Financial Literacy Requirements for High-School Students:

An Update on State Legislative Activity and Requirements for Graduation

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Executive Summary

Financial literacy is recognized as an essential skill in our complex world, and the last couple of decades have seen significant changes to state K-12 financial education standards. This policy brief provides an update of the current standards by state and the coursework required to meet the standards and concludes with a brief summary of studies evaluating the impact of the state requirements on financial outcomes. As of 2022, ten states require a standalone course in financial literacy, and twenty-three states integrate financial literacy standards in other coursework. There is also pending legislation in several states. It is expected that more universal access to financial education will improve financial literacy and, consequently, the financial outcomes and well-being of individuals. While there is general support for these efforts, the evaluation literature has found mixed results so far, with positive outcomes documented in areas such as student loans and high-cost borrowing, but not for retirement savings and wealth accumulation. More studies are needed to determine the best measures of financial literacy and how financial education improves both financial literacy and the resulting outcomes.

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Evolution of Financial Literacy Requirements and Measures

Financial education topics have been required by the states for their K-12 standards for many years. These concepts are typically included in social studies, math, and sometimes business and economics courses, and integrated in the curriculum as early as elementary school. By 2022, all but three states (Alaska, California, and Wyoming) had personal finance standards included in their K-12 state standards[1]. But fewer states require personal finance or economics courses for high school graduation, although that number has grown steadily since 2000, when only seven states had such requirements. Federal and state efforts were further spurred in the aftermath of the Great Recession in 2008. The Dodd-Frank Act established the Consumer Financial Protection Bureau (CFPB), with a designated Office of Financial Education[2]. Many states also introduced new financial education mandates through legislation or revised existing ones after the Great Recession. There has also been a sustained effort to improve access to financial education by the nonprofit sector, notably by the Jump$tart Coalition for Personal Financial Literacy and Next Gen Personal Finance.

The goal of these requirements is to improve financial literacy and, consequently, the financial outcomes for the increasingly complex decisions that individuals have to make. Financial literacy is a dynamic construct including foundational skills, specific knowledge, behavior, and opportunity to engage in financial decision-making[3]. Foundational skills include both cognitive (planning, self-control) and content (math, costs) concepts, while specific financial knowledge encompasses the typical topics in financial education: budgeting, investing, credit and debt, insurance, retirement savings, etc. Behaviors and opportunities work together to also provide a feedback loop to the knowledge domain. There are several different operationalizations of the financial literacy construct. Measures of financial literacy range from a 3-question test (interest rates and compounding, inflation and purchasing power, and risk diversification), to the more comprehensive National Financial Capability Study (NFCS), which includes behavior questions. On the other hand, the Jump$tart Coalition's Survey of Financial Literacy instrument is a test that includes thirty-one questions in the areas of income, money management, saving and investing, and spending and credit[4].

