisive action.

It starts at home. Parents need to have conversations with their children – early and often – about managing their money responsibly. Parents can be a solid foundation for learning. But this is not a problem that can be left solely to parents.

This learning must continue in the classroom. Schools need to make financial education an essential part of the learning experience. Graduating a student who cannot read would be considered unacceptable. Graduating a student who can not balance a checkbook must become equally unthinkable.

Policymakers also must act. A handful of states – from New York to West Virginia – have begun requiring that financial literacy be taught in classrooms. More states should make this kind of commitment if we are to effectively combat this problem nationwide.

Businesses in general – and financial services companies in particular – must step in and augment schools' efforts to provide financial education. Visa has done this through the *Practical Money Skills for Life* and *What's My Score* programs, with millions of students receiving personal finance resources at no cost. At the Chicago Fed, a program called Money Smart Week brings together businesses, banks, schools, libraries and community organizations and others to help promote awareness of the financial education programs that are available to consumers in the Midwest region.

Research has shown that consumers receiving this kind of education exhibit dramatically better behavior when it comes to managing money. In one case, college students with credit cards that went through a brief tutorial were 56% less likely to be past due on their bills and kept revolving balances that were 26% lower than nonparticipants. This is not philanthropy; it is simply good business. The fact is, no one profits from financial distress – not card companies, not financial institutions and certainly not consumers.

Companies who deal in personal finance must invest in programs to help their customers spend and save wisely. Payment cards are an important tool for managing personal finances. But the value that cards deliver is undermined if the financial services industry does not make a sustained effort to help consumers use those cards responsibly.

Individually, many different entities have made progress on financial literacy. But there is much more work ahead. Financial literacy for young people must become a national goal. Together, we should work to provide free access to financial education for every student in every community across America. This is no small feat. But it is achievable and worthwhile.

As all generations must do, we will one day ask our children to assume responsibility for their world. If we do not prepare them now for the challenges that await them, we put their fate – and our own – at risk. Let us not fail them by failing to act.

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