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Center for Financial Security
UNIVERSITY OF WISCONSIN-MADISON

Youth Financial Inclusion: Complementing Financial Education with Account Access

Introduction

Interest in providing financial education to improve children's financial knowledge is growing, and reflected in the increasing number of states with financial education standards (McCormick, 2009). Youth of all ages are making an increasing number of financial decisions independently and will also need strong financial knowledge to be able to succeed as adults. Financial education alone, however, does not provide children with financial experiences that could improve their learning and help them become better money managers. Financial inclusion—or the opportunity to use financial products, could help children gain more from financial education and build successful money management habits (Johnson & Sherraden, 2007; Sherraden et al., 2011). Increasingly, schools and other organizations are offering savings account programs that provide a combination of financial education and financial inclusion. However, much work remains to understand the potential benefits that this approach could offer children and to identify the key components of successful programs.

Financial inclusion programs as a complement to financial education

Available evidence suggests that financial inclusion (typically with a financial education component) could improve financial learning and financial behaviors, but very little study has been done with children and adolescents. Existing work with adults is also limited (Sherraden et al., 2011). For example, a survey of 312 high school students in Indiana found an association between owning a savings account and higher financial literacy test scores (Valentine & Khayum, 2005), while an online survey of college alumni found an association between owning bank accounts and investment assets and higher investment knowledge and rates of saving (Peng et al., 2007).

Schools are increasingly offering financial inclusion programs, typically in conjunction with financial education curricula. Schools may be a natural setting for financial programming because they allow for reaching all children and for drawing on the skills of trained educators (Beverly & Burkhalter, 2005). In-school financial inclusion programs typically consist of an in-school bank or credit union branch ("bank at school"). Several arguments and associated evidence supporting the idea that such financial inclusion programs may be an important complement to financial education, even for younger children, are discussed below.

Inclusion programs support experiential learning

Interaction with a savings account may allow for experiential learning, allowing children to reflect upon concrete experiences and test their own concepts and assumptions (Kolb, Boyatzis, and Mainemelis, 1999; Kourilsky & Carlson, 1996). In particular, providing access to a savings account may help reach children who learn better from hands-on practice than a classroom-only approach (Fox & Bartholomae, 1999; Sherraden et al., 2011). Account access may also help motivate learning of financial education content by demonstrating concrete applications of the material (Sherraden et al., 2011; Mandell & Klein, 2007).

Research with financial inclusion programs is limited; however, Sherraden et al. (2011) report on a recent study of a combined banking and financial education program among elementary school students. They found that children enrolled in a matched savings program and receiving a financial education curriculum scored significantly higher on a financial literacy test than a control group. As discussed below, further research could seek to differentiate between the effects of a financial education curriculum and a savings program and identify how financial inclusion might improve learning.

Inclusion programs allow students to address behavioral barriers

Skills for avoiding the temptation to spend and a personal belief in one's ability to manage money (self-efficacy) could be even more important than financial knowledge in supporting good financial decision-making (Otto, 2009). Simple financial education may not be enough to overcome such behavioral barriers to good financial decision-making, a problem that account interactions could help combat (McCormick, 2009). For example, interviews with high-school age participants at one of thirteen national Saving for Education, Entrepreneurship, and Down-payment (SEED) community-based matched-savings program sites revealed that youth perceived gains in fiscal prudence and future orientation as a result of their interaction with their accounts and participation in financial education (Scanlon & Adams, 2008). Kotlikoff and Bernheim (2001) found an association between childhood experiences with a savings account, investment, or allowance and increased savings in adulthood; they propose that such financial practice could help instill positive, long-term savings behaviors.

Inclusion programs even he playing field

Children with relatively little experience with financial services or financial lessons at home could be especially well served by financial education with a financial inclusion component. Parental attitudes and behaviors vary with regard to teaching or modeling financial concepts and behaviors as well as relevant characteristics such as self-control and future orientation (Otto, 2012). These and other factors such as an under-banked background may influence children's ability to gain from financial education (Lucey & Giannangelo, 2006). For example, children who have been taught in school that saving money is a good thing could nevertheless have a negative experience with banking if they are not also familiar with account management (Sherraden, 2010). Financial inclusion programs could be a way to introduce children from all backgrounds to repeated interaction and practice with the financial world (Jacob & Hudson, 2000).

Financial inclusion (savings programs) in schools

While savings programs have been found in American schools for decades, they are increasingly being used to complement financial education (Cruce, 2002; Johnson & Sherraden, 2007). Such "bank at school" programs partner financial institutions with schools to offer in-school banking services. Financial institutions may view such partnerships as a way to build positive ties to their community and potential customers, including children and their parents (Cruce, 2002; McCormick, 2009). An in-school branch is typically open one to two hours per week to receive deposits and make withdrawals (Cruce, 2002).

