

Combating Financial Illiteracy with Financial Education Lessons Learned, New Challenges, and the Road Ahead



Financial illiteracy is finally being acknowledged as a national crisis. Financial education is the right solution to address the issue; however, existing efforts to combat financial illiteracy have had mixed results. To be successful, financial education programs need to be outcome-based, relevant, and produce measurable results while overcoming unique challenges.

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From National Crisis to National Priority

This recession is different, very different, so much so that it has even earned the moniker of “Great”. Not only has the severity of the economic downturn eclipsed any recession in the U.S. in more than 50 years, but it also has affected most Americans regardless of their socio-economic status. Unemployment, foreclosures, lost wealth, and retirement insecurity, among other ills brought on by the ‘Great Recession’, have not discriminated among their victims. Additionally, this recession is different because blame for this crisis extends beyond the typical cast of characters that includes financial institutions, rating agencies, regulators, and even lawmakers. Instead, many experts who have studied the current economic climate attribute at least some of the severity of the ‘meltdown’ to the lack of financial literacy among Americans. So, if there is a silver lining to a financial crisis that has wrought such hardship for so many, it would be that it has created awareness of a growing national crisis – financial illiteracy.

Policymakers, federal, state, and local agencies, as well as public and private organizations have been quick to respond to the need for financial education programs and have demonstrated their commitment to increase financial literacy nationwide. Financial education has become a national priority as evidenced by the following: the formation of the President’s Advisory Council on Financial Literacy; the efforts of the Financial Literacy and Education Commission (FLEC), which is committed to helping its stakeholders execute on the national strategy for financial security; and new legislation for financial education that is on the floors of the House and Senate.

A Defining Moment

While it should be applauded that financial education is getting the visibility it deserves, it is important to remember that financial education programs have been available for some time through a number of government agencies, non-profits, and academic institutions. Furthermore, some studies show that financial education works; it can improve an individual’s ability to make sound financial decisions and to demonstrate positive financial behaviors. Yet, a painful paradox exists - financial illiteracy remains a significant problem in the U.S.

Another body of research provides empirical evidence that financial education, *in its current form*, may not be beneficial after all. Specifically, this research shows that people who had taken financial education courses did not necessarily demonstrate better financial behaviors than those who had not taken such courses. Intuitively, this does not make sense, and it complicates the issue.

How this paradox between findings is interpreted is critical to the collective efforts among all stakeholders as they develop meaningful solutions to combat financial illiteracy. The conclusions that are drawn will dictate the way forward and will define a path for Americans to achieve greater financial security.

The Direction of Progress

Because national financial illiteracy rates remain high, and evidence indicates that some financial education programs are ineffective, it might appear that the advancement of financial education is uncertain. It would be easy to conclude that there is not a sufficient ‘return on investment’ to commit additional resources to financial education. At a time when budget constraints are impacting greatly those who are on the front line for delivery of financial education programs – academic institutions and non-profits – such conclusions put these programs at the greatest risk of being cut or underfunded. However, such actions could diminish the momentum that has brought visibility to the issue of financial illiteracy and will perpetuate the status quo.

Why? Finding the *right* solutions to address the issue of financial illiteracy is the problem. So, the conclusion that should be drawn from the research which shows that financial education programs are not working is just that: most approaches that have been tried in the past are not the way forward. That is not to say that that Americans will not benefit from financial education, or that investments into financial education are not beneficial; however, the approaches and solutions need to be reevaluated and reinvented. To put it lightly, in the words of Albert Einstein, the definition of insanity is “doing the same thing over and over again and expecting different results”.

Developing a clear vision of the way forward demands that the efficacy of existing financial literacy programs be evaluated to better understand what works well and to identify where there are opportunities for improvement. It is essential to remember that financial education is, at the most fundamental level, education. Therefore, the elements that characterize the development and delivery of effective educational programs apply to financial education as well, regardless of who develops the program or where it is delivered. Otherwise, if additional monies are appropriated to programs that have not produced meaningful outcomes, good money will follow bad and the problem of financial illiteracy will persist: research will continue to demonstrate that many financial education programs are not beneficial.

Shifting Our Perspective

So where is the disconnect between the financial education programs that are currently available and the expected (or desired) impact on financial literacy? The answer may be a function of several factors that contribute to effective education.

