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Effective Youth Financial Education: Turning Research Into Action*

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A B S T R A C T

Skills, habits, attitudes, values, and knowledge acquired in childhood and adolescence are fundamental for achieving financial well-being in adulthood, particularly given the current levels of complexity in the financial marketplace. Until recently it has been hard for educators to access an evidence-based pedagogy that laid out the skills and capabilities that youth need to acquire at the appropriate developmental stage. The Consumer Finance Protection Bureau (CFPB) has conducted extensive research to develop a coherent framework to build youth capabilities. The approach is based on three key building blocks: developing overall executive functioning, acquiring automatic financial norms and habits used in day-to-day decision making, and mastering the financial knowledge and decision-making skills required to make informed plans and financial choices. The CFPB has also developed a rich database of associated activities for both educators and families to assist children and youth in achieving both financial security and the freedom to make choices in their adult lives. Building these skills in children and youth is an important mechanism for ensuring greater equity for communities that have historically had less access to experience in financial markets, been traditionally marginalized, or that are targeted by predatory practices.

Keywords: financial education pedagogy, your financial capability, Consumer Financial Protection Bureau

Ⅰ. Introduction

The financial marketplace is more complex than ever, with technology, products, and financial alternatives that can be opaque and difficult for consumers to navigate. This environment can lead to conditions ripe for the abuse or exploitation of consumers. This is especially true for young adults with limited financial experience. It is even more of a risk for youth and children from communities that have historically been excluded from financial markets or have otherwise been disadvantaged. Many states have begun implementing various forms of financial education in schools, but to date there has not been a consensus framework for educators that lays out the key skills needed for young adults to achieve the financial capabilities necessary for today's financial landscape. The Consumer Finance Protection Bureau (CFPB) has conducted extensive research to develop a coherent framework for educators, parents and caregivers to build youth capabilities. This approach is based on several research-based components: a defined goal of financial well-being, clearly identified building blocks that children and youth need to develop financial capabilities, and an effective pedagogy for educators to help youth acquire the core habits, skills, and knowledge that will lead to improved outcomes in life.

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Ⅱ. Financial Well Being: The Goal of Financial Education

To determine if financial education is effective, it must be measured against a specific goal. The CFPB, along with other researchers and practitioners in the field, has moved towards a comprehensive goal, which is that of financial well-being.[1] Financial well-being is defined as a state of being wherein a person can fully meet current and ongoing financial obligations, can feel secure in their financial future, and is still able to make choices to enjoy life. Being able to make decisions with the resources a person has is key to experiencing peace of mind—that is, a sense of well-being. This is a consumer-driven definition and is achievable at both lower and higher income levels. It is currently the ultimate goal of all efforts at the CFPB, whether those efforts are related to empowering consumers or enforcing financial regulations to protect consumers from predatory practices.

Research has identified four fundamental elements of financial well-being. The first, and perhaps the most obvious, is security in the present—having control over day-to-day or month-to-month finances. Coupled with this is the second element, freedom of choice in the present, which is the financial freedom to make choices to enjoy life. Financial well-being also implies that these two elements of security and choice extend into the future. Security in the future specifically means having the capacity to absorb a potential financial shock. Finally, freedom of choice in the future implies that an individual on track to meet financial goals.

Ⅲ. The Building Blocks to Achieve Adult Financial Well Being

What knowledge, habits and skills do youth need to acquire to achieve financial well-being in adulthood? The CFPB built on previous research about adult financial well-being to identify the ways children and youth develop the knowledge, skills, and behaviors that lead to adult financial capability.[2] The result of this research was an evidence-based developmental model. This model lays out three key "Building Blocks" that are instrumental in the development of financial capability. This model is illustrated in Figure 1. The figure shows the three main building blocks in the columns and the developmental stages associated with each in each row.

The first column lists the first building block to develop, that of Executive Function. *Executive function* includes the cognitive processes related to self-control, planning, and problem-solving skills. These processes are needed to set goals, to focus attention, to remember information, and to juggle multiple tasks, all necessary for adult financial capability. The second building block is *Financial Habits and Norms*. These are the values, standards, routine practices, and rules of thumb a person lives by to help navigate day-to-day financial life and routine money management. These habits can be unconscious or automatic decisions making strategies that emerge in response to social norms, individual values and emotions, and environmental cues. Finally, the third building block for adult financial capability is *Financial Knowledge and Decision-Making Skills*. These are the conscious analysis and research skills coupled with factual knowledge that enable an individual to make informed decisions, mange money, and make intentional financial plans. This building block is the one that most people think of when considering financial education, but the three building blocks are inter-related in making progress towards adult financial well-being.[3]

[1] The CFPB's initial report on financial well-being is *Financial well-being: the goal of financial education*, Consumer Financial Protection Bureau (2015). It is available at https://files.consumerfinance.gov/f/201501_cfpb_report_financial-well-being.pdf . Brüggen et al (2017) also provides a helpful overview of the concept of financial well-being.

