The Concept of Financial Education

By Dr. Troy Anthony Anderson

The author shared financial education concepts facing families with an undergraduate class at the University of Maryland, College Park campus (Photo by Dr. Tanner Kilpatrick, FMSC).

Financial experts agree that effective financial education assists consumers as they make life choices in the 21st-century market economy. People who are knowledgeable about making prudent financial decisions can steer clear of the typical errors made by others. The key distinction between individuals who are at the mercy of money and those who have complete control over it lies in their level of financial education. Therefore, Anderson (2023) postulates that a strong background in financial education could be an alternative route to social mobility. Additional research conducted by Walstad et al. (2017) shows that young people accessing financial education experience better financial outcomes with less debt over a period of time. Teaching young people about responsible spending, investing, and financial planning helps them escape the trap of debt and the anxiety of economic uncertainty while giving them the confidence to create a secure financial life.

As a result, early exposure to financial education can equip individuals with the skill sets and competencies necessary to navigate many of the responsibilities of adulting. Kefela (2010) also posits that access to financial education empowers people to navigate the challenges and opportunities amidst the economic struggle. When evaluating the current state of financial education, researchers and educators alike acknowledge the progress made in recent years to promote financial inclusion in America. However, there are still several hurdles that need to be overcome, including:

- The struggle many households face to attain financial resilience due to the insufficient emphasis on financial education related to accessible savings, retirement, and affordable insurance. Insurance products customized for the unique requirements of businesses and farms in rural counties can contribute to financial well-being.
- Limited access to credit and financing options that meet the unique needs of individuals, businesses, and farms, in part because there is a lack of education or Extension programming related to finance.
- Lack of confidence in the financial system. It is estimated that a majority of the population

(approximately 50%) finds the current system deficient, citing inadequate real-world training provided by schools and widespread insufficient understanding of personal finance among high school graduates. According to a blog post from LendingClub Bank (2023), more than 60 percent of the U.S. population is experiencing a paycheck-to-paycheck lifestyle. The effects also extend to those in higher income brackets. As a result, many Americans earning over $100,000 annually continue to face budgetary challenges.

Gaining knowledge about financial education and applying it in real-life scenarios encompasses fundamental aspects such as banking, budgeting, debt management, credit issue resolution, and investment, which can effectively tackle numerous financial challenges.

According to Greenwood et al. (2022), financial education contributes to a person's holistic development, leading to economic resilience, especially during unexpected life events. Holistic development, in this case, enhances the individuals' physical, intellectual, emotional, cognitive, and social abilities. Financial education also seeks to lay the foundational skills in the initial stages of lifespan development, preparing a young adult to meet the challenges and difficulties with a financial mindset as they mature (Anderson, 2023). With a better understanding of finance, young adults can effectively manage financial matters, such as budgeting, investing, and debt management.

Financial education should be equally accessible and supported in both grade school and secondary education, benefiting both the teaching and learning strategic plans. Because of the US Department of Education's strategic plan, the mission of each state's Department of Education aligns with fostering global competitiveness by nurturing educational excellence and ensuring equal access. Recent policy adoptions (documented in Next Gen Personal Finance, 2024) will lead to doubling guaranteed access to personal finance courses from 2024 to 2030. As a result, at least half of the states should have already implemented or are in the process of implementing requirements for high school students to take a personal finance course before graduating within this time frame.

Goals of Financial Education

Financial education is essential and involves, but is not limited to, the following overarching goals:

- Clarifying one's values and aligning them to purchases.
- Learning how to take control of one's finances.
- Differentiating between good debt and bad debt.
- Navigating financial challenges and opportunities that arise.
- Making financial decisions by systematically considering alternatives, consequences, and the economy.

The author conducted a collaborative team-building activity at Point Beyond Youth Center in Calvert County using Breakout Boxes to teach financial education. Each participant solves a series of financial puzzles by analyzing clues to unlock corresponding locks on the box. (Photo by Dr. Troy Anthony Anderson, UME).

- Setting realistic goals for saving and spending.
- Exercising the rights and responsibilities of consumers.
- Developing an understanding of one's financial inflows and outflows.
- Understanding the purpose of a credit report and the role of the three credit bureaus.
- Recognizing worthwhile public and private consumer resources for protection, information, and assistance.

These goals underscore the importance of our educational stakeholders, including Extension educators, in providing financial education that allows equal access to programming via workshops, seminars, or lesson series. While the US Department of Education recommends that financial education should exist in every state as a stand-alone course, at this time, this remains a dream deferred. Research shared by the 2024 Next Gen Personal Finance annual report shows that as of 2023, only 25 states (see below) require students to take a personal finance course to graduate. Notably, some states do not require a stand-alone financial education course; within them, individual districts are encouraged to integrate financial standards into core courses such as English, Math, and Social Studies, utilizing a cross-curricular approach to financial pedagogy.