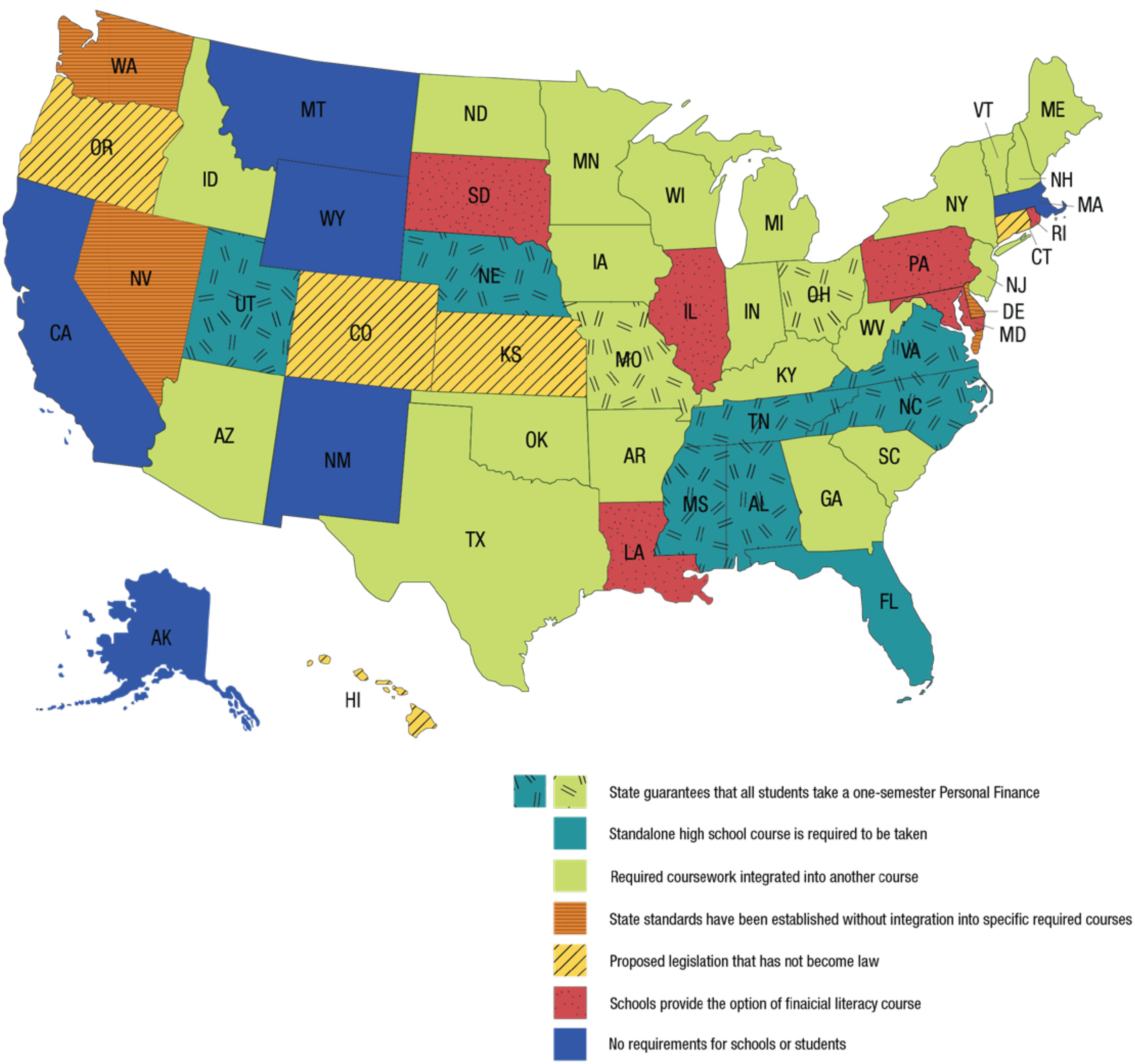
While there is broad support for financial education, the education policy literature is concerned with the effectiveness of the mandates, as it relates both to implementation and outcomes. The 2022 Survey of the States points out that the key factors for effective financial education include well-defined standards for educators, appropriate training in subject matter, relevant and age-appropriate curriculum, and good educational design. Furthermore, quality and effectiveness depend on equitable state funding and state commitment to financial education. This policy brief provides an update about financial education requirements for high-school graduation, including legislative activity, a map of the state requirements, and a summary of the coursework required or offered by states. We also discuss the current empirical evidence on the effect of the mandates on financial outcomes, focusing only on the high-school education literature. There is a much broader literature examining the effects of financial education and financial literacy on individual outcomes that is not included in our discussion here because it does not focus specifically on high-school financial education[5]. We also do not discuss how mandates are implemented and financed, an important topic that will be addressed in future research.

