

HB 5905 & HB 5906 testimony by Derek D'Angelo, president of the Michigan Council on Economic Education, before the House Education Reform Committee on December 7, 2018.

Before they graduate, Michigan students must learn to manage money, create budgets, and build good credit habits to become financially secure adults in the "real world". Without exposure to these skills in school, students often learn by making costly mistakes with lasting consequences. My name is Derek D'Angelo and I am President of the Michigan Council on Economic Education (MCEE), a Next Gen Personal Finance Fellow, the 2018 Excellence in Financial Literacy Education National Teacher of the Year, and I am here to testify in support of HB 5905 and express concerns with the language in HB 5906. The Michigan Council on Economic Education is a non-profit organization that helped spearhead the adoption of the economics requirement to the Michigan Merit Curriculum (MMC) in 2007 and inclusion of financial literacy as part of the state standards in economics adopted by the Michigan Board of Education. In 2016, seeing the need for an increased focus on financial literacy, the Michigan Council on Economic Education established the Michigan Personal Finance Challenge student competition. In 2018 we sent our state champion, Chelsea High School, to the University of Nebraska where they won the national championship and \$10,000 in college scholarships.

I would like to begin by highlighting some significant research regarding financial literacy education and state mandates. Research released just one week ago from the National Endowment on Financial Education (NEFE) has found that financial education mandates are more effective than financial education electives. Specifically, state-mandated financial education graduation requirements:

- 1) Increase the likelihood that students will apply for financial aid.
- 2) Increase acceptance of both grants and subsidized federal loans.
- 3) Decrease private loan amounts for borrowers.
- 4) Decrease the likelihood of carrying a credit card balance.

A study from Pardee RAND Grad School, the largest public policy Ph.D. program in the nation, found financial education mandates not only improve "mainstream" financial health indicators (credit scores, delinquency rates, outstanding student debt, etc.) but also the use of "alternative" financing such as payday loans.

How a state implements any type of personal finance mandate matters. A study from the Financial Industry Regulatory Authority (FINRA) focused on credit score improvements across states with different financial education mandate implementation strategies. They concluded that if a rigorous financial education program is carefully implemented, it can improve the credit scores and lower the probability of delinquency for young adults. Moreover, by focusing on the effect of the mandate in individual states rather than the effect of an amalgam of mandates across a range of different states, FINRA was able to demonstrate that more rigorous state mandates have a greater effect on subsequent financial well-being for young adults.

I would like to make clear the current status of financial literacy education in our state. According to Next Gen Personal Finance there are currently 194 schools offering a stand-alone elective course in personal finance. Additionally, there are only 5 schools that implement personal finance as a graduation requirement.



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A personal finance course can satisfy the fourth credit in mathematics in the Michigan Merit Curriculum (MMC) if taught by a math teacher. One semester of economics is a social studies requirement in the MMC. About 25% of the state economics standards are specifically focused on personal finance, although good economics teachers find a way to sprinkle personal finance into almost everything they teach as it is the job of a teacher to show students the connections to the everyday lives of their students. Michigan is in the process of strengthening the state economics standards and an update will be put in front of the State Board of Education for approval in the coming months. This update includes a complete rewrite of the personal finance portion of the standards within economics.

(Proposed financial literacy strand within the economics state standards)

4.1.1	EARNING INCOME - CONDUCT RESEARCH REGARDING POTENTIAL INCOME AND EMPLOYEE BENEFIT PACKAGES, NON-INCOME FACTORS THAT MAY INFLUENCE CAREER CHOICE, BENEFITS AND COSTS OF OBTAINING THE NECESSARY EDUCATION OR TECHNICAL SKILLS, TAXES A PERSON IS LIKELY TO PAY, AND OTHER POSSIBLE SOURCES OF INCOME. (e.g., interest, dividends, capital appreciation, income support from the government, social security)
4.1.2	BUYING GOODS AND SERVICES - DESCRIBE THE FACTORS THAT CONSUMERS MAY CONSIDER WHEN PURCHASING A GOOD OR SERVICE, INCLUDING THE COSTS, BENEFITS, AND THE ROLE OF GOVERNMENT IN OBTAINING THE INFORMATION.
4.1.3	SAVING - IDENTIFY THE INCENTIVES PEOPLE HAVE TO SET ASIDE INCOME FOR FUTURE CONSUMPTION, AND EVALUATE THE IMPACT OF TIME, INTEREST RATES, AND INFLATION UPON THE VALUE OF SAVINGS.
4.1.4	USING CREDIT - EVALUATE THE BENEFITS, COSTS, AND POTENTIAL IMPACTS OF USING CREDIT TO PURCHASE GOODS AND SERVICES.
4.1.5	FINANCIAL INVESTING - ANALYZE THE RISKS, EXPECTED RATE OF RETURN, TAX BENEFITS, IMPACT OF INFLATION, ROLE OF GOVERNMENT AGENCIES, AND IMPORTANCE OF DIVERSIFICATION WHEN INVESTING IN FINANCIAL ASSETS.
4.1.6	PROTECTING AND INSURING - ASSESS THE FINANCIAL RISK OF LOST INCOME, ASSETS, HEALTH, OR IDENTITY, AND DETERMINE IF A PERSON SHOULD ACCEPT THE RISK EXPOSURE, REDUCE RISK, OR TRANSFER THE RISK TO OTHERS BY PAYING A FEE NOW TO AVOID THE POSSIBILITY OF A LARGER LOSS LATER.

To be clear, the Michigan Council on Economic Education completely supports House Bill 5905. We agree with the bill sponsors that an update to MCL 380.1165 is long overdue and look forward to working with the Michigan Department of Education to develop a world-class, one semester, personal finance course for Michigan students. We are also in favor of making sure all Michigan students have access to financial literacy by mandating every school district offer the course to its students.



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However, MCEE has concerns about HB 5906. There are many opportunities to embed mathematics into personal finance instruction and would provide students a real-world context for their learning. However, a course that would meet the mathematics MMC would look much different than a course that would meet the economics MMC. The bill states "A pupil also may partially or fully fulfill the algebra II requirement by completing the course in financial literacy developed or adopted under section 1165". A personal finance course developed to meet the algebra II requirement would be a completely different course than one developed to meet the economics requirement. In fact, the courses are so different that each would require different teaching certifications.

HB 5906 also allows the financial literacy course developed by the Department of Education to fulfill the ½ credit of economics required by the MMC if it covers the state standards for economics. As a classroom economics teacher, I fail to see how this would improve outcomes for students in both the short and long term. In fact, I do not see how it would change anything other than the title of the course from economics to personal finance if all the state standards for economics still need to be taught. In the state standards development I have been in for the past 2 years all I have heard from teachers is how hard it is to teach everything in the current economics standards appropriately in one semester. Creating an entirely new personal finance course, but still requiring all the economics standards be taught within it seems like setting Michigan teachers and students up for failure.

It's clear there's an opportunity to better equip students to shape the course of their early financial lives. We all know that financial education can play a significant role. How we implement financial education matters. The Michigan Council on Economic Education encourages the legislature to pass the mandate in HB 5905 and create the appropriate curriculum. Once we have established momentum we will know better the next steps to take in implementation to make sure Michigan students are among the leaders in financial literacy across the country. Michigan students deserve a funded, clear, and specific financial literacy course with appropriately trained teachers who are certified to teach the subject matter.



