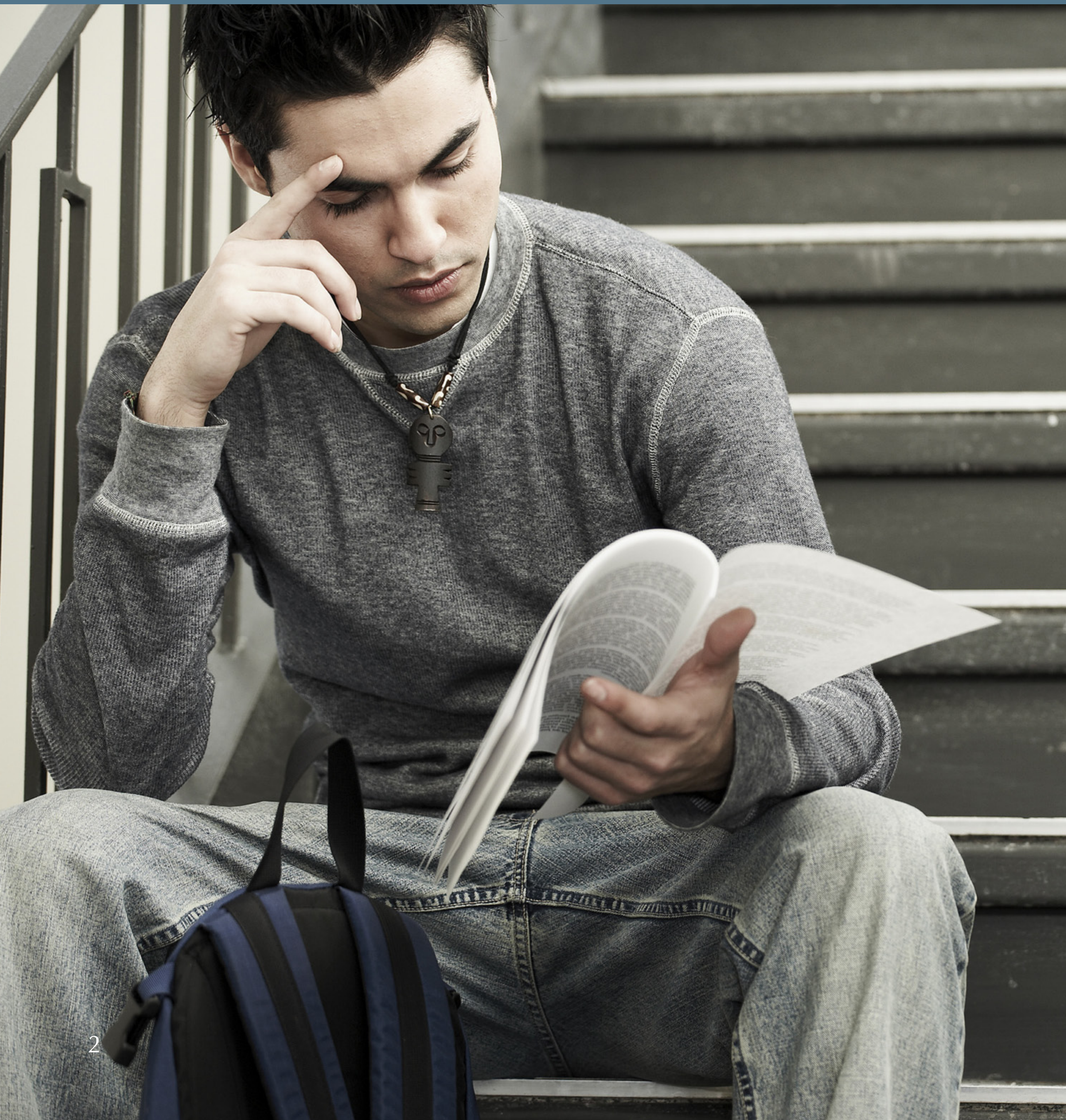
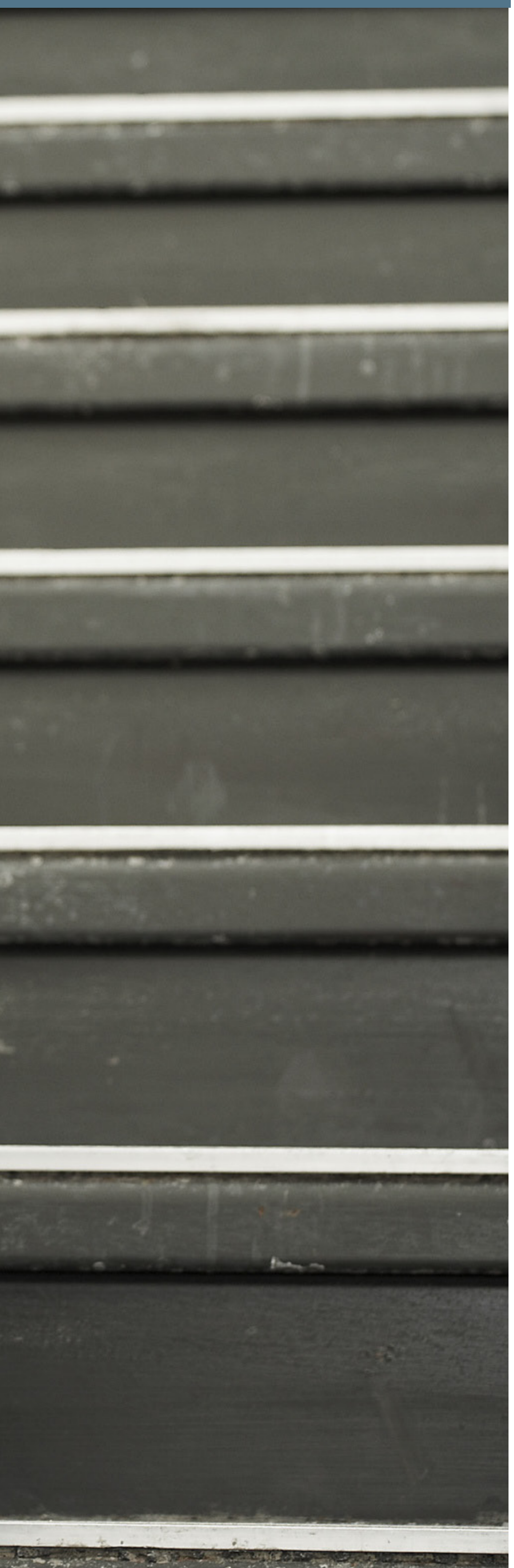
# Financial Education for a Stable Financial Future