Financial Education & Society

Currently, 25 states require students to take a financial literacy course to meet graduation matriculation: Alabama, Connecticut, Florida, Georgia, Indiana, Iowa, Kansas, Louisiana, Michigan, Minnesota, Mississippi, Missouri, Nebraska, New Hampshire, North Carolina, Ohio, Oregon, Pennsylvania, Rhode Island, South Carolina, Tennessee, Virginia, West Virginia, Wisconsin, and Utah. However, Carrns (2023) reports that only seven (Alabama, Iowa, Mississippi, Missouri, Tennessee, Utah, and Virginia) earned an "A grade" because they required students to take a semester-long financial education course when compared to other states where students may participate in an 8-week introductory session and switch the second 8 weeks to another elective course.

The remaining states, including Maryland, require individual school districts to implement financial literacy standards to best suit the curriculum framework, which again varies based on district standards. Therefore, one district may offer specific financial education objectives as a part of a core class while another may overlap general objectives through courses such as Math and Social Studies. Other states, like Arkansas, have capitalized on a more cross-curricular approach whereby financial education can be integrated via program pathways such as Career and Technical Education (CTE) programs or informal program delivery through community Extension.

The downfall to this is that not all university Extension programs offer a financial education concentration, and not all schools, as noted, require financial education based on state stipulations. As a result, it would be engaging to gauge the level of achievement thus far or explore if financial education is more of a myth or a reality by implementing benchmarks that could be used to both define and measure if financial education is successful among a particular demographic, societal class, or within urban versus rural areas. Additionally, benchmarking financial education against best practices and industry standards effectively could measure its performance over a period of time.

To begin with, one needs to examine what prerequisites are necessary for achieving financial education programming in terms of accessibility and Extension services provided by land-grant universities. Incorporating real-world courses like financial education into programming, whether through formal schooling or informal schooling like Extension services, provides young people with personal connections to the concepts covered in the classroom. Together, these resources can be beneficial to young adults in achieving their long-term goals. Analyzing this process may illuminate the impact of financial education on various socioeconomic groups across the state. However, the financial education program's success will depend on ongoing performance monitoring and data-informed modifications.