Financial Literacy Requirements by State

For this brief, we reviewed state legislative and Board of Education websites to find the most recent financial literacy standards for high school graduation, as well as proposed legislation to modify the standards. The data collected through this process was compared to information provided in several reports that also track those policies, such as the Council of Economic Education's biennial Survey of the States. The map (Figure 1) differentiates between standalone and integrated financial literacy education and highlights states with proposed legislation to establish financial literacy coursework. Table 1 in the Appendix lists all state requirements featured on the map and also provides coursework details.

State requirements vary widely, both in stringency and in application. Some states require a financial literacy or personal finance course for high school students to graduate—this is the best way for states to ensure that students receive quality financial literacy instruction prior to graduation. Other states have instead adopted academic standards for financial literacy that are integrated into other existing courses. Even between states adopting either of these methods, the specific course structures or standards vary. Only a handful of states have seen no progress towards financial literacy requirements – California, Wyoming, New Mexico, Massachusetts, and Alaska. However, California has formally encouraged school districts to incorporate financial literacy into the required economics course, and a proposed bill in the California legislature would offer grants to schools to assist in implementing financial literacy programs. Other legislation in progress includes bills in Connecticut, Kansas, Maryland, Minnesota, Oregon, Pennsylvania, South Carolina, and Wisconsin that would make completion of a personal financial literacy course a graduation requirement for high school students. A bill in Hawaii would require the Department of Education to include financial literacy instruction in the personal/transition plan requirement for students (see Table 1 in the Appendix for a list of states with proposed legislation).

Figure 1: State Financial Literacy Programs



In states that have established some type of formal financial literacy graduation requirements, there are essentially two ways in which they have done so: requiring a standalone high school course or integrating required coursework into other courses. The best financial literacy programs are those in "guarantee states." A "guarantee state" refers to a state that meets all the following criteria for the Personal Finance/Financial Literacy course:

- All students are required to take the course for graduation,
- The course must be one semester long (in many states, this is referred to as one-half credit), and
- The course cannot be substituted[6].

As a result, this requirement "guarantees" that each graduating student in the state has received one semester of a standalone financial literacy course.

Only ten states currently meet this narrow requirement, though they do so in different ways. Some states require a standalone financial literacy course, which is integrated in the high-school curriculum as follows.

- Florida requires one-half credit of instruction in personal financial literacy and money management.
- Nebraska requires each student to take at least one course in personal finance or financial literacy.
- Ohio requires one-half unit of financial literacy, which can replace either one-half unit of mathematics or one-half unit of an elective.
- Tennessee requires one-half credit in Personal Finance.
- Utah requires a General Financial Literacy course exclusively dedicated to personal finance topics and requires students to take an end-of-year exam created and administered by the state.

Other guarantee states include the one semester of financial literacy instruction into a year-long course:

- Alabama requires a year-long career preparedness course, which covers academic planning and career development, financial literacy, and technology. Half of the course (one semester) is dedicated to personal finance topics.
- Mississippi requires a college and career readiness course, with one semester of career exploration and college transition preparation and one semester of personal finance.
- North Carolina and Virginia both require an economics and personal finance course, with one semester personal finance and one semester economics.

Finally, in a combination of the two, Missouri allows the local school districts to decide whether the required personal finance instruction is delivered in a stand-alone half-year course or is embedded as half of the instruction in a full-year course. Iowa was formerly a guarantee state that required a personal finance course but changed the requirement. Now, Iowa has an expanded list of courses that can fulfill the personal finance requirement, such as consumer math, economics, introductory business, banking and finance, and actual personal finance[7]. This has removed Iowa's guarantee-state status, as it no longer guarantees each student take the personal finance course.

Twenty-three states have found an alternative to requiring a standalone course, thus avoiding adding a new course as a graduation requirement. These states have instead opted to integrate required financial literacy coursework into already existing courses. This has typically been accomplished by creating financial literacy standards that define the knowledge and skills that students are expected to obtain before they graduate. These standards can then be taught as one portion of a course's standards or split up and taught over the course of a student's education (coursework is listed in Table 1, Appendix).

