Title
A Way Past State Poverty: Financial Literacy on the Rise

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With the current rise in inflation, higher education costs, and a move towards personal responsibility for retirement planning, how are young adults expected to navigate through such complex economic structures on their own? The unfortunate truth is that many individuals are not equipped to understand the finer details of financial literacy in relation to their own personal finances. As a result, many people take on insurmountable debt without the knowledge to rise out of it. In the 2019 Survey of Consumer Finances seen in *figure 1*, respondents were tested on the most basic concepts of finance. The results showed that only 43% of U.S. respondents could answer all the questions correctly (Lusardi & Mitchell, 2023). This void in financial understanding is often to the detriment of disenfranchised groups who face financial hardships the most. While the benefits of a financial education may seem obvious, does mandating financial literacy courses actually reduce poverty?

According to Lursardi and Mitchell's research in *The Importance of Financial Literacy: Opening a New Field,* there was a strong association between financial literacy and wealth accumulation. Therefore, I will hypothesize that statewide mandates of financial literacy courses at the high school level will lower general poverty over time. To thoroughly analyze this theory, I will do a comparison study of states with and without financial literacy education mandates and track their poverty rates. I am hoping to see a decrease in poverty which should alert to a positive change due to FinLit courses. If my hypothesis is correct, hopefully this paper will be a resource to promote the push for a California FinLit mandate in the future.

Significance and Background:

As of 2023, there are only 23 states in the U.S. that require financial literacy be mandated for high school graduation (Next Gen Personal Finance, 2023). Of that 23, only 8 states have this policy fully implemented, while the other 15 are on track to do so. Some states that are leading the way in financial literacy education are Virginia, North Carolina, and Alabama. However, California is not included in this list. While some school districts may offer financial literacy in California, they are not required to, nor are there regulations on how these courses are taught. The school districts that offer financial literacy use online resources such as Next Gen Personal Finance (NGPF), Jump$tart, or EconEdLink. These websites provide online training and certificates for teachers of financial literacy, along with materials and other resources for instruction.

Figure 3 here

Next Gen Personal Finance is an organization that keeps track of data, research, and bills involving financial literacy. It has categorized financial literacy programs in terms of three categories: Gold, Silver, and Bronze. The Gold standard requires all students take at least one semester of personal finance to graduate, Silver requires personal finance be offered as an elective, and Bronze is given to schools where personal finance is embedded in another course (NGPF, 2023). Only 11 schools in California have Gold standard and only 27.50% of schools in CA have Gold and Silver status combined (NGPF, 2023).

Figure 2 here

The lack of priority given to financial literacy in California is concerning with how severe of an issue homelessness is. In CA, many people struggle to find adequate housing because the average wage earned is disproportionate to housing costs. In the last 10 years, median income has gone up by 30% while housing prices have risen by 70% (Kalam & Karami, 2021, 1:26). Due to this striking difference, one financial shock could have devastating consequences for those in low income who are barely able to make rent as is. “Two out of three households of color do not possess enough savings to sustain themselves for three months if their income were disrupted” (Brown & Robinson, 2016, p.5). Owning a home is one of the greatest modes of wealth accumulation in the United States. Unfortunately, people of color who have often been restricted from this right, also make a large portion of low income who don't have access to the best financial tools.

In the past, the practice of redlining barred minorities from moving into more desirable neighborhoods that were mainly inhabited by White, wealthy families. Housing segregation is still an issue, and it affects various forms of life. Lower income students are regulated to go to school districts near their homes, which are usually underfunded due to the low investment in low-income neighborhoods (Brown & Robinson, 2016). Since access to financial education is heavily dependent on funding, minorities are often left without the tools for mobility out of poverty.

The issue of poverty is known to be intergenerational, stemming from years of systemic barriers to wealth among other factors of inequality (Brown & Robinson, 2016). Even though owning a home can help create generational wealth through inheritance, for example, the current state of housing does not make this a reality. In order to afford a home, it is essential to have good credit to have access to mortgage loans. Without proficient knowledge of contracts, loans, or interest rates, it is nearly impossible to manage the process of buying a home in California, regardless of whether a person has the income to afford one. The lack of affordable housing has become one of the main contributors to homelessness in California, which is why educating those most prone to falling behind in society should be prioritized. Investing in financial literacy could help reduce the gap in wealth inequality that results from unequal access to financial education and tools.

