Teaching Skills That Matter

Financial Literacy

This Brief

What Does It Mean to Have Financial Literacy Skills?

Financial literacy skills means having the confidence, knowledge, and skills needed to make financial decisions that promote financial self-sufficiency, stability, and well-being. These skills include the ability to effectively locate, evaluate, and use information, resources, and services and to make informed decisions about financial obligations, budgeting, credit, debt, and planning for the future.

Together, the *National Standards for Adult Financial Education* (Institute for Financial Literacy, 2007), *My Money Five Principles for All Americans* (Financial Literacy and Education Commission, 2011), and the higher grade-level standards within the *National Standards in K–12 Personal Finance Education* (Jump$tart Coalition, 2015) provide guidance on specific types of financial literacy knowledge and skills, as detailed in Table 1.

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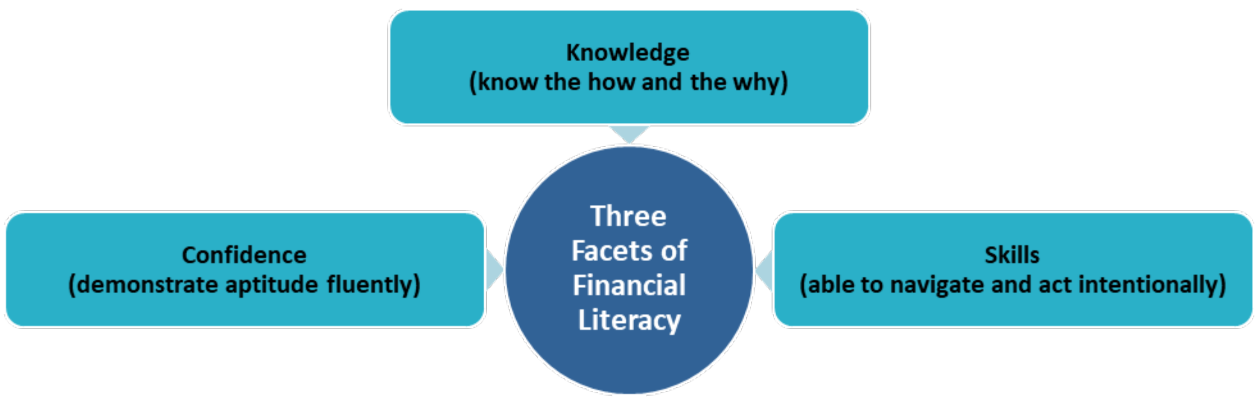
Table 1. Sources of Guidance on Types of Financial Literacy Knowledge and Skills

National Standards for Adult Financial Education	My Money Five Principles for All Americans	National Standards in K–12 Personal Finance Education
Money Management	Earn	Spending and Saving
Credit	Save and Invest	Credit and Debt
Debt Management	Protect	Employment and Income
Risk Management	Spend	Investing
Investing and Retirement Planning	Borrow	Risk Management and Insurance
		Financial Decision Making

How financial knowledge and skills are applied will take on different forms due to individuals' varied skill levels, aspirations, and life circumstances. Financial know-how accompanied by core skills—such as critical thinking, problem solving, self-awareness, and adaptability—can boost individual financial capability to improve financial well-being according to one's own terms. While the end result will vary by individual, the same four qualities of financial well-being can be relevant for anyone (Consumer Financial Protection Bureau, 2015):

- Having control over day-to-day, month-to-month finances
- Having the capacity to absorb a financial shock
- Having the ability to remain on track to meet financial goals
- Having the financial freedom to make the choices that allow one to enjoy life



In general terms, the financial education industry recognizes that individual behavior and working knowledge are components of the financial literacy mix that leads to financial capability. A person can have knowledge about personal finance and show skill and ability but be functionally illiterate relative to performing at a minimal level of proficiency when faced with personal, real-world decisions and actions. In addition to understanding personal finance concepts and developing skills, a third facet of financial literacy is the fluent use of what is known and learned in order to navigate through real-life financial decisions.

Why Is Financial Literacy Important?

Financial literacy has significance for the financial conditions of individuals, families, and communities, so much so that the Financial Literacy and Education Commission responded to societal financial issues by launching a National Strategy for Financial Literacy in 2011. Restated in 2016, the strategy aims to support efforts for "sustained financial well-being for all Americans and families in the U.S." (Financial Literacy and Education Commission, 2016, paragraph 2).