By Laura Choi





## Introduction

Whether for lack of knowledge, resources, or self-control, far too many Americans are struggling with their personal finances. A recent survey by the National Foundation for Credit Counseling finds that 41 percent of U.S. adults gave themselves a grade of C, D, or F on their knowledge of personal finance and 26 percent admitted to not paying all of their bills on time (among African-Americans, this figure jumps to 51 percent); one in three adults reported no savings. Among those between the ages of 18 and 34, almost half reported that they did not have any savings.[1] At the same time, Americans' credit card debt reached $972.73 billion at the end of 2008, up 1.12 percent from 2007, consumers had an average of 5.4 credit cards, and the average outstanding credit card debt for households that have a credit card was $10,679.[2] The rate of personal saving has been in steady decline over the past twenty years while household debt service relative to income has been on the rise since the early nineties (these trends have recently begun to reverse, consistent with past recessions, see Figure 1.1 and Figure 1.2). These findings suggest that individuals from across the economic spectrum struggle to master the skills and "good" behaviors related to personal financial management.

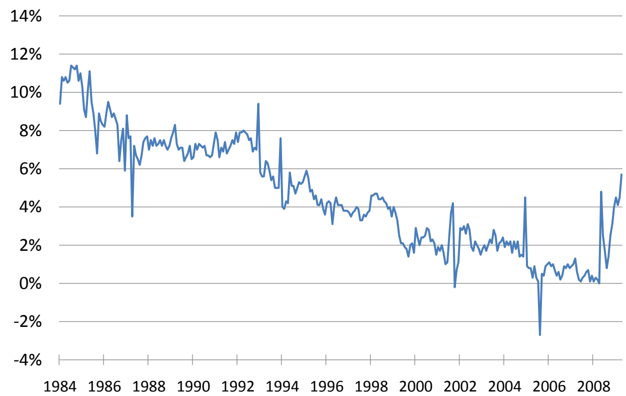
The need for financial education is especially salient in light of the current economic downturn. Families struggling to cope with job losses and reductions in household income need to be able to draw on financial skills such as budgeting, saving, and credit and debt management. In particular, many low- and moderate-income (LMI) families that were already stretched thin before the recession now face even greater financial challenges. These households suffer greater income losses (as a proportion of total income) during economic downturns and experience slower economic recovery relative to higher-income households.[3] Many of these families lack the basic knowledge and resources required to save and invest, build wealth, and avoid excessive debt; at the same time, many remain outside of the financial mainstream and lack access to important financial products and services.[4]

Financial education plays a vital role in equipping all individuals with the knowledge, skills, and opportunities they need to get back on solid financial ground. This article provides a brief overview of the field of financial education and explores some of the challenges and potential solutions for moving the field forward.

## The Field of Financial Education

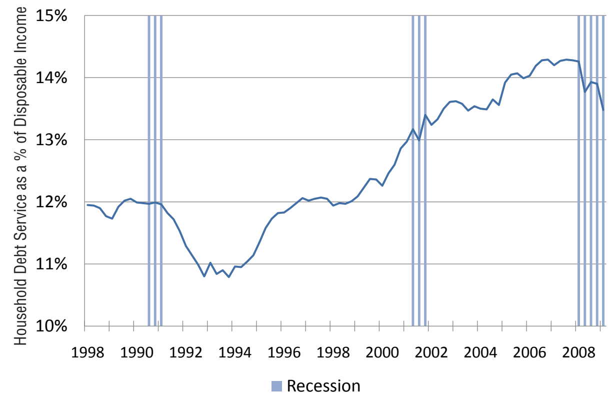
The contemporary financial education movement proliferated in the mid- to late-1990s in response to a number of widespread changes. Financial products became more complex; technology played a growing role in the financial services sector; employers shifted away from traditional pension plans to defined contribution plans; and the wave of "baby boomers" approaching retirement created apprehension around the adequacy of safety nets such as Social Security and Medicare. The need for greater education in the area of personal financial management spurred the creation of a number of large, nationally representative organizations, such as the National Endowment for Financial Education, the American Savings Education Council, the

Figure 1.1
**U.S. Personal Saving Rate**
**1984 – 2009**




*Source: Bureau of Economic Analysis*
*Seasonally adjusted, personal saving as a percentage of personal disposable income*

Figure 1.2
**Household Debt Service**
**1988 – 2009**




*Source: Federal Reserve Board*
*Debt payments consist of the estimated required payments on outstanding mortgage and consumer debt.*

Jump$tart Coalition, the Financial Literacy Education Commission, and the Treasury's Office of Financial Education. At the same time, financial education programs were introduced by a wide variety of providers, including community-based organizations, state cooperative extension services, financial institutions, and the military (see the article "Financial Education—Does it Work and How Do We Know?"). Today, financial education services are diverse, ranging from school-based programs for youth to specialized training for underserved adults.

