

PREPARING EDUCATION DEGREE CANDIDATES WITH FINANCIAL LITERACY CONCEPTS

**Coville, Timothy G.
St. John's University**

ABSTRACT

The Credit Crisis of 2008 and the exposure of the largest Ponzi scheme in U.S. history, along with the subsequent arrest of Bernard Madoff late that same year, created an increased awareness of how our educational system has failed to equip many Americans with basic financial knowledge. Out of this increased awareness many governmental, philanthropic, educational and commercial organizations have been inspired to create resources that may be used to address this apparent lack of financial literacy. This article describes 7 key financial literacy topics that could be included in the curriculum of our current college level education degree candidates to prepare them to cover these same topics with their future K-12 students.

This article goes on to provide a discussion of the many educational resources available for use by these future teachers, as they, in turn, strive to share their heightened financial literacy awareness with their future students. In many cases the resources discussed are made available at no charge thanks to governmental initiatives, philanthropic efforts, or the many bank provided contributions made in order to remain in compliance with the Community Reinvestment Act of 1977. The reader will be encouraged by the number of financial literacy educational resources available free over the internet. It is also interesting how often these teaching resources are structured in the form of computer games, in order to keep the attention of our future teachers' students.

INTRODUCTION

Like many, I was drawn to the topic of financial literacy out of a concern for the many recent casualties of the current "great recession." As seen across the news, the people hurt have ranged from those already living on the margin the quote-un-quote "working class" that were encouraged to take on debt beyond their true ability to pay all the way up to previously wealthy doctors and other professionals that lacked the financial training to know not to concentrate their investments in one place, yes that's right "can you say Madoff?" I'll confess it was the Madoff scandal that made me first wonder why his victims did not know better. That pushed me to realize how important some financial education is no matter what skills and knowledge people will otherwise use to earn their livings. I realized how fortunate I was in this particular instance to have had undergraduate training in accounting and economics, as well as graduate level training in Finance and Accounting. Still I knew what was saving me from being as vulnerable as the victims of unscrupulous mortgage brokers or hedge fund managers were just some very basic concepts that don't require years of business related education to obtain, i.e. live within your means, Diversify your investments, Comparison Shop, Plan ahead, think with your head. This in turn made me wonder why there isn't the equivalent of a "Health" class in high school focused on financial health. It is understood that money doesn't buy happiness, but it can protect against some known

sources of sadness. At any rate that is just a little background on what lead me to this opportunity to write about how our future educators may be trained to better prepare themselves and their future students to be financially literate. Financial literacy translates into people being more capable of determining and responsible for their own financial situations. Hopefully you also sense an opportunity to help provide some fundamentally important information to the generations behind us. With that said, let's consider some Key Financial Concepts that go beyond, but relate to, those few basic concepts just listed above.

The remainder of this article is organized to provide background on the following 7 key topics, that arguably could be covered by tomorrows educators given they also receive some added training: 1) Financial Responsibility and Decision Making, 2) Income and Careers, 3) Planning and Money Management, 4) Credit and Debt, 5) Risk Management and Insurance, 6) Saving and Investing & 7) Housing Decisions. The first 6 of these are well covered in the voluntary national standards for k – 12 Financial Literacy Education put out by the Jump\$tart Coalition (see <http://jumpstart.org/>) and the last of them is well covered by the FDIC provided MoneySmart program (see <http://www.fdic.gov/consumers/consumer/moneysmart/>), both of which are provided, free, over the internet. While mentioning those two programs let me also mention that towards the end of this article, I will provide a listing of a number of other freely provided web-based resources available for future educators and their students concerned with enhancing financial literacy.