The following issues provide rationale for the need to address financial literacy:

Daily actions impact financial circumstances. Individuals make decisions each day that financially impact their personal and household situations. Whether intentional or unintentional, the actions or inactions of individuals can significantly affect their ability to meet financial obligations and achieve financial aspirations for themselves and their families.

Limited English and cultural differences can pose barriers to financial success. Specialized financial language, jargon, and systems can create road blocks for individuals with limited English proficiency. They can be hampered by lack of access to translated materials or inaccurate translations. Cultural differences may have negative consequences when addressing issues such as tax codes, using financial services, and using (or not using) credit. Limited English individuals or immigrants who are unfamiliar with United States financial systems and language may rely on others for assistance, making those individuals vulnerable to fraud, unintentional errors, or missed opportunities (U.S. Government Accountability Office, 2010).

Not everyone receives financial education. The reality is that not all adults receive quality instruction about basic personal finance concepts. The *2016 National Financial Capability Study* indicated that as of 2015, less than a third of American adults had been offered financial education at a school, college, or workplace, and only one in five say they participated in financial education. (FINRA Investor Education Foundation, 2016). Parents and caregivers serve as primary sources for youth to acquire money management habits, whether deliberate or through modeled behaviors. Although it might seem logical for youth to study personal finance some time before graduating from high school, there is no guarantee that all youth receive financial education prior to transitioning into adulthood. As of 2018, only one third of states had a personal finance graduation requirement. (Council for Economic Education, 2018)

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Consumers face complex financial decisions. In the *2017 Consumer Financial Literacy Survey*, a sizable proportion of respondents reported having challenges with managing credit cards (39%), not saving for retirement (27%), and not planning for or tracking spending (60%) (National Foundation for Credit Counseling, 2017). The disparity of financial education fosters an uneven playing field; not all individuals are prepared, especially for the many complex financial tasks and decisions that face all consumers today. Examples of these tasks and decisions include completing legal documents, navigating through financial systems and services, acquiring insurance, planning for retirement, purchasing a home, managing debt, assessing job offers, or dealing with issues related to divorce or death of a family member.

Financial stress affects health and work performance. Finance-related stress can lead to health issues or impact work performance (International Foundation of Employee Benefit Plans, 2016). Anxiety, impaired memory, and diminished concentration are examples of chronic distress symptoms, all of which can affect an employee's ability to perform work duties. Employees who are navigating through challenging personal financial issues can be mentally distracted from work duties; or the need to deal with pressing personal business might require short notice for personal time off work.

A large segment of the female population lags behind males relative to financial management. One third of working women feel unprepared to manage unexpected expenses. In a 2015 survey of working women, "early career women, those with children, and those who have or have experienced marital disruption" indicated symptoms of financial distress (Lusardi & de Bassa Scheresberg, 2017, p. 4). Many noted that they have too much debt and feel unprepared for retirement despite their longer life expectancy compared with men. In addition, woman often work in lower paying jobs than men and might work part-time or have shorter work careers due to providing care for children or parents (Lusardi & de Bassa Scheresberg, 2017).

Financially literate individuals are less likely to be financially fragile. Measured relative to the ability to cope with unplanned expenses, financial fragility may result from not having the means to cover an emergency expense or to manage during a temporary loss of income (Gupta, Hasler, Lusardi, & Oggero, 2015). Financial literacy, along with family size and debt burden, are primary factors that influence financial fragility among middle-income households (Hasler & Lusardi, 2019). According to a national financial capability study, half of adults do not have enough savings to cover three months of living expenses (FINRA, 2016). Financially savvy consumers are less likely to be reliant on others and less at risk of exploitation and fraud.

How Do You Implement the Skills That Matter for Financial Literacy?