- **Academic rigor.** The challenge for any financial education program is not just the quantity of information to be presented. Instead, it is the misconception that information alone equates to knowledge and understanding, which then translates into positive behavior changes. Similarly, a stand alone curriculum is not education. In other words, we do not give students a stack of text

books and claim that they have been provided with an education. Instead, they need the information delivered to them in the right way and at the right time (based on their abilities). They need qualified instructors and other resources to provide support and guidance and to accommodate the varied abilities and goals of each individual. Effective financial education requires the same academic structure as any other subject including pre- and post-evaluations, clear outcomes, goal setting, and performance assessments.

- **Outcome oriented.** Financial education programs need clearly defined learning objectives. These are the standards to which instructors will teach and by which the efficacy of the program can be measured. Too often the success of financial education programs is measured by the number of people who attend a workshop or seminar – not by metrics that are relevant in education, such as learning objectives, stated outcomes or long-term improvements in understanding and application of knowledge.
- **Evaluative approach.** Even if specific objectives and outcomes are established ahead of time, it is impossible to determine if a financial education program is effective unless the participants’ knowledge, or skill level, is assessed before and after participating in the program. With a starting point or benchmark (pre-assessment), one can truly understand what they have learned and how far they have ‘travelled’.
- **Skills vs. attitudes.** Too often participants will leave a financial education seminar and ‘feel better’ about their understanding of their personal financial situation. However, feelings do not balance check books, pay the bills, plan for retirement, or prevent people from signing up for risky loans. While monitoring people’s attitudes about money is helpful, the real measures of success are the knowledge and skills that are acquired, and the financial behaviors that are improved over the long-term.
- **Long-term perspective.** Financial education is not about creating a seminar or workshop. It is about creating a program that will help people develop the understanding, skills, and perspective to be savvy stewards of their finances for a lifetime.
- **Audience specific.** Most existing financial literacy programs are intended to meet the needs of the many without a focus on identifying each individual’s needs and goals. This ‘one-size-fits all’ approach is one reason these programs have been ineffective. There is no common foundation of financial knowledge, nor is there a common set of personal financial circumstances among any community of people. One of the reasons for evaluating the target audience (see above) is to determine levels of proficiency and areas of deficiency in various financial topics among a program’s participants, so that the program will be relevant and meet the needs of all participants.

- **Audience relevance.** Students (participants) will come from homes representing varied socio-economic backgrounds. An effective financial education program will have prepared problem sets and applications which represent differing financial situations and varied circumstances. Students should be able to select problems/situations which represent their personal circumstances. It is important to highlight real world situations in which the students will need to understand and apply the financial concepts being taught. This emphasizes the need to prepare several problem alternatives so students can identify a situation meaningful to them. Not only will this help to overcome a common objection from students that, “I will never need to know this”, but it will also help them to relate to the lesson in real-time.
- **Application of knowledge.** It is not uncommon in academic environments to establish learning standards which identify the desired educational outcomes while leaving teachers the freedom to use their creativity to select the strategies used to achieve those standards. Students need to demonstrate that they can apply the knowledge and skills to their daily lives. This makes it critical to present the content in a way that is meaningful to them. As a result, the strategies used in financial education programs are essential to addressing the varied ways people learn.
- **Motivations of participants.** One study did find evidence supporting the presence of student motivation as a factor in increasing the financial literacy of respondents, indicating that motivated adults benefit from targeted financial education. Identifying motivating factors among participants should be part of the evaluative process, and, in turn, will improve the overall efficacy of the program.
- **Instructor certification.** A well-designed financial education program developed on an outcome-based curriculum will not solve the problem of financial illiteracy alone. The ability of instructors to show the interrelated nature of the financial standards and to teach interactive lessons is equally important. Teachers in any financial education program should be required to have similar training and to hold relevant credentials.

Unique Challenges of Financial Education

Upon assessing the components of an effective education program as outlined above, it becomes more apparent why some financial education programs have received a failing grade: the requirements of outcome-based education are significant. Furthermore, the financial illiteracy issue is complex, and has its own unique challenges. The questions that are posed below are broad and do not have simple answers. Nonetheless, they are important questions that help to identify the unique challenges of financial education and provide a framework for addressing those challenges.

- **What is financial literacy?** Financial literacy can be described as a level of knowledge and skills which ensures that a person can make sound financial decisions and demonstrate positive financial behaviors. When describing what financial literacy is, it must be acknowledged that individuals are at varying levels of financial understanding based on their experiences, income and personal circumstances. As a result, a pressing challenge is to develop a universal understanding of the body of knowledge and the skills which would be sufficient to develop positive financial behaviors. The need for a solution to this issue is critical so that reasoned approaches toward eliminating financial illiteracy can be developed. The standards that will deem an individual to be financially literate should be identified and agreed upon.

