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BILL ANALYSIS



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Senate Bill 834 (as reported without amendment)
Sponsor: Senator Michael Switalski
Committee: Education

Date Completed: 4-1-08

RATIONALE

The financial decisions young people make can have a lasting impact on their economic future, but research indicates that many do not have a solid understanding of money management methods, principles of saving and investing, and other key financial concepts. To help address this knowledge gap, Public Act 111 of 2002 amended the Revised School Code to require the Michigan Department of Education to establish a model financial literacy course, and encourage school districts and public school academies to offer financial education courses as part of their curriculum.

Recently, it was suggested that financial courses developed under that provision should be listed among other courses that fulfill the math requirements under the Michigan Merit Standard. The Merit Standard requires a student to complete four math credits, including algebra I, geometry, algebra II, and one additional course before graduating from high school. Although the Revised School Code does not preclude a financial literacy course from meeting that additional course requirement, some believe that referring to the course explicitly could help signal the importance of financial literacy and encourage more schools to offer and more students to enroll in such courses.

CONTENT

The bill would amend the Revised School Code to include a course in financial literacy among specific courses that satisfy the math credit requirements under the Michigan Merit Standard.

The Code requires a pupil, beginning with those entering 8th grade in 2006, to meet certain requirements before receiving a high school diploma. The requirements include the successful completion of at least four credits in math, including at least algebra I, geometry, and algebra II (or an integrated sequence of that course content that consists of three credits), and an additional math credit, such as trigonometry, statistics, precalculus, calculus, applied math, accounting, business math, or a retake of algebra II.

The bill would include in the additional math credits a course in financial literacy as described in Section 1165 of the Code.

(That section, added by Public Act 111 of 2002, requires the Department of Education to make available to schools one or more model programs for youth financial education, which must be designed to incorporate financial education throughout the curriculum for grades K through 12 and must be based on the concept of achieving financial literacy through the teaching of personal financial management skills and the basic principles involved with earning, spending, saving, borrowing, and investing. Each school district and public school academy is encouraged to adopt and implement the model program or one or more similar financial education programs.)

MCL 380.1278a

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

The bill would help to raise awareness of the importance of financial literacy, and would encourage more students to take financial literacy classes, by specifically including such a course among those that count toward the required math credits under the Michigan Merit Standard.

Students today face a financial world that is increasingly complex, and developing the skills to manage money prudently is an important part of a student's education. That need is not being met in many Michigan schools, however. In a national financial literacy survey administered by the Jump\$tart Coalition in 2006, students answered only 52.4% of the questions correctly, on average. The survey included questions on saving, insurance, investing, managing credit cards, and other topics reflecting decisions that students will have to make in the future. The survey is administered every two years, and since 2000, the average results have varied by no more than two percentage points. (The results of the 2008 survey are due to be released on April 9, 2008.) The results of the Jump\$tart survey and other studies indicate that Michigan students still lack the information they need to make sound financial decisions and plan for a solid future.

A course in financial literacy would help students understand the key concepts of personal finance and prepare them to be smart consumers. One aspect of the ongoing mortgage crisis is that many homebuyers evidently did not understand the details and the possible risks associated with the terms of their mortgages. Credit card agreements also frequently contain complex provisions that many consumers may not fully understand. Giving students the knowledge to make informed decisions in these and other situations can be of lasting benefit.

Financial courses also can help students understand mathematical concepts, by putting those concepts into everyday terms. For instance, students could use the concept of present value to determine whether it is better to take lottery winnings as a lump sum payment or to receive a larger amount paid over a number of years. Also, students could calculate the odds of winning the lottery and determine whether the potential

payout justified the cost of a ticket. Using such concrete examples would get students actively engaged in learning, giving them a stronger intuitive grasp of fundamental financial concepts that would benefit them for the rest of their lives.

Instead of requiring students to take such a course, the bill simply would indicate that a financial literacy course would meet the math credit requirement under the Michigan Merit Standard, helping to raise awareness of financial literacy and signal the importance of the subject matter.

Legislative Analyst: Curtis Walker

FISCAL IMPACT

The bill would have no fiscal impact on State or local government.

Fiscal Analyst: Kathryn Summers-Coty

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.