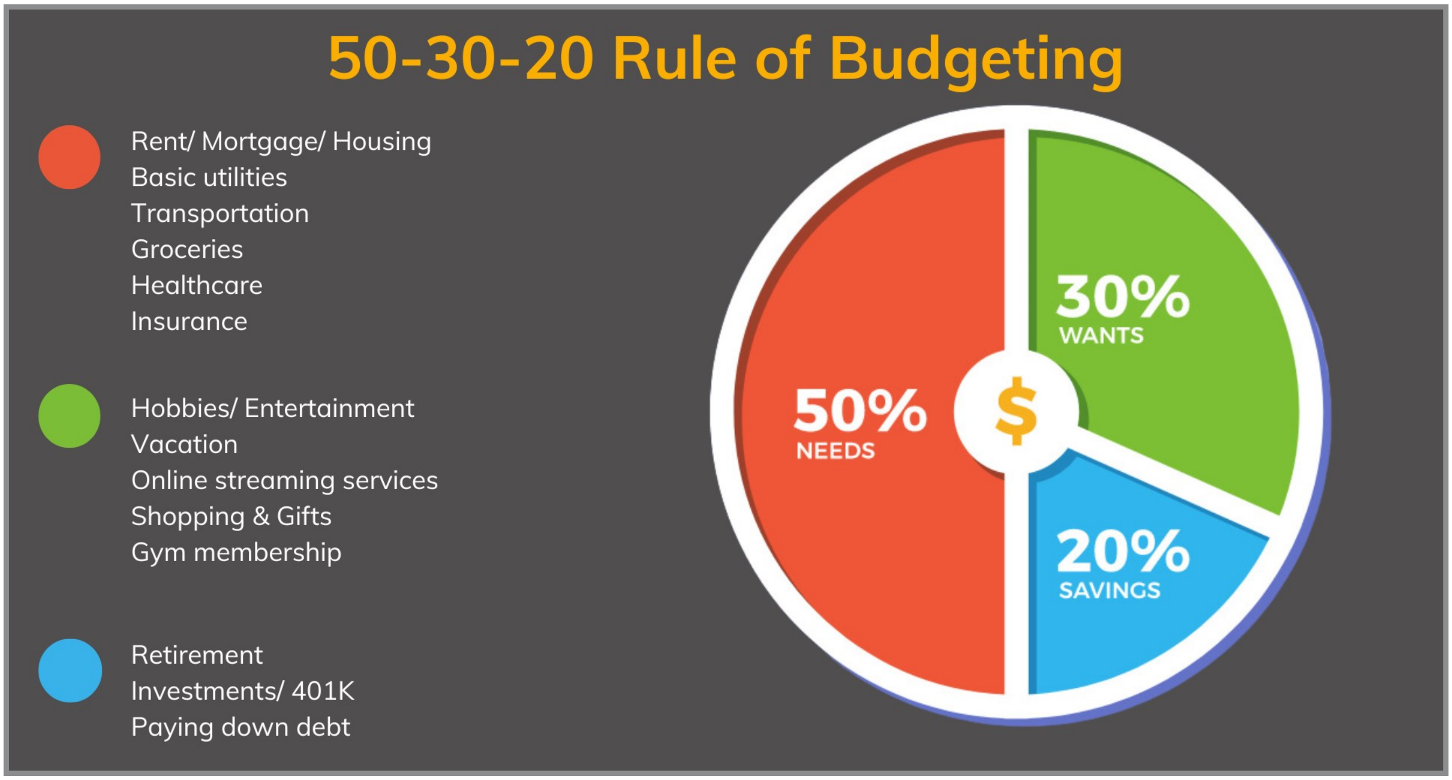

Figure 1: *The "50-30-20 Rule of Budgeting" provides a simple way to allocate a person's after-tax income across three categories. Visualization by the author via Canva.*

Benefits of Financial Education

A strong foundation in financial literacy, encompassing topics like credit scores, investing, and retirement planning, paves the way for lasting financial stability. One way to achieve this is by developing a financial mindset at an early stage in life. The notion of beginning at either an early or late time is irrelevant. The greatest error that many individuals make is not beginning at all. Mastering budget creation and adherence further facilitates effective expense management and ensures fiscal responsibility. This process allows for the establishment of an emergency fund, the saving for retirement, and the achievement of other financial milestones. The “50-30-20 Rule of Budgeting” (Figure 1) is widely recognized as the initial step in budgeting for those who are financially savvy.

In this practice, half of a person’s net pay is allocated for necessities, 30% is allocated for discretionary expenses, and the remaining 20% is saved or invested. Allocating a portion of one's monthly income to savings takes precedence over buying new shoes or upgrading to the latest iPhone.

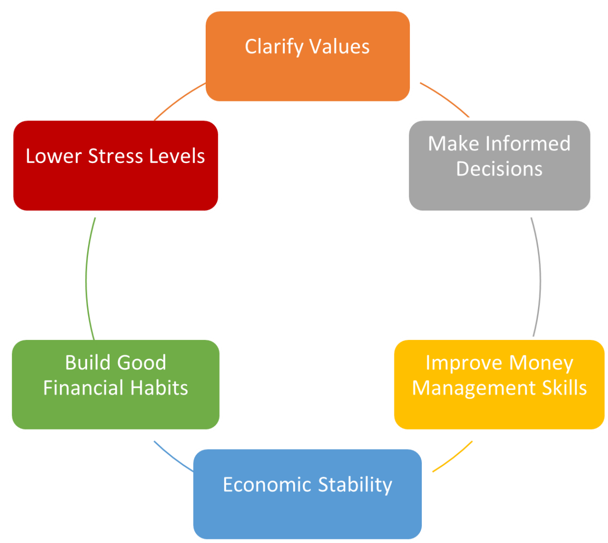

Figure 2: *Benefits of financial education. Illustration by the author.*

As a result of financial education, the objectives include building financial stability for the future and avoiding bad debt. By adopting this strategy, one can guarantee that they will have the financial resources to cover all their future necessities or cope with any unexpected emergencies.

While the long-term benefits of financial education are portrayed in the illustration, it is important to also consider the immediate necessity of saving for an emergency fund. With a well-structured financial plan, a young adult can face economic downturns and unexpected expenses with confidence and a sense of security, knowing they have a safety net. Therefore, financial education provides a series of connected skills, as depicted in Figure 2. Each connected skill reinforces the next and contributes to the individual's financial well-being for years to come.

Clarify Values:

A person's values can help them decide their short, mid-, and long-term goals. The goal they set for themselves is formed from the basis of their values. Therefore, clarifying one's values will allow a person to create a principle or standard for making decisions or acting in a certain manner when it comes to spending or saving. Financial education covers objectives on value clarification, needs versus wants, smart goals, management processes, and family resource management.

Make Informed Decisions:

When financially literate, people can make informed decisions about loans, mortgages, and credit cards and how to use and pay back debt. They can also better spot red flags as consumers, such as fraud, scams, advertising ploys, and high interest rates. Financial education covers objectives on money management, consumers' rights and responsibilities, credit, debt, warranty, methods of payment, and consumer protection laws

Improve Money Management Skills:

It sometimes takes willpower to say no. However, if people can understand the difference between their needs and their wants, they can make informed decisions about saving versus splurging. They can master the art of choosing by selecting quality over quantity. Financial education covers objectives on budgeting, saving, and investment strategies to meet future goals.

