

Issue Briefs

2010-1 Family Financial Education



Core Personal Finance Topics

As educators in the state of Wisconsin determine which basic financial concepts to deliver to adult audiences it is helpful to draw from the core skills people need to develop a financially secure household over the life course. This set of core topics was developed in collaboration with Wisconsin Cooperative Extension educators and deliberately focuses on the most basic concepts. In general these are concepts which can be applied through simple educational activities and can be reinforced through rules of thumb. In general this list does not require previous knowledge or experiences and avoids concepts requiring mathematical calculations short of addition and subtraction.

Complementing the topics developed in Wisconsin are national core competencies proposed by the US Department of Treasury. Together these concepts form a framework to guide financial educators and financial education programs.

Developing Financial Goals

The foundation of taking charge of your finances is recognizing that financial issues matter and that having even simple financial goals can help focus and direct behavior. This includes understanding that daily financial decisions have long term impact on your life and lifestyle today and in the future. This also includes understanding the value of thrift and the longer-term payoff of not consuming all available resources in the present. An educated consumer understands the role of marketing, peer influences, values, and emotions on their spending and consumption habits, and develops strategies to deal with these influences. Finally, as people form goals and struggle to accomplish them, they need tools in order to pay attention to details of personal finance, to better understand their financial habits, to avoid new, or stop current, financial failures, and to exercise self-control.

This set of values and self-exploration is critical and a useful topic for audiences of all ages and abilities.

Managing a budget

Once a consumer has developed financial goals and developed a self-awareness of financial habits, the next step is to undertake strategies to manage money. This includes an understanding of how to define and track income and expenses including simple management methods such as the envelope method of budgeting. Simply writing down a budget (or spending plan) is a key first step, but it is also important to gain skills in tracking expenses over time and planning for short run variations in re-occurring expenses (seasonal utility bills) as well as unexpected expenses (car repair). This becomes the basis of understanding the costs of options when a shortfall in the budget does occur, including borrowing, deferring expenses and using savings. It is also important to help families on the edge of financial distress to learn how to access public benefits such as food assistance, housing assistance, public health coverage, utility assistance, employment assistance and disability if appropriate.

Credit Management

Obtaining and managing credit are among the most common problems that people encounter in the financial marketplace. It is fundamental that people understand that borrowing money has direct (such as interest and fees) and indirect costs (such as tying up future income and reducing the ability to take out other kinds of loans). Managing credit involves both emotional issues such as developing an awareness of personal decision-making process and habits surrounding the use of credit, as well as technical issues such as understanding how credit cards work, the costs of revolving debt and the role of card utilization on credit reports and scores. Using credit requires knowing how to compare the total costs of a loan and how to find sources of

unbiased advice on loan terms and options. Finally it is increasingly important to fully understand that credit scores are based on credit records and that credit scores are used not just to make and price loans, but also to evaluate your ability to obtain a lease, utility/phone and even obtain employment.

Financial Services

The next core area for financial education is related to banking and bank accounts. This includes understanding the various options for making purchases and receiving payments, including money orders, checking, debit, and stored value cards (all are called transaction accounts). Next is an understanding of a broad set of basic financial savings products including Savings Bonds and low-balance/fee accounts. After establishing basic banking relationships, the next step includes understanding the role of property, life, disability, and health insurance for protecting personal financial security. It also includes developing an understanding that some firms and brokers promoting financial products may not have interests aligned with your needs for financial products and services. It is important to know how and where to find unbiased, non-commission-based advice on forms of longer term investment products. Key options for people to consider include workplace-based savings options and the use of payroll deduction to make deposits into savings.

Managing Debt

While the prior topic of credit is a core area of understanding for consumers to develop, there is a related set of skills and knowledge around paying back debt. Having debt means that more money is obligated toward debt and less money is available for other expenses. When a financial roadblock occurs, consumers need to understand that late payments and defaults are detrimental to current and future access to credit. When people can no longer repay loans, there are options that can help, such as debt counseling, repayment plans and bankruptcy. Consumers need to understand these options as well as rights and obligations in default and debt collection. Finally people need to be able

to measure their level of distress related to over indebtedness.

Taxes

Taxes are a fundamental part of personal finance. People need to understand how local, state and federal income and property taxes are collected, including sales taxes, annual income tax filings and FICA (payroll taxes). Given the import of filing timely tax forms, consumers need to be able to know how to organize documents that are used to file federal income tax forms, and options for completing an annual tax return. Key understandings include major tax deductions and credits, as well as how graduated tax systems calculate taxes (tax brackets), and then what the relative benefit of various deductions might be worth for taxpayers in low and high income tax brackets with the standard deduction.

Saving for the Future

The final key educational topic builds on the financial services topic introduced earlier. This more advanced level of understanding includes what savings options exist and how direct deposit can help make saving invisible. More specifically people can understand the options for special forms of saving for education or a long-term goal. Related to personal savings is basic financial planning including knowing how to estimate potential future Social Security benefits. Related to these retirement benefits is fully accounting for other potential benefits, including any pensions, and how to determine if you might be covered by such a plan. A core understanding is that entering older ages with little or no savings means having a greatly reduced quality of life or working daily until death or disability.

United States Department of Treasury Core Competencies for Financial Literacy

In late 2010 the Department of Treasury issued draft core competencies for public comment. The state competencies complement the national list in many ways. The national version includes both knowledge and intended behaviors. The five core competency areas are described below.

#1: EARNING. This includes knowing how much you earn, the difference between gross versus net pay, the role of taxes, and potential public benefits in stabilizing income. It also includes an understanding of how investments in education can boost future earnings potential.

#2: SPENDING. This includes an understanding of the difference between needs and wants, as well as the importance of making and maintaining a budget. It also includes the understanding of the social and environmental impacts of spending decisions. Intended behaviors include developing a spending plan, tracking spending and maintaining a budget.

#3: SAVING. This core area includes understanding savings and checking accounts, as well as types of long term investment options. Intended behaviors include developing a savings habit (e.g. "Pay yourself first"...that is take income and put it in a savings/investment account before you have a chance to spend it) as well as using financial products carefully to balance risk and return to meet long-term goals.

#4: BORROWING. The fourth core area is related to using credit. Knowledge topics include how loans work and knowing that the cost of borrowing is based on how risky the lender thinks you are (credit score). Intended behaviors include avoiding high

cost borrowing, being a careful credit shopper and planning to meet payment obligations. Additionally this area includes evaluations of home mortgages and housing options.

#5: PROTECT. The final core area is focused on protecting financial assets. This includes knowledge of events that could deplete assets, saving for a 'rainy day' and forms of insurance. Actions include building up an appropriate emergency fund, shopping around for insurance and also protecting yourself from identity theft as well as fraud and scams. Also included in this category is monitoring credit and credit reports.

Conclusion

Financial literacy is more than just knowing financial information or answering financial trivia questions. It is the ability to acquire, evaluate and apply financial information in order to make financial decisions and develop financial security over a person's life. This brief provides an overview of key concepts financial educators should consider when developing educational programs and materials. Not every program should include all of these areas, but over a comprehensive set of educational activities learners should have access to appropriate materials and support to acquire the appropriate knowledge, skills and competencies as enumerated here.



The University of Wisconsin-Extension (UWEX) Cooperative Extension's mission extends the knowledge and resources of the University of Wisconsin to people where they live and work. Issue Briefs are an ongoing series of the Family Financial Education Team. This brief was drafted by J. Michael Collins, Assistant Professor in Consumer Finance and Extension State Specialist.

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