After the 2008 recession, it was glaringly obvious that most people didn't or couldn't manage their finances with financial shocks in mind. It was only after 2014 that the poverty rate in California started to decline steadily (Statista Research Department, 2023). However, due to California's large population which averages at 39 million, poverty can vary greatly by county and legislative district from 5.1% to 21.3% (Public Policy Institute of California, 2022). Areas noted with the lowest poverty in CA were the Central Valley and Sierra region at 9.3%, which was largely due to lower housing costs (PPIC, 2022). As it stands, income is not catching up to the rise in housing prices, and the current state of inflation makes the cost of living an added challenge. If not for Social Safety Net Programs such as Child Tax Credit, CalFresh food assistance, and the Housing Choice Voucher (Section 8), 10.3% more Californians would have been in poverty in 2021 (PPIC, 2022). While these benefits are essential for reducing poverty, they are costly for the government to maintain.

There have been several attempts over the years to implement financial literacy mandates in California. The latest bill was AB 984 by Assemblymember Kevin McCarty. This bill would have required a one-semester course in personal finance to be included with economics courses, in order for students to graduate high school. This would have gone into effect for students graduating in the 2028–29 school year. Charter schools would have been included in this mandate as well. The Bill also would have required the state to reimburse local agencies and school districts for the costs of implementing the financial literacy courses (California Legislative Information, 2023). However, it doesn't look like this bill will go into effect anytime soon, due to a lack of agreement on the specific terms of this Bill.

Opponents of financial literacy mandates have cited the cost of implementing the new curriculum as too expensive. However, this conflicts with California's new ethnic studies mandate, AB 101, that was confirmed in 2021 and will go into effect for the graduating class of 2029-30 (Fensterwald, 2023). The first draft of AB 101, which aimed to include underrepresented communities in American history, was highly criticized for being exclusionary to certain ethnic groups in the process. Opponents of AB 101 described it as a kind of "critical race theory" which is often associated with anti-white rhetoric. The supposed benefits of this course were an increase of longer-run academic engagement and attainment (Bonilla et al., 2021). While this is definitely a plus to any course, it could be debated that the benefits of financial literacy are more substantial. At the very least, AB 101 proves that cost is not a significant barrier to implementing FinLit as a graduation requirement as well. Research done by Lusardi and Mitchell show that the costs are relatively low. In their research they evaluated a large-scale randomized control trial in Peruvian schools that denoted all costs. The cost per pupil was estimated at $4.80 USD with a $1 increase in spending on the program, yielding a 3.3-point improvement in the PISA financial literacy assessment (Lusardi & Mitchell, 2023, p.13).

Not only is financial literacy economical, but its benefits are also fairly well understood. "The treatment effects on financial knowledge are quite similar to or even larger in magnitude than the average effect sizes realized by educational interventions in other domains, such as math and reading" (Lusardi & Mitchell, 2023, p. 270). That is to say, FinLit shows as much improvement in a student's knowledge of financial literacy, as any other math or science course. With this education, people will be more prepared for unforeseen changes in the economy and will be encouraged to think about long-term investment.

Retirement benefits are becoming less common in the job market, so it is now up to the individual to secure their future financially. "Recent evidence shows that only 42 percent of workers have ever calculated the level of resources necessary to live comfortably in retirement" (Gale et al., 2011, p. 8). Numerous studies have shown a positive correlation between planning and wealth accumulation. Unfortunately, many Americans underestimate the amount needed to secure a comfortable retirement. This results in a prolonged retirement and society that works into old age. Other types of savings such as emergency funds, are not often accounted for in low-income households. "Almost half of all American households and two out of three households of color do not possess enough savings to sustain themselves for three months if their income were disrupted. One-third of African Americans and Latinos have no financial assets at all" (Brown & Robinson, 2016, p. 5). Those in low income who often have limited education are highly susceptible to predatory lending and on average spend more on loans and mortgages.