Economic Stability:

Wise money management can contribute to the monetary permanency of a person's life. With skills in money management, a person will know how much is available to spend, save, and invest. When people achieve economic stability, the lessons learned from effective financial education provide continuing incentives to save consistently and to make informed decisions without practicing impulsive purchases. Financial education covers objectives on impulsive buying, consumer education, product labeling, advertising, banking options, managing risks, loans, and paying taxes.

Build Good Financial Habits:

Through financial socialization, people will build money habits, norms, and values around middle childhood that follow them into adulthood. However, planning for the future is essential. This can involve investing early in an index fund or stocks. If employed full-time, they can capitalize on the company's match programs: a 401k, pension, or Roth IRA. Financial education covers objectives on investing, insurance, preventing fraud and identity theft, paying for college, buying a car, and purchasing a home.

Lower Stress Levels:

Debt can be stressful. Facing financial difficulties can lead to a downward spiral of low self-esteem, decreased motivation, and persistent fatigue; the weight of financial pressure can be truly overwhelming and deeply impact a person's mental health. It can also increase the risk of depression, anxiety, and insomnia, leaving a person feeling constantly fatigued and emotionally drained. However, with a solid financial education, people can better understand how to navigate their finances during hardship and losses or even heal from financial trauma. Financial education covers objectives on saving for the long term, building emergency savings, making money grow, and interest-earning from stocks, bonds, and mutual funds.

Additional Features of an Effective Financial Education Program

The prevailing features posit that financial literacy empowers individuals to maintain enhanced control over their economic circumstances and adeptly navigate various fiscal situations. A comprehensive financial education is a fundamental pillar in establishing financial stability, equipping individuals with the requisite knowledge and skills to manage their finances effectively and mitigate the risk of incurring detrimental debt. Nevertheless, it is imperative to contemplate the additional attributes of an effective financial education program:

- Financial educators need to understand that diverse socioeconomic factors influence each participant's financial situation and that a single approach to financial education is therefore ineffective. Therefore, young adults must have opportunities to debate, discuss, and question concepts with trusted educators who can provide effective mentorship and foster a deeper understanding of financial education.
- Providing financial tools without showing young adults how to achieve financial stability using those tools is insufficient; practical application is key. It is the synergistic blend of acquired knowledge, demonstrated behavior, and the internal mindset that forms the bedrock of any truly holistic financial program.
- Instead of rote listening, young adults thrive in learning environments that encourage active participation, thoughtful responses, and the exploration of insightful questions. Creating a learning environment that actively encourages this is critical to the success of a financial program.
- Young adults' engagement diminishes swiftly when faced with topics they perceive as unconnected to their lives. By connecting Extension learning to practical application and program implementation, participants' interest and motivation are enhanced through a clear demonstration of future benefits.
- Getting a part-time job within the gig economy can help increase cash flow while providing hands-on experience that can enhance the lessons of financial education learned in school.
- Paying more towards the principal of the loan in addition to the total monthly payment will significantly decrease the interest the bank will collect over the life of the loan.

Youth who have an early exposure to financial education…	
Develop confidence to make informed financial decisions.	Retain personal finance knowledge after making a big purchase of a house or a car. By the second or third purchase, a customer usually has a clearer grasp of the process, often noticing details they missed initially.
Have control over their financial future from an early age.	Are ready to confront financial problems more effectively.
Establishing a framework for lifelong learning.	Acquire hands-on skills readily transferable to their professional life.
Understand the significance of prioritizing necessities over desires and making well-informed choices when buying.	Can confidently and competently tackle the complex financial landscape of adulthood, armed with the necessary skills and knowledge.
Recognize its value as a powerful engine driving social mobility, ensuring that they have the chance to achieve financial security and success by opening doors to opportunities previously unavailable.	Are capable of tackling intricate issues and innovative solutions, essential for thriving in today's dynamic global landscape.

Given the economic complexities and financial uncertainties of our time, it is crucial to emphasize the significance of imparting financial education. While it is important to prioritize traditional core subjects, it is also important to provide young people with a solid understanding of financial matters to empower them for a financially stable future. Early exposure to financial education can equip individuals with the tools needed to successfully manage the numerous challenges of adult life in modern society.

Imparting financial education to our young adults is a worthwhile investment in their long-term prosperity. The advantages have a wide-reaching impact that goes beyond the classroom by shaping their decision-making abilities, boosting their confidence, and providing overall financial security throughout their adult lives. Extension educators can have a critical role in shaping a financially empowered generation and equipping them to navigate the complexities of the modern financial landscape by integrating practical financial literacy competencies into school curricula and utilizing innovative teaching methodologies in program delivery.

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