Many states have chosen to implement financial literacy or personal finance standards in the social studies curriculum. Arizona, Georgia, Idaho, Minnesota, and New York incorporate financial literacy standards into a required economics course. Michigan allows students to substitute the required economics course with a personal economics course, which has a financial literacy component. More broadly, Maine, New Hampshire, Nevada, and West Virginia incorporate financial literacy standards throughout the social studies curriculum. North Dakota requires students receive financial literacy either through a Problems in Democracy course or Economics course but allows local schools to decide which course is offered to students. Colorado includes the financial literacy standards in math and social studies courses. New Jersey requires at least 2.5 credits in financial, economic, business, and entrepreneurial literacy.

Other states, however, established standards without a clear integration into a required course. Arkansas, Kentucky, Indiana, South Carolina, Texas, and Vermont require financial literacy standards to be incorporated into a course, or courses. Oklahoma incorporates personal finance instruction throughout coursework in grades 7-12, and Delaware and Wisconsin merely include the financial literacy standards in K-12. Washington developed financial literacy standards, but the standards are not required to be taught.

States not yet requiring financial literacy coursework have found other ways to incorporate financial literacy into the education system. Louisiana, Maryland, Rhode Island, and Texas require that personal finance/financial literacy be offered for students to take. Other states allow personal finance to replace a course from the required curriculum. Illinois allows one semester of a personal finance course to replace one of the four required semesters of social studies. In Pennsylvania, personal finance courses can replace a requirement in social studies, math, business education, or family and consumer science. In South Dakota, students have the option to take either economics or personal finance.

The Powers Problem

Who should make the decision to require financial literacy curriculum—the State legislature, the State Department of Education, or the local school districts? There has been an ongoing tension in many states that grew out of backlash against the Common Core. In the wake of the Common Core State Standards, legislatures began placing some restrictions on state boards of education or subjected the development of educational standards to greater scrutiny[8]. These restrictions placed on state boards of education can affect how state boards may adopt academic standards.

Legislatures may typically enact laws under education policy that require certain courses for high school graduation, and state and local education agencies then must provide high school students the opportunity to enroll in these courses. Legislatures have the power to pass legislation changing statutes, except in cases where authority for education state standards is established by the state constitution. In most states, the state board of education is responsible for formulating and approving state education standards. In other states, legislative action is required. For example, in Hawaii, the authority for state education standards is established by the state constitution. The Hawaii State Constitution grants the board of education the power to formulate statewide educational policy. The Hawaii legislature has therefore adopted resolutions urging the department of education to coordinate with the department of commerce and consumer affairs to implement a financial literacy graduation requirement, but the legislature cannot itself establish the graduation requirement[9].

Evaluation of the Impact of High-School Financial Literacy Requirements

The policy evaluation literature focusing on K-12 financial education spans a wide range of methodologies and datasets and does not reach a consensus on the effect of the state mandates on individual outcomes. Among the studies that find positive effects, several use survey data and self-reported outcome measures. Bernheim et al. (2001) report that the effects of mandates on exposure to financial education increase gradually, likely reflecting lags in curriculum development and implementation[10]. Self-reported saving rates similarly increase gradually in the states adopting mandates, as well as the net wealth for younger cohorts who were exposed to the financial education. Similarly, using the National Financial Capability Study (a nationally representative survey), Harvey (2019) finds that young adults who took financial literacy classes were less likely to borrow through nontraditional, high-cost options, such as payday loans. Exposure to financial education reduced payday borrowing by 4 percentage points (a 25 percent reduction based on average borrowing rates), and the effect was consistent across race and gender[11]. Finally, a study that compares college borrowing decisions finds that students who were required to take a personal finance course in high school are more likely to apply for financial aid and subsidized federal loans and less likely to borrow with credit cards, thus using lower-cost financing for their higher education expenditures and consumption[12].