Although there is evidence that financial literacy is high among the wealthy, there isn't a direct relation to high school financial literacy courses and wealth/poverty (Warner & Agnello, 2012). Without substantial evidence, it is difficult to push for these courses when there is a lack of funding available. If financial literacy courses in high school education does not affect poverty, I would like to investigate whether courses given at the college level produce better outcomes. Unfortunately, it seems a lack of research and funding is why many FinLit courses fail. It is still in discussion with how much it costs to implement FinLit but many school districts are apprehensive about the expense regardless.

Financial literacy courses are also under regulated since they are not mandated in most states which leads to a lack of quality education in financial literacy (NPGF, 2023). Just like with any educational program, if there isn't enough funding for quality materials/textbooks and proper training for teachers of personal finance, the program will fail. In any of the school districts in California that offer FinLit courses, they are usually offered through the California Department of Education. On their website, they offer financial education certificates for teachers and a variety of online materials to use such as videos and texts. The CA Department of Education also links to other organizations that manage FinLit. Those mentioned are EconEdLink, Jump$tart, and Next Gen Personal finance (NGPF). While these may be useful resources, they do not compare to a state regulated curriculum that can ensure all students receive the same quality education and state funded materials.

Theory and Argument:

Those who show low levels of financial literacy tend to be more financially unstable and face instances of poverty and homelessness, therefore, raising the financial literacy of our society could improve wealth inequality overall. The financially illiterate are also less likely to have a checking account, maintain an emergency fund, have a retirement plan, or hold stocks which are a necessity for one's financial wellbeing (Gale, et al., 2012). In contrast, those who are more financially literate, often have better financial planning due to knowledge of various avenues of saving, for example stocks or bonds (Lusardi & Mitchell, 2023). Due to the evidence that supports a connection between financial literacy and wealth, I argue that states should mandate financial literacy in order to create a generation with better financial security and independence. My hypothesis states that financial literacy mandates at the high school level reduces general poverty over time. In my theory, the independent variable is financial literacy courses, and the dependent variable is poverty.

Greater knowledge of personal finances allows individuals to pursue greater opportunities for monetary growth (Gale et al., 2012). For example, a thorough understanding of risk and loans could make a student less apprehensive about pursuing higher education. Studies show that those with better financial literacy reduce their private loan balances by roughly $1,300 (NEFE, 2018). With more confidence in one's financial understanding, financial opportunities such as crypto, stocks, or entrepreneur pursuits seem more attainable. Financial literacy also helps an individual avoid predatory loans and can help them prepare for economic shocks such as inflation or an economic recession (Brown & Robinson, 2016, p.12). Overall, there is better access to tools of wealth when one knows how the economic system works. While the link between financial planning and wealth accumulation is clear, it is more difficult to prove a causal link between financial education programs and wealth/poverty.

Still, the issue of poverty is very complex and is difficult to control for. When looking more closely at the factors of poverty, there could be other explanations for its cause. The United States is still recovering from COVID 19 which impacted everyone regardless of financial standing. According to the Economic Policy Institute, 20 million people were furloughed during the height of the Coronavirus pandemic. The impact devastated the economy and led to inflation. Since so many people had to use Social Welfare Programs all at once, there was less help that could be provided. With the common practice of quarantining, students were halted from attending school. For some this allowed an opportunity to learn at their own pace in the digital sphere, for others, this environment stunted their ability to learn.

As previously mentioned, I believe racial demographics explain differences in poverty among states. It is noticeable that of the states that have already mandated financial literacy, most of them are from the South. California is among the wealthiest states in the U.S. pulling a GDP of 3.59 trillion dollars alone (Statista Research Department, 2023). It would make sense for a state with this much wealth to invest in a program that has the potential to further grow its economy through better financial decision-making to its citizens. At least, it should be feasible cost-wise. I believe that what keeps California and other states from implementing FinLit courses is its diverse population. Diversity can be a strength, but it can also produce differing values on education and methods of spending tax dollars. Since Southern states are majority White, it is possible that this homogenous population can better unify on certain educational values. It must also be noted that White households tend to hold more wealth in general, which could contribute to a stronger value or funding of education.