[2] This research involved (1) analyzing interviews of adults about financial well-being to understand the experiences in youth that contributed to their financial identities and values, (2) an extensive review of published research, and (3) consultation with national experts in a range of disciplines. This research is summarized in *Building Blocks to Help Youth Achieve Financial Capability: A new model and recommendations*, Consumer Financial Protection Bureau (2016). It is available at https://files.consumerfinance.gov/f/documents/092016_cfpb_BuildingBlocksReport_ModelAndRecommendations_web.pdf The research described in that report was conducted by Prosperity Now (formerly, the Corporation for Enterprise Development), under contract to the Bureau. The research team included experts in financial capability and educational and developmental psychology from the University of Wisconsin-Madison and the University of Maryland, Baltimore County, as well as ICF International. See Dreyer et al (2015) for additional research on foundations of financial well-being for children and youth.

[3] The CFPB has a Building Blocks YouTube playlist with videos about each of these building blocks and how they are related to explain

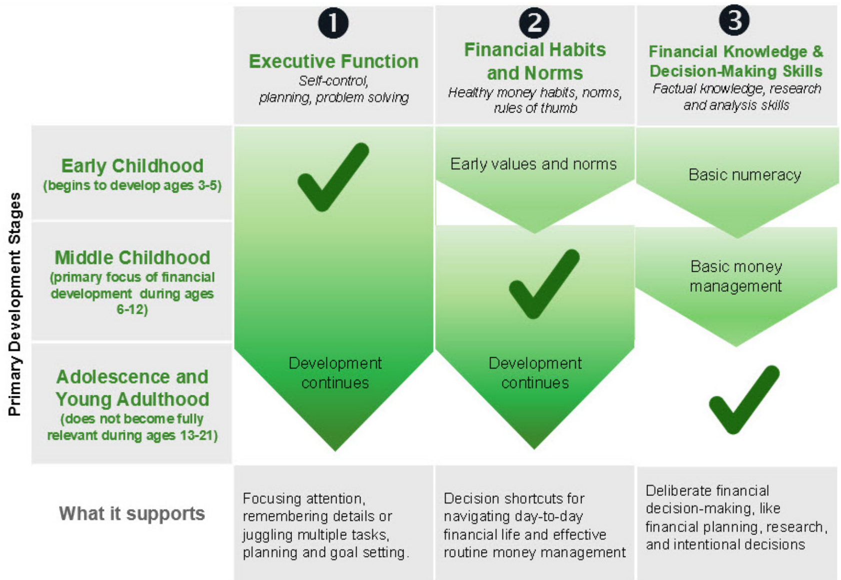

Figure 1. Three Building Blocks of Youth Financial Capability

Figure 1 also shows how these building blocks develop over the course of a child's life. In early childhood, roughly corresponding to ages 3 through 5, children begin the important task of developing executive functioning. The check mark in the chart in the first row and column indicates that early childhood is the optimal developmental stage to begin to acquire the skills associated with executive functioning, although these skills can be further extended and improved throughout childhood and early adulthood. During this early period, children also begin to develop the values and norms that will feed into their future financial habits and norms. Early childhood is also a period of developing basic numeracy, a requirement for financial knowledge and decision making.

Middle childhood, roughly the ages of 6 through 12, is the primary focus of most financial development. Executive functioning continues to develop, and the explicit development of financial norms and habits typically begins in this period. These include norms and attitudes around planning, savings, spending, financial goals, and self-control. In this period, children begin to establish financial identities, and make observations about how family members and others deal with finances and money. Basic money management begins in middle childhood as well.

Adolescence and youth adulthood is the phase when individuals typically begin to fully develop financial knowledge and decision-making skills. In this period, the early skills of numeracy and basic money management allow individuals to develop deliberate financial decision-making skills, like how to develop financial plans, how to research and analyze options, how to recognize predatory practices, and how to make intentional decisions. Although this is the primary stage for developing financial knowledge and decision-making skills, both executive functioning and financial norms and habits continue to develop through this period.

Ⅳ. Putting the Building Blocks into Practice: An Effective Pedagogy

Based on these three building blocks, the CFPB has developed a comprehensive pedagogy to organize how to teach personal finance skills to children. Prior to this pedagogy, educators had indicated that such a financial

these concepts to the general public. It can be accessed here: https://www.youtube.com/playlist?list=PLrfmdUlWzRF2JIfycHB_pxpFK09kHhPWl

Figure 2. Teaching Tool for Youth Personal Finance Pedagogy

education pedagogy did not exist. There are four parts to this approach:

(1) Improve executive functioning skills, such as planning and problem solving
(2) Create and encourage positive financial habits and effective money management
(3) Build financial research skills to compare and contrast options
(4) Design safe opportunities for youth the practice financial decision making.