On the other hand, a report that focuses on the impact of state and nonprofit resources spent on financial education on the outcomes for low- and moderate-income groups finds that more spending results in slightly better individual assessment of financial health and a decrease in financial fragility (ability to cover emergency expenditures)[13]. However, financial education spending was not positively correlated with better economic outcomes, such as retirement savings. The authors caution against using outcomes such as retirement savings as a measure of the effectiveness of financial literacy programs due to the fact that access to retirement savings plans depends on whether those benefits are available through employers. Also, a recent study by Harvey & Urban (2022)[14] does not find any impact of high-school financial literacy mandates on retirement savings or other wealth accumulation (including home ownership). This result is consistent across two different datasets representative of the US population. The authors recommend that high-school curriculum focus on other content, to the extent that there are competing topics and constraints on what can be covered in those courses.

Proving the direction of causality, even when there is a positive correlation between financial education and outcomes, therefore, remains a difficult task. The feedback loop inherent in learning from personal experiences makes it difficult to establish the direct effect of financial education, as well as the magnitude of the effects. It is also important for policy evaluation studies to establish the appropriate measure of financial literacy and identify the effects of financial literacy on outcomes. Studies that evaluate the validity of constructs that measure financial literacy and how it changes with financial education would help advance the policy evaluation literature as well. Finally, studies that sort out which outcomes can plausibly be impacted by financial education and literacy are necessary in order to posit the correct causal relationships.

Appendix

Table 1: State Financial Literacy Requirements and Coursework

State	Guarantee State	Requirements Integrated in Another course	State Standards Established	Financial Literacy Offered	Proposed Legislation	Coursework
Alabama	X					Career Preparedness Course
Alaska						
Arizona		X				Economics Course
Arkansas		X				Personal and Family Finance Standards
California					X	
Colorado		X			X	Social Studies and Math Standards include Fin. Lit.
Connecticut					X	
Delaware			X			Standards covered throughout K-12
Florida	X					Required .5 Credit in Personal Finance
Georgia		X				Economics Course
Hawaii					X	
Idaho		X				Economics Course
Illinois				X		
Indiana		X				Financial Literacy Standards
Iowa		X				.5 credit of financial literacy can be taught in Social Studies, Math, or CTE.
Kansas					X	
Kentucky		X				Career Studies
Louisiana				X		
Maine		X				Social Studies Courses
Maryland				X	X	
Massachusetts						
Michigan		X				Personal Economics Course

State	Guarantee State	Requirements Integrated in Another course	State Standards Established	Financial Literacy Offered	Proposed Legislation	Coursework
Minnesota		X			X	Economics Course
Mississippi	X					College & Career Readiness Course
Missouri	X	X				
Montana						
Nebraska	X					
Nevada			X			Social Studies Academic Content Standards
New Hampshire		X				Social Studies Courses
New Jersey		X				2.5 credits in financial, economic, business, and entrepreneurial literacy
New Mexico						
New York		X				Economics Course
North Carolina	X					Economics and Personal Finance Course
North Dakota		X				Problems of Democracy or Economics Course
Ohio	X	X				
Oklahoma		X				Standards covered throughout 7-12
Oregon					X	
Pennsylvania				X	X	
Rhode Island				X		
South Carolina		X			X	Incorporated within current courses
South Dakota				X		.5 credit of either Economics or Personal Finance
Tennessee	X					
Texas		X				Social Studies Course
Utah	X					
Vermont		X				Local Districts decide how to incorporate state standards

State	Guarantee State	Requirements Integrated in Another course	State Standards Established	Financial Literacy Offered	Proposed Legislation	Coursework
Virginia	X					Economics and Personal Finance Course
Washington			X			
West Virginia		X				Social Studies, Civics for the Next Generation, or AP Government course
Wisconsin		X			X	Standards covered throughout K-12
Wyoming						

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