Research Design and Data:

In order to test my hypothesis, I needed to first choose appropriate states to evaluate. It was my intention to choose states that were the most similar in order to account for other variables of poverty that might skew my findings. Other factors of poverty included domestic violence, a lack of social services, unstable housing, food insecurity, and lack of rehabilitation programs for ex-prisoners. Not every state has the same public policies regarding these issues which influences how poverty is handled overall. Therefore, I looked for states that were the most similar overall. Demographics and size were my priorities because most often, states that have these factors in common also have similar public policies to maintain their society. Since certain racial groups make up a large portion of those in poverty, like Black and Hispanic communities, comparing states with similar proportions of these groups was a key focus of mine as well. It was also important to compare states that were around the same size in population. Controlling poverty can be much more difficult for a state that has a greater population to care for than others.

California is a unique state because of its large size and diverse population. Since California was the center of my analysis to discover whether financial literacy education was a valuable pursuit in public policy, my first choice for pairing was Florida, however, this is where I faced my first problem. Of the states that mandate financial literacy, I wanted to choose the states that had a Gold standard, or highest quality of FinLit programs. My choice of states that fit this category were only limited to eight: Iowa, Alabama, Mississippi, Missouri, North Carolina, Tennessee, Utah, Virginia. As of 2023, these are the only states that have all high school students take a semester-long personal finance course before graduation. The other 15 states are in varying stages of completing this process. Still, since mandates in financial literacy have had a recent spike, of the 8 Gold standard states, some have only been mandated as recently as 2023.

Since my plan was to do a time series analysis, it was important to have the most amount of data available to me to produce accurate results. This meant that I was limited to states that had FinLit implemented for the longest time. This left me with Tennessee (effective, 2013), Utah (established 2003, effective 2008), Virginia (established 2009, effective 2011), Missouri (established 2017, effective 2019), Alabama (effective, 2013), and North Carolina (established, 2019, effective 2020). In an ideal scenario, I would choose these states to compare with each other since they are of similar size, population, and demographics. However, they are also similar in that they have financial literacy mandates, so I could not do so.

I used data from the United States Census Bureau as the foundation of my research. Firstly, I used its data on population to compare population size and racial differences. The

Census of Population and Housing is updated every 10 years, so I used data from 2020. California had a population of 39.5 million during this time, while Tennessee and North Carolina had 6.9 and 10.4 million respectively. Even though Tennessee had the older mandate in 2013, North Carolina was the better choice because it was larger and had a slightly more diverse population. To compare ethnic populations, California's largest ethnic groups were 70.7% White, 40.3% Hispanic, 16.3% Asian, and 6.5 % Black. North Carolina's largest ethnic groups were 69.9% White, 22.2% Black, 10.5% Hispanic, and 3.6% Asian. Since Black and Hispanic groups were a focus in my analysis, I compared the estimated number of people within these groups living in CA and NC. I discovered that they were relatively the same in number. For example, CA had 2.251 million Black inhabitants while NC had 2.218 million (Data Commons, 2023). As for the rest of my pairings, I chose Alabama and Maryland along with Virginia and Washington, all due to similar demographics.

In my time series analysis, I chose to analyze just three years before and after implementation of the financial literacy mandate. This is an adequate amount of time to see if a policy is influencing a population. Using data from the U.S. Census Bureau, I aligned the poverty rates of all states at the year of the mandate implementation (year 0). While some states may have signed the Bill to agree to the mandate, actual implementation could take several years. The state with the highest poverty rate was Alabama while the state with the lowest was Maryland. As shown in *figure 6*, the dotted lines are color coordinated with the bold lines of the matching state. Since I was limited with the states I could choose for my research, I had to make compromises. For North Carolina, there was insufficient data because the mandate was recently implemented in 2020. Since the U.S. Census Bureau only had data up to 2021, I was missing data for the years 2 and 3 after implementation for NC. For the rest of the states this was not an issue.