Two especially large programs are Save for America and Bank at School Illinois (Cruce, 2002). Save for America is cosponsored by the Department of the Treasury and the Department of Education and uses a curriculum focused on kindergarten through sixth grade. As of 2005, 2 million children had participated. Bank at School Illinois focuses on fourth through eighth grade and has several hundred thousand participating students each year. Over 400 banks are involved (Johnson & Sherraden, 2007; Jacob & Hudson, 2000; Cruce, 2002). A typical example of corresponding financial education is a school in Illinois where a bank staffer provides 30 to 60 minute lessons once a week for 5 to 10 weeks (Jacob & Hudson, 2000). Other states, including Massachusetts and Missouri, offer similar programs that partner banks with schools and include financial education (Cruce, 2002). Hundreds of banks nationwide have also partnered with schools independently (Cruce, 2002).

Credit unions are also opening in-school branches in greater numbers. As of 2007, there were 198 high schools, 207 elementary schools, 41 middle schools, two K-12 schools, and 13 youth centers in 30 states that had youth-run credit union branches (Johnson & Sherraden, 2007). The Credit Union National Association (CUNA) sponsors an annual youth week which brings credit union employees into schools to offer workshops and encourages students to save with contests and small monetary incentives (CUNA, 2011).

Some partnerships focus on building relationships with under-banked communities. One example is Mitchell Bank at South Division High School in Milwaukee, primarily serving a working class, immigrant community. Student tellers teach workshops to their peers and nearby elementary and middle school students. By operating out of a school, the partnership builds contact and trust with the community (Pacheco, 2008). Rand and Slay (2008) also describe partnerships between a bank and high schools in several under-banked communities. They argue that in-school branches build trust with the community and serve as a workforce development tool for student tellers. At the elementary level, the nonprofit Credit Where Credit Is Due partners with a credit union to provide financial education and savings accounts to fourth and fifth grade students at five schools in two very low-income

immigrant neighborhoods in New York City (Johnson & Sherraden, 2007).

Areas for further research

Most research on youth and savings focuses on asset-building (rather than financial knowledge or inclusion). Research in this area supports the idea that a child with a savings account in his or her own name will typically have higher college expectations; having an account may subtly promote a focus on the future (Elliott et al., 2011). Researchers have also studied savings accounts opened at birth for children under their own name (Butrica et al., 2008; Nam et al., 2011). Such accounts could be tied with financial inclusion and education problems, especially when children enter school (Johnson & Sherraden, 2007). In fact, Maine's Harold Alfond College Challenge, which since 2009 has offered a $500 college savings plan deposit to every newborn in Maine, sends families age-appropriate financial education materials for their children, but the effects of this outreach have not been studied (Clancy & Lassar, 2010).

Additional research is required to identify the key characteristics of a successful inclusion program and to understand the effects of financial inclusion as compared to financial education (Sherraden et al., 2011; Sherraden & Johnson, 2007). For example, Sherraden et al.'s small elementary school banking and financial education study (2011) found that children's savings were associated with higher scores on a test of financial knowledge, but the study could not specify whether savings improved knowledge or vice versa. Youth in a qualitative study of an account and education program attributed financial knowledge improvements to workshops rather than holding savings, but an online survey of college alumni found that experience with financial products was a better predictor of investment knowledge than having taken a college-level financial education course (Scanlon & Adams, 2008; Sherraden et al., 2011, citing Peng, Bartholomae, Fox, & Cravener, 2007). Consensus has not yet been reached on the optimal age for financial inclusion programs, the ideal role for parents to play, or for which financial education curricula would best complement financial inclusion programs (Johnson & Sherraden, 2007).

Researchers have also noted that schools and other organizations are limited in their capacity to provide financial inclusion programs and to establish their effectiveness. Lyons et al. (2006) note the limited funds and capabilities in most organizations for conducting useful program evaluations, and suggest that it could be more worthwhile to pool resources and focus on rigorous evaluations of select programs. Researchers could also explore how to provide financial inclusion programs coupled with a financial education program at an affordable cost, both financially and with regard to teachers' limited classroom time and need for training (Sherraden et al., 2011; Johnson &Sherraden, 2007; Cruce, 2002; McCormick, 2009; Lucey & Giannangelo, 2006). More research is also needed into how financial inclusion programs best can reach underserved children. Without dealing with the specific needs of underserved children, inclusion programs could reproduce existing wealth inequality (Johnson & Sherraden, 2007). While most account programs are elective, Johnson and Sherraden (2007) envision a policy where all children would open a savings account and receive financial education upon beginning school.

Clarification of what influences shape children's ability to gain from a financial inclusion program is needed. Many studies suggest that personal characteristics such as self-control and attitude toward the future are critical in shaping people's financial behaviors, but little is known about how children can improve self-control and master successful behavioral and cognitive saving strategies (Otto, 2009). Finally, given that some children may be limited in their ability to save due to personal characteristics or socioeconomic background, indicators of program effectiveness could emphasize outcomes other than dollar savings (Lyons et al., 2006).

Conclusion

Schools and financial institutions are increasingly partnering to offer savings account programs to children from elementary to high school to help complement financial education and instill successful financial habits. Available evidence suggests that interacting with a savings account could allow children to learn by testing what they know and reflecting upon their experiences. Early experience with banking could help children develop positive financial habits and gain practice with strategies for exercising self-control and planning for the future. Financial inclusion and financial education could be especially important for children who have had relatively little opportunity to learn about or practice healthy financial behaviors. Additional research is required, however, to identify the separate effects of financial inclusion and financial education and to identify the ideal components of a financial inclusion program.

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