Learners benefit from integrating financial literacy skills development with all of the skills that matter because this reinforces skills they will need when they have learned about personal finance. A key to financial literacy is the ability to apply core skills that boost capacity to make informed and intentional decisions, plan for actions that align with personal values and aspirations, and navigate through financial systems with confidence and competence. Examples of these skills are described below:

- **Critical thinking.** At the core of financial literacy is the ability to think critically about the potential consequences of actions and how actions align with personal values, aspirations, and circumstances. Given a household profile and a scenario for an out-of-state job offer, for example, designate criteria for a successful outcome based on personal values and aspirations and compare and contrast financial factors and non-financial factors to draw conclusions about accepting or declining the offer.
- **Problem solving.** Managing money within a household requires the application of problem-solving and decision-making skills on a regular basis. Presented with real-world problems, learners have opportunities for guided practice in a sheltered setting as they determine realistic criteria for a successful outcome to the issue at hand, seek out and analyze credible resources as they discern viable solutions, and reflect on the actual or potential outcomes of the decided solution. Classroom practice can feature uncomplicated issues such as deciding on affordable and reliable transportation solutions or more complex problems that involve prioritizing objectives and use of limited household resources when a primary income earner is facing a job loss or layoff.
- **Communication.** Financial issues need to be addressed frequently in multiperson households. Especially during face-to-face conversations aimed at reaching consensus, non-verbal cues should match verbal language to reduce risk of misinterpretation. The ability to clearly and concisely convey needs and expectations, ask effective questions to gather information, and listen (or read responses) for understanding apply in nearly every type of business transaction, whether in person, by phone, or via online means. An example of what can be done in a classroom might include a role-play to practice negotiating for a salary increase, a change in work duties, or the resolution of a poor customer experience.
- **Processing and analyzing information.** Savvy consumers gather relevant information from credible sources to be aware of processes and to use information for decision-making. Presenting students with a case study about hail damage to personal property and the need to understand implications relative to the terms and conditions of a related insurance policy provides a realistic example for renters or homeowners to consider. Students can determine which parties are responsible for what costs and for the work necessary to complete repairs.

- **Self-awareness.** Financial planning involves being aware of personal values, aims, and circumstances. Reflecting on how reality and personal habits align with one's personal preferences and situation provides opportunities to leverage what is working and to modify what is hindering progress. As a prerequisite activity for a group project, writing a personal money narrative provides an example. During a two-person mock activity related to planning for a major expenditure or monthly spending plan, partners can read one another's money narratives. Recognizing similarities and differences, they create a spending plan that accomplishes the objective in a manner that is acceptable to both parties.
- **Navigating systems.** Every business transaction requires the ability to complete a process or to follow established protocols. Teachers may consider using online resources offered by the Federal Trade Commission to investigate types of active fraud schemes. Students can then find information to create a personal checklist for critical actions to pursue when falling victim to fraud or theft of personal data.
- **Adaptability and willingness to learn.** Individuals encounter similar types of financial decisions throughout their lives. Changes in circumstances and trends, such as a change in the number of household members, starting or leaving a job, or retirement all create the need to adjust spending plans, insurance coverage, and other money management systems. Students may be given a real or mock scenario regarding job layoffs or business closures and then apply or recommend a plan to prepare for the change, including adjusting personal spending plans and gathering information about job searches and training opportunities.

What Are Some Tips for Teaching Financial Literacy Skills in Your Classroom?

- **Know your learners to bring relevance to the experience**. Be practical in planning activities and learning to align them with learners' abilities and near-future decisions and actions. When introducing new financial concepts, survey the group to identify skill levels, relevant experiences, and attitudes toward particular topics. Where practical, integrate common experiences and inquiry questions into learning scenarios and discussions. Using a *Know-Want to Know-Learned* strategy provides insights about what learners know and want to know and suggests subsequent opportunities for learners to reflect on what they learned.
- **Respect privacy and protect personal information.** Some learners may be uncomfortable discussing personal financial issues. Others may find that class discussions encourage too much information sharing. Before addressing personal financial topics, establish boundaries and rules of engagement about what to share and what not to share publicly in class. Discern when to use mock data for group discussions and when it might be appropriate for learners to use personal information for independent learning activities.
- **Use storytelling to introduce topics or to clarify difficult concepts.** Telling a story is an effective way to introduce financial concepts and position personal finance topics in context. Whether based on real or mock details, stories provide learners with points of reference for the discussion and application of learning, especially when covering difficult concepts. Stories can be used to analyze actions and outcomes as well as to predict what might happen if story details are modified.
- **Pay attention to language and tone**. Especially when engaged in discussions about money management habits or aspirations, be sensitive to how tone and word choice might be perceived. Each learner has his or her own money story and values system. Avoid language that might be perceived as shaming or judgmental relative to socioeconomic circumstances or life choices. Promote language that inspires and empowers. For example, when discussing options to manage a particular situation, substitute "could" for "should" to emphasize choices rather than to impose personal values onto others.

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