When looking at the past studies of financial literacy, it must always be noted that there are many factors that cannot be accounted for. In this case, I tried to control for various forms of poverty by comparing similar states, however, there were limitations placed on my research by the kind of policy I am analyzing. My measurements for my dependent and independent variables were zero or one. This denoted whether the state had a mandate or not. I also kept my analysis to state-wide mandates rather than by school districts. This was a difficult decision because financial literacy is still being promoted in other states, but they cannot be accounted for in my study because they are not at the state level.

Analysis:

In my analysis, I had mixed results. For all six states studied, there was a change in poverty at the year of implementation but not all were positive. *Figure 6* visualizes my results. North Carolina and Virginia, which both have mandates, showed a decrease in poverty by 2 points and 1 point respectively after year 0 (time of mandate implementation). However, Alabama, which had the highest level of poverty to begin with, showed an increase in poverty after year 0 by 1 point. For the states that did not have a FinLit mandate they overall showed a similar progression of poverty to states that did have financial literacy. Specifically, when looking at Virginia and Washington, they are nearly the same even after year 0 where they decreased in poverty. This insinuates that the mandate in Virginia did not have much of an effect on the natural course of poverty at that time which was 2011.

Year zero (2020) saw a drastic change for North Carolina by decreasing poverty by 2 points the year after, while California's poverty steadily rose. This comparison would suggest that the FinLit mandate was a success since poverty saw a noticeable change immediately after it was enacted for NC. Unfortunately, NC did not have enough data to show whether this positive change continued or not. Follow up research would be needed in order to make a more conclusive determination of the effect of FinLit in NC. As for Alabama and Maryland, while their size of poverty rate was drastically different overall, their patterns over time were similar throughout all years studied. As shown in *figure 6*, there was a 2-point dip in poverty at year -2 which translates to 2011. Unlike the other states, both AL and MD showed an increase in poverty after year 0 which translated to 2013. Overall, my findings of AL and MD would suggest that there was a separate event that created the inflation of poverty.

Conclusion and Implications:

Past research done by Lusardi and Mitchell along with that of the Social Security Administration and the National Endowment for Financial Education (NEFE, 2018) found that saving and financial planning were related to higher rates of wealth. However, even in their research it was difficult to correlate this discovery to direct causes of wealth and poverty. An argument against poverty, besides the cost, is whether the effect of financial literacy education is long-term. My analysis is centered around FinLit courses at the high school level but at this point in a student's life, they may not have access to the most important financial tools like credit or loans. Even if they take classes centered around financial planning, their experience will be limited. According to NEFE, their conclusions could not find evidence to support or deny that the effects of financial education diminished over time. This leads me to believe that the downstream benefit of financial education is to produce better financial behavior and knowledge which can help people individually. On a larger scale, however, the data is not available to prove the greater effects on society.

Similarly, Lusardi and Mitchell, who created the 2019 Survey on financial literacy, could not make a decisive conclusion about their questions surrounding the long-term effects of FinLit education. They attributed this to the fact that few studies can properly link experiments to administrative data. Their research was based on surveys which are self-reported data, and as such is reliant on the perception of those being surveyed. It is also important to keep in mind that research on financial education as a respected field of study has only recently come to fruition. From the year 2014 and onward, there rise in academic journals for FinLit has been immense (NEFE, 2018). For example, 2014 only had 100 publications related to FinLit featured on the Web of Science while 2023 has over 600 publications (NEFE, 2018). This could explain why in only the last year, 6 states have mandated FinLit.

Figure 5 here

My findings align with most of the previous leading research on this topic. While my findings were overall limited, they did suggest a few implications. Since two out of three pairings remained similar after year 0 of the implementation of FinLit, my hypothesis was unsupported that there is a direct correlation between poverty and these mandated courses. For Alabama which showed a rise in state poverty, further background research would be needed to demonstrate the cause..