Programs for youth make up a significant share of financial education activity and utilize a variety of delivery mechanisms. At the broadest level, certain states have mandates for financial education in public schools, typically at the high school level. The types of mandates vary by state, with some states requiring content standards for personal finance (which may or may not require implementation) while others may require students to take a personal finance course in order to graduate. Within the Federal Reserve's Twelfth District, Arizona, Idaho, and Utah are the only three states that require students to take a financial education course (see Table 1.3). Support for state mandates continues to grow as proponents argue that children should learn the importance of good financial behaviors early on as part of their basic compulsory education. The National Council on Economic Education reports that in 2007, 40 states had mandates for content standards, as compared to just 21 states in 1998.[5] But critics point out that the research findings on the effectiveness of youth financial education are mixed. For example, high school seniors consistently earn failing marks on the Jump$tart Coalition test of financial literacy and although questions relating to money management education have been asked since the 2000 survey, only in 2004 have mean scores of students who have taken a class in personal finance exceeded those of all students.[6] However, a study by researchers Douglas Bernheim, Daniel Garret, and Dean Maki suggests that state mandates for financial education in high school have a significant effect on savings rates and net worth during peak earning years later in life.[7] In addition, researchers have been able to demonstrate significant effects at the individual program level (most often occurring outside of the school system) including changes in knowledge, attitude, and behavior.[8] Although more rigorous research is required to assess the effectiveness of youth financial education, some promising practices have emerged, which include demonstrating relevance to students in order to engage their motivation and incorporating experiential learning opportunities.

In addition to state mandates for financial education, youth can also receive training through extracurricular programs. The Bank at School program establishes active bank branches on school campuses, and in a number of states, such as Delaware, Louisiana, West Virginia, and Illinois, the program operates as a partnership between schools, local banks, and the state treasurer's office. The program includes classroom based training on financial topics (often aligned with state educational standards), and couples the traditional curriculum with real world banking experiences. Students can open non-custodial, no-fee savings accounts at the school branches and have the opportunity to make regular deposits at the bank as part of the program.[9] The nonprofit organization Junior Achievement (JA) operates the "Finance Park"

Table 1.3
**Financial Education Mandates in the 12th District**

| State | Mandate |
|---|---|
| **Alaska** | Content Standards only |
| **Arizona** | Social studies graduation requirement includes one-half credit of economics (which includes a personal finance concept in its standards) for the class of 2012. |
| **California** | None |
| **Hawaii** | Content Standards only |
| **Idaho** | Personal finance education provided within social studies economics content standards required for high school graduation. |
| **Nevada** | None |
| **Oregon** | Content Standards only |
| **Utah** | Financial literacy education (.5 credit) required for high school graduation effective January 1, 2008. |
| **Washington** | Content Standards only |

*Source: Jump$tart Coalition for Personal Financial Literacy and National Council on Economic Education*

and "BizTown" programs in multiple locations throughout the country, which offer real-world learning simulations for elementary, middle, and high school students. Students learn about personal financial management and career exploration (Finance Park) as well as entrepreneurship, free enterprise, and financial planning (BizTown) in the classroom, and then visit a JA site to participate in a hands-on role play simulation. For example, students visiting Finance Park are randomly assigned a "life situation" card which determines their job, income, education level, marital status and number of children for the simulation. Based on these factors, students use bank services, purchase housing, food, health insurance, and other necessities, and experience firsthand the process of budgeting, saving, and making choices and tradeoffs to live within their means.