Financial education programs must be based on common standards, and the instructional component must address the different needs and financial goals of individuals. The interrelated nature of financial topics must be evidenced. However, financial education programs must address the different degrees of financial literacy within the community of learners. For example, a community based initiative that is focused on helping the “unbanked” open a checking or savings account must have different stated outcomes than a ‘financial education’ program that is designed to keep college students out of credit card debt. These distinctions are critical and directly impact the fundamental elements of ‘successful financial education programs’ including the objectives, curriculum, delivery methods, application of knowledge, measurement, among others.

- **How is financial literacy measured?** If the definition of financial literacy is broad or ill-defined, the standard by which financial literacy is measured may be even more nebulous. Is financial literacy measured by performance on standardized tests or is it measured in ‘financially responsible behavior’? How is financially responsible behavior identified? How, then, is that data captured and how is it evaluated? While there is no one answer to these questions, they have significant implications on program design and the development of educational materials including curricula, other resources, and measures of success.
- **Are the metrics of success relevant?** Much as the working definition of financial literacy can vary across populations, the metrics of success should vary accordingly as well. The example above regarding the unbanked vs. college students also demonstrates the need to have metrics or measures of success that are unique to the participants of a financial education program.
- **Where is the common ground?** One of the most pressing problems with financial education today is that it is a subject where there is no identified body of knowledge, or common level of understanding among individuals. It is a subject that is not taught ubiquitously in our classrooms (yet another challenge in itself). However, this lack of a common foundation creates tremendous

challenges for the delivery of financial education programs and resources. For example, we might provide information on retirement planning to a group of similarly situated individuals; however, each individual's level of understanding and relationship to a given topic can vary widely.

- **What are the contributions of individuals to financial literacy/illiteracy?** If a common goal of financial literacy is for people to demonstrate positive financial behaviors, then financial literacy is not just about academic achievement in the subject of personal finance. Instead, it is also about psychology, personalities, and human behavior. From risk-taking and impulsive buying to depression and procrastination, there are an endless number of human dynamics that can drastically impact the efficacy of the best designed and executed financial literacy program. This begs the question, are positive financial behaviors the best measure of a successful financial literacy program? Are these reasonable or achievable metrics to evaluate?

Implications of Financial Illiteracy

While research has shown that some financial education programs are not beneficial, the research does not disprove the need for financial literacy nor does the research provide evidence that financial education (in some form) is not a solution to the problem. The reality is that the lack of effective financial education programs can be devastating.

From an academic perspective, the consequences of poor performance (in financial education) can have a direct impact on an individual's life or livelihood. If the average student lacks good grammar, it is unlikely that she will lose her house to foreclosure because she could not properly structure a sentence. Financial education is a subject which allows students to answer for themselves the question, "when am I ever going to use this in the real world?"

Additionally, for a society where financial security and financial independence must be the individual's responsibility, not the responsibility of the government or one's employer, the need for financial education has, in many ways, has never been greater. What's more, consumers are working more closely with the financial services community, yet they struggle with the basics of personal finance at a time where rapid change characterizes modern finance.

The longer-term social and economic implications of financial illiteracy are beyond the scope of this paper. However, financial illiteracy is a well-documented problem that has a real impact on the lives of millions of Americans.

Conclusion

Financial illiteracy has quickly come to the forefront as one of the most pressing national issues in the U.S. Yet, many existing financial education programs have not been designed to produce the kinds of

outcomes and assessments that are needed to combat the crisis. As a result, a shadow of doubt has been cast on the effectiveness of providing financial education. A legitimate fear is that such sentiment will inhibit progress towards developing effective financial education programs. The need for financial literacy has not waned, and programs to meet that need must continue to evolve.

Financial education initiatives must be developed to offer the same academic rigor as any other effective education program. What's more, financial education programs must be developed using the same essential elements inherent in any successful education program; clearly defined learning objectives, evaluations and assessments, relevance, and certified instructors. However, financial literacy initiatives present unique challenges beyond the scope of traditional education that must be considered in the development process.

The need for financial education should not be a debate. It is imperative to address the real problem – developing effective solutions to combat financial illiteracy because the cost of ignoring the issue will be borne not only by this generation, but by future generations as well.