I find it interesting that North Carolina showed a much more dramatic decline in poverty after its mandate than the other states considering it was only recently mandated in 2020. Since research and innovation on FinLit courses has rapidly changed in recent years, I believe there is a connection to how quickly FinLit may produce results in the future. While these courses may not have been as effective in the early 2000s, they have the potential to reap benefits much quicker in the following years. Before 2004, there were no nationally representative datasets that indicated what people knew or didn't know about the fundamentals of economics and finance (Lusardi & Mitchell, 2021, p.2). It is clear that as interest in personal finance continues to grow at a national level, researchers will have the data to make more clear conclusions about FinLit education.

As of now, I would suggest that financial literacy is still a benefit to society and young students. Introducing the concept of financial planning, saving, and economics can help high school students who are on the cusp of making the most important financial decisions of their lives. Whether a high school graduate decides to go to college or start working, having a background in finance will be an immense help when choosing loans, starting retirement plans, or opening a credit card. The overall benefit of instilling better financial decision-making leads to other forms of rational decision-making in day-to-day life.

Since financial literacy is a concept that needs to be reaffirmed throughout one's schooling, it should be encouraged throughout different class subjects like economics, math, and social sciences. Encouraging states to achieve a Gold standard mandate which requires a stand-alone course in personal finance is also an important goal. At the very least, students should know what their options are for investing in their futures and to understand the more predatory factors of consumerism and finance. Until we reach this point in public policy, especially for California, we should continue to push for district wide FinLit mandates until there is enough support to implement this policy statewide.

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The "Big Three" Financial Literacy Questions

1) Suppose you had $100 in a savings account and the interest rate was 2% per year. After 5 years, how much do you think you would have in the account if you left the money to grow?

More than $102**
Exactly $102
Less than $102
Do not know/Refuse to answer

2) Imagine that the interest rate on your savings account was 1% per year and inflation was 2% per year. After 1 year, how much would you be able to buy with the money in this account?

More than today
Exactly the same
Less than today**
Do not know/Refuse to answer

3) Please tell me whether this statement is true or false. "Buying a single company's stock usually provides a safer return than a stock mutual fund."

True
False**
Do not know/Refuse to answer

Source: Lusardi and Mitchell (2011a). Note: Correct answers are indicated with two asterisks.

Figure 1: The 2019 Survey of Consumer Finances which depicts the three questions that determined the status of financial literacy in the United States (Lusardi & Mitchell, 2011).

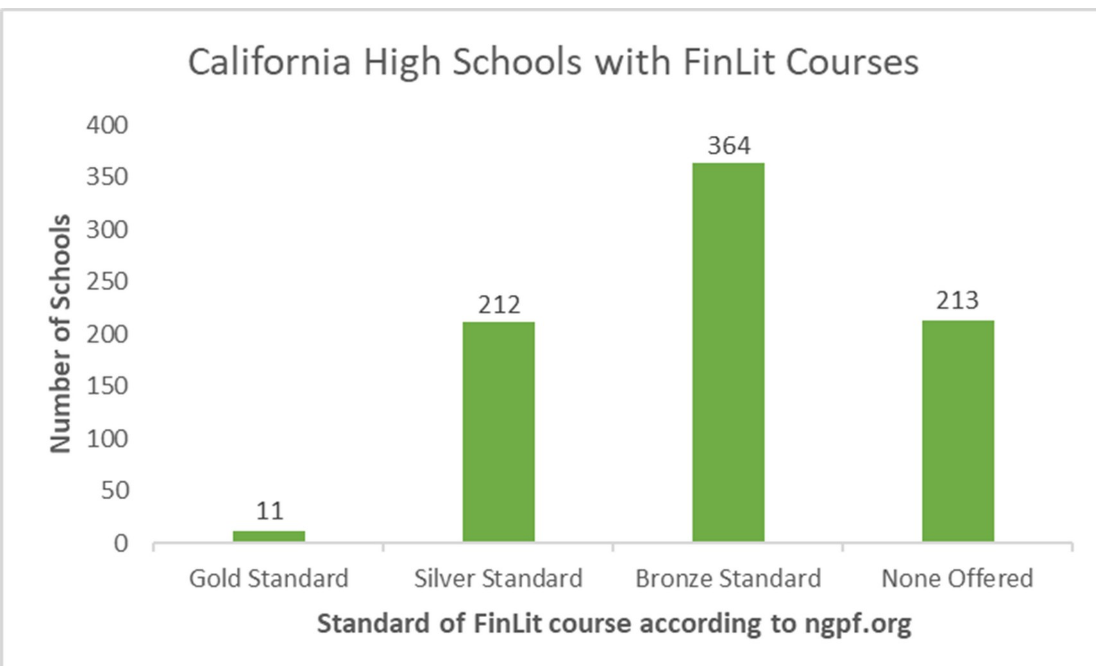

Figure 2: Number of schools that meet FinLit standards (Data: ngpf.org)