While it may be ideal to instill good financial habits at a young age, there is also a great need for financial education for adults. Many adults never learned the basics of good financial management and may be struggling with poor credit, while other adults may be facing new financial challenges in the current economic climate, such as significant losses to their retirement portfolios. In addition, the ever-changing nature of financial markets and products means that adults must continue to educate themselves in order to successfully manage complex financial decisions, such as paying down debt or purchasing a home. Financial education for adults is generally voluntary and programs attract participants through a variety of channels. For example, the FDIC's "Money Smart" program is a comprehensive financial education curriculum designed to help individuals outside the financial mainstream and is used by financial institutions and other community organizations interested in sponsoring financial education workshops. In a recent longitudinal evaluation of Money Smart, respondents reported significant positive changes in their level of savings, amount of debt, and likelihood to comparison shop for financial products at the end of their training and over the intermediate term (six to twelve months later).[10] Other financial education programs for adults may be tied to a specific asset building initiative. Many city-sponsored first-time homebuyer programs require participants to complete pre-purchase counseling in order to qualify. One study found that such counseling can be effective in reducing mortgage delinquency, and that different counseling programs vary in their effectiveness: individual-based programs resulted in a greater reduction in delinquency rates, relative to classroom and at-home self-study counseling. Most individual development account (IDA) programs also have a financial education requirement for participation, and studies have shown that even short courses, from 8-10 hours, can have a significant impact on savings behavior.[11]

While the effectiveness of financial education is still under debate, there is some consensus that delivering financial education around a specific life event or financial decision, such as the purchase of a home or opening a savings account, can increase the program's salience and impact (for more on tying financial products into financial education, see the article "Banks and Financial Education"). Often referred to as "just-in-time" education, this approach provides targeted information that is relevant and can be applied in the near term. For example, workplace training on retirement planning gained popu-

*. . . individuals must have the opportunity to participate in economic life by being linked to financial institutions.*

larity with the rise of defined contribution plans as the responsibility of saving for retirement increasingly fell on employees.[12] Studies show evidence of increased levels of participation and savings in retirement plans after completion of workplace training.[13] But participation in these programs is voluntary, and it could be the case that those who participate in such training are more likely to save and plan for their retirement, thus making it difficult to understand the true effect of the education. Researcher Lewis Mandell summarizes the issue by pointing out that, "those who need financial education the most—workers with little formal education, who have accumulated few assets and are in the greatest danger of retiring without sufficient income—are least likely to attend."[14] However, one study found that retirement seminars appear to have the strongest effect among workers with lower levels of wealth and that the impact decreases or disappears among wealthier workers.[15] This finding was verified by Dartmouth researcher Annamaria Lusardi, who also found that the effect of seminars was especially strong for those with little wealth or education, boosting financial wealth in some cases by as much as 18 percent.[16]

## Challenges in the Field

One of the challenges facing the relatively young field of financial education is the lack of common terminology and standards. While "literacy" is universally defined as the ability to read and write, the meaning of the term "financial literacy" is less clear. The President's Advisory Council on Financial Literacy, a group of industry experts formed in 2008, defines financial literacy as "the ability to use knowledge and skills to manage financial resources effectively for a lifetime of financial well-being," but points out that, "the term 'financial literacy' is being used to describe financial education programs without taking into consideration exactly what the program's goal is, what particular skills the participants will learn, or if participants will emerge from the program with the ability to take control of their financial future."[17] Even the appropriateness of the term "financial literacy" is debated as practitioners point out that some program participants may find the connotation of illiteracy to be offensive, particularly among low-income populations or those with low levels of educational attainment. In addition, Johnson and Sherraden suggest that financial literacy is "a helpful but not sufficient idea," pointing out that individuals must have the opportunity to participate in economic life by being linked to financial institutions; they introduce a new term to the field and refer to this combined functioning of knowledge and practice as "financial capability."[18]

This inconsistency in terminology creates particular challenges for researchers trying to evaluate the effectiveness of the financial education field; without consistent definitions and clear standards, it's extremely difficult for evaluators to compare the changes in knowledge or behavior from one program to the next and make industry-wide assessments.[19] In addition, there is wide variation across programs in terms of what is being measured and how.[20] Program evaluation remains a significant challenge for financial education practitioners and researchers alike for a number of reasons: a general lack of understanding about how to measure program impact (designing a survey instrument, identifying appropriate metrics); capacity limits in terms of staff, time, and funding for program evaluation; and the difficulty and cost associated with collecting sufficient data for a rigorous study. Longitudinal data collection over the long term is particularly costly and challenging, as maintaining contact over time requires significant effort and participants may be unresponsive. As a result, many evaluations utilize a pre- and post-test model of assessment, which generally relies on self-reported data and does not capture behavior change that is more likely to occur over the longer term.[21] A number of useful resources are available to help simplify the program evaluation process, such as the National Endowment for Financial Education (NEFE) Evaluation Toolkit (see the article "Learning and Growing" for more information from NEFE), and many of these guides and web resources are designed to be practitioner-friendly and easy to use.[22]