Based on this framework, the CFPB compiled research on the most effective teaching techniques and learning strategies to help students develop each building blocks. This research included a field scan of more than 200 programs and practices in youth financial education and youth development, consultations with experts in youth financial education and related fields, and analysis of gaps in existing programs to identify key elements of the developmental model that were not present.[4] The result is a comprehensive framework of building blocks, the appropriate learning strategies for each, and easy access to supporting activities and tools for educators, parents and caregivers.

Figure 2 provides an overview of this research-based framework, linking each building block with the evidence-based teaching techniques and specific learning strategies that have been found to be most effective.[5]

[4] This research is summarized in *A review of youth financial education: Effects and evidence*, Consumer Finance Protection Bureau (2019). It is available at https://files.consumerfinance.gov/f/documents/cfpb_youth-financial-education_lit-review.pdf.

[5] For a summary of each of the strategies and techniques, see https://files.consumerfinance.gov/f/documents/cfpb_strategies_to_teach_building_blocks.pdf.

Ⅴ. Tools and Resources to Implement the Youth Personal Finance Pedagogy

How can these strategies and techniques be implemented by families and educators? The Youth Financial Education webpage provides a gateway to the tools and resources to help educators understand best practices in financial education, evaluate financial education curricula, explore relevant research and find classroom and home-based activities.[6] One key platform on the website is the "Engaging Financial Activities" section. To facilitate using the research-based pedagogical approach, the CFPB compiled and developed 270 unique classroom activities. Each is designed to be completed in a single class period, and they can be used in personal finance classes or can be integrated into many different subject areas. The activities all come with a teacher guide and supporting student material, facilitating implementation. Further, all activities align with the National Jump$tart and CEE standards, as well as the "My Money Five" principles developed by the Financial Literacy and Education Commission. Educators can choose activities using different search criteria.

Based on the approach modeled in Figure 2, one method would be to select a specific building block and teaching strategy. The interactive website then can filter activities to those appropriate to the grade level, available time, or My Money Five topic.

For example, suppose a teacher wants to focus on the building block of "Financial knowledge and decision-making skills." This building block is developed throughout late childhood and adolescence, and so educators from a range of grades would find this appropriate for their classrooms. The diagram in Figure 2 indicates that according to research, one highly effective learning technique is project-based learning and simulations, which are hands-on activities using real-world scenarios that promote critical thinking and applied learning. The linked CPFB resources include activities for all age ranges that develop this building block by incorporating this technique. For example, an elementary school teacher could choose "Play-acting ways to protect," where students develop skits that highlight choices and actions to minimize risks. A high school class could use the activity "Reporting fraud of identity theft to authorities" to identify appropriate responses to real world scenarios of fraud or theft that were attempted using current technologies and strategies.

This activity could easily be incorporated into a career and technical education course, but could also be appropriate for social studies, health, or language arts courses. Both simulation activities are hand-on, engaging, and give students salient practice with up-to-date financial risks and the types of technologies that are used to take advantage of consumers.

The CFPB has developed a second broad based platform for parents and caregivers, the "Money as You Grow" webpage.[7] Again this platform is rooted in the fundamental building blocks. The webpage is designed to make it easy for parents and caregivers to find tools, activities, and information to help them talk to their children about money. The resources provided through this page are also appropriate for school parent centers, for school libraries, and to extend home learning. Many of these are structured around specific conversations for parents and caregivers for developmentally appropriate periods. The CFPB approach is two-pronged in pairing the information and skills delivered to students by educators with the conversations for families. This enables information about consumer protections in financial markets to reach communities where adult consumers may be less informed about their rights.

Ⅵ. Conclusion

Skills, habits, attitudes, values, and knowledge acquired in childhood and adolescence are fundamental for achieving financial well-being in adulthood. These capabilities are particularly important in today's climate with many risks to consumers. Until recently it has been hard for educators to access an evidence-based pedagogy that laid out the most central skills and capabilities that youth need to develop, the specific techniques and strategies that are the most effective in that process, and to easily access activities in a systematic approach to supporting financial capabilities. The research conducted by the CFPB

6 The website can be accessed at https://www.consumerfinance.gov/consumer-tools/educator-tools/youth-financial-education/teach/

7 https://www.consumerfinance.gov/consumer-tools/money-as-you-grow/

has identified three key building blocks: overall executive functioning, the more automatic financial norms and habits used in day-to-day decision making, and the explicit financial knowledge and decision-making skills required to make informed plans and choices. The CFPB has also developed a pedagogical framework and a rich database of associated activities for both educators and families to assist children and youth in achieving both financial security and the freedom to make choices in their adult lives. Building these skills in children and youth is an important mechanism for ensuring greater equity for communities that have historically had less access to experience in financial markets, and communities that are often targeted by predatory practices, and other traditionally marginalized or vulnerable communities.

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