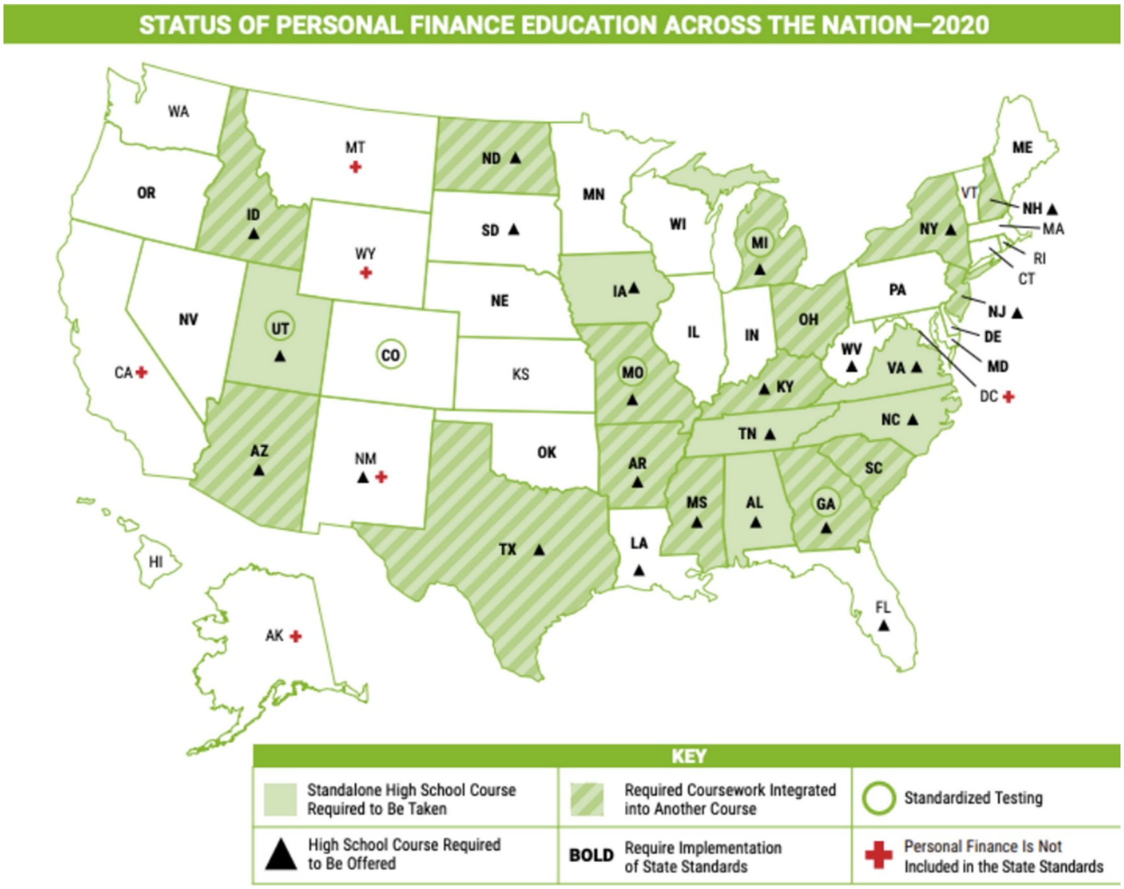

Figure 3: Map of percent of students required to time FinLit courses by state (ngpf.org)

Figure 4: Growth of financial literacy mandates by year (ngpf.org).