In addition to the broader challenges discussed above, there are a number of challenges at the individual level. For example, motivating a person to change their behavior is extremely difficult. Knowing and doing are separate matters, and good financial behavior requires not only knowledge, but also discipline, future orientation, and self-control. Even highly knowledgeable and skilled individuals may have a difficult time controlling their spending and debt, despite knowing the "good" behaviors of financial management. There are some promising advancements in the field of behavioral economics that may help financial education providers better understand the link between knowledge and behavior (see the article "An Apple or a Donut" for more on behavioral economics). Other challenges at the individual level include language and cultural barriers. Federal Reserve Chairman Ben Bernanke has recognized the need for greater financial education in underserved communities and suggests strengthening efforts in these areas. "There needs to be a broader understanding in minority communities, which haven't had that much exposure [to financial education], about saving and building a credit record and being part of the mainstream economy."[23]

## Moving the Field Forward

Despite the challenges, financial education practitioners continue to move the field forward through a variety of efforts. One example is the Financial Education Network in San Francisco, a group of local financial education providers, funders, and government agencies that is working collaboratively to share resources and improve service delivery and outreach at the local level. The Network meets on a regular basis to share information and develop a unified strategy for advancing financial education, which includes creating a local online directory of services and launching a city-wide financial education outreach event. Another example is the ongoing effort to increase access and awareness of financial education among immigrant populations. The non-profit Korean Churches for Community Development (KCCD) partnered with other community organizations and banks to help the FDIC develop an accurate and culturally sensitive Korean language version of the Money Smart program, and also recently completed a research study which found that many Korean Americans are not adequately prepared for retirement and continue to face linguistic and cultural barriers to asset building and retirement planning in the U.S.[24] In addition, financial education practitioners are finding innovative ways to incorporate technology into program delivery; these include offering downloadable podcasts on financial management topics, or developing video game-type applications for financial education, such as an interactive financial lesson for teens built into the popular online site "Second Life."

In addition to these innovations at the program level, progress in the area of outcomes evaluation and research is critical to advancing the field. The Treasury's Financial Literacy and Education Commission held a national research symposium last year and developed a list of national research priorities for the field, which include identifying: core principles of personal finance that every consumer needs to know; reliable and valid measures of the success for financial education; the most effective mix of financial education, decision framing, and regulation to improve financial well-being; and effective coping strategies and behaviors during times of financial crisis.[25] Rigorous data collection and analysis will improve our understanding of what works and, just as important, what doesn't. In addition, empirical evidence of the effectiveness of financial education will go a long way in attracting further financial and political support for the field.

*. . . this financial crisis provides the ultimate "teachable moment" for financial education, and we should continue our efforts to strengthen the field and reach many more individuals.*

## Conclusion

There's no question that this recession is forcing all individuals to reconsider their financial situations and futures. Many consumers have reversed their spending trends and the recent increase in personal saving suggests a return to thriftiness. In many ways, this financial crisis provides the ultimate "teachable moment" for financial education, and we should continue our efforts to strengthen the field and reach many more individuals. At the same time, the origins of this crisis serve as a reminder that financial education is not a panacea. Financial education is a necessary, but not sufficient condition for consumer protection, which also requires thoughtful regulation and disclosure of information. Practitioners, policymakers, and researchers continue to search for the optimal balance of strategies, and greater collaboration across these areas will help ensure that all individuals and families can successfully navigate our complex financial marketplace. CI