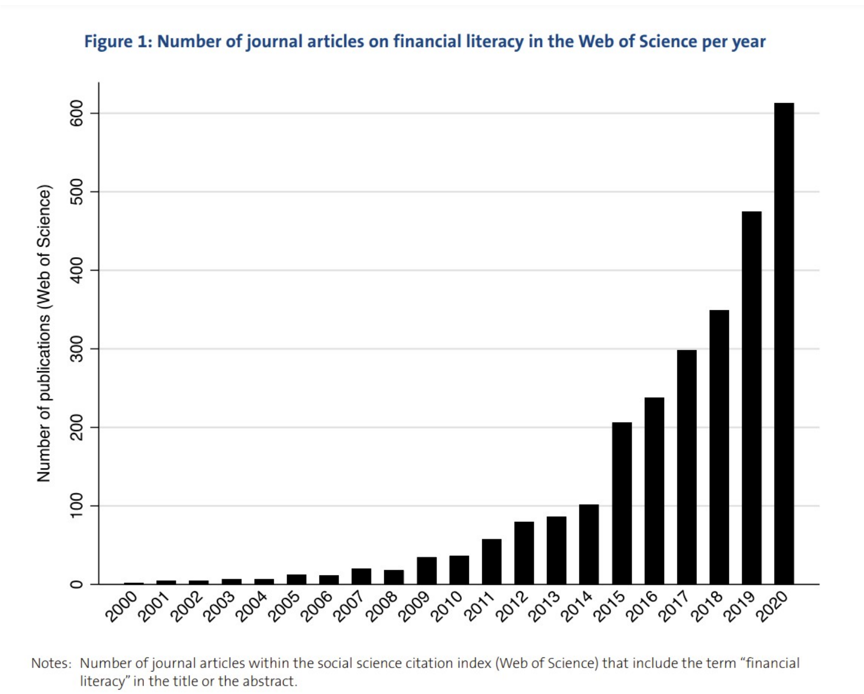

Figure 5: Graph depicting the rise in journal articles related to financial literacy (National Endowment of Financial Education, 2018).

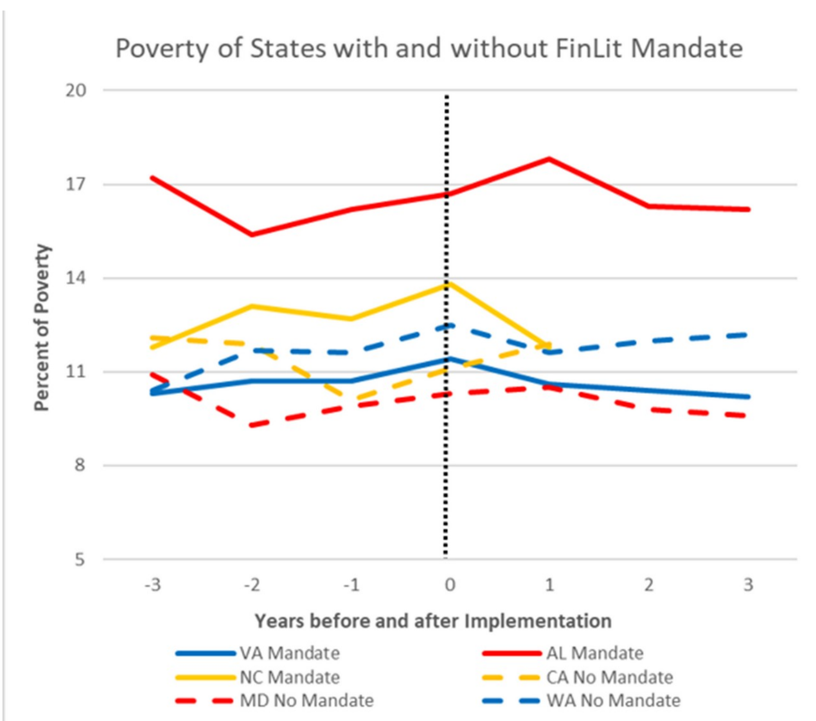

Figure 6: Poverty rate percent of states that mandate FinLit (Data: U.S. Census Bureau).