FINANCIAL RESPONSIBILITY AND DECISION MAKING

The first of those 7 topics, Financial Responsibility and Decision Making, can be stated as “The practice of applying reliable information and systematic decision making to personal financial decisions.” There are six “standards” thought to underlie this one topic: 1) Take responsibility for personal financial decisions, 2) Find and evaluate financial information from a variety of sources, 3) Summarize major consumer protection laws, 4) Make financial decisions by systematically considering alternatives and consequences, 5) Develop communication strategies for discussing financial issues, 6) Control personal information. The first two of these standards, taking responsibility for personal financial decisions and finding and evaluating financial information from a variety of sources, make intuitive sense and are similar to that basic idea to shop around. The third, summarizing major consumer protection laws, may make us a bit uncomfortable at first as to how can we get our hands on this information, but once again the internet comes to our rescue by making relevant government provided information readily accessible, i.e. New York's <http://www.dos.ny.gov/consumerprotection/>. It pays to take a brief tour to this site. It is still another example of freely provided materials relevant to our topic. The Federal Government also provides a useful web-site with kid friendly material at <http://www.ftc.gov/bcp/consumer.shtm> . Standard 4 seems fine and we'll cover it more in a moment, but let's jump briefly to what is intended by standard 5. For this standard 5, developing communication strategies for discussing financial issues, it helps to remember our subject area Financial Responsibility and Decision Making. The idea here is that often our financial decisions will not only impact us but also our family members, friends and business associates. That makes it important for everyone to learn to communicate with others that may be impacted or may share some responsibility with them rather than plunging ahead and causing unnecessary disputes or misunderstandings. Standard 6, controlling personal information, is relevant here because, while communication is important, it is also important not to freely communicate too much. Something that has always been true, but never as much as in today's era of internet based rapid communication and identity theft.

Now regarding standard 4, making financial decisions by systematically considering alternatives and consequences, let's consider a method, for systematically considering alternatives and outcomes, called the PACED decision making model. The steps in the PACED decision making model are) State the **P**roblem, i.e. I need a place to live, State the **A**lternatives, i.e. rent, buy, alone, with roommate, . . ., State your **C**riteria, i.e. Cost per Month, Upfront outlays, Location(s), Amenities, . . ., **E**valuate the alternatives versus your criteria, and **D**ecide on the alternative that best meets your criteria. It is arguably easy to remember and helpful in reducing the role of emotions in a financial decision.

INCOME AND CAREERS

The second topic, Income and Careers, concerns itself with use of a career plan to develop personal income potential. As described in the Jump\$tart Coalition materials this topic is underpinned by 3 standards. They are 1) Explore career options, 2) Identify sources of personal income and 3) Describe factors affecting take-home pay. The first standard here, exploring career options, cries out for the need to start this early in life as a virtual somewhat academic exploration of information about career options, as opposed to later real life attempts to move between options. I say this as many middle school and high school students are at risk of closing doors on themselves by under-appreciating the opportunities math and communications courses provide them. The second standard is as straight-forward as it sounds. The third standard in this topic covers material somewhat similar to a payroll accounting course, without the debits and credits. It reminds students of realities such as taxes and insurance deductions, while also pointing out opportunities for disciplined savings via payroll deductions.

PLANNING AND MONEY MANAGEMENT

The third of our seven topics, Planning and Money Management, encourages us to organize personal finances and use a budget to manage cash flow. It sounds pretty all encompassing and it is underpinned by more standards than any other topic. These standards are: 1) Develop a plan for spending and saving, 2) Develop a system for keeping and using financial records, 3) Describe how to use different payment methods, 4) Apply consumer skills to purchase decisions, 5) Consider charitable giving, 6) Develop a personal financial plan, 7) Examine the purpose and importance of a will. Let's again consider them one at a time. This first standard, developing a plan for spending and saving, avoids the word budget by use of the 4 letter word "plan", but budgeting is what it is about. This is incredibly fundamental for a business and truly, though most of us would love not to need to budget, for each of us as individuals. Like other things it is easier said than done, but it is not that hard and it doesn't necessarily have to feel like a shackle. A personal budget can help liberate a person by allowing them to know that a certain amount of money is indeed available for a current treat, while still accumulating other funds towards longer term goals. The second standard in this topic, developing a system for keeping and using financial records, helps the teachers point their students towards knowing how to keep track of important documents and receipts, as well as cash sources and uses along with their budgeted plan. There is an app for that, actually a lot of them such as Quicken for the PC user or numerous budgeting apps for smart phones, such as the Mint.com by Intuit. The third standard, describing how to use different payment methods, explores the pros and cons of pre-loaded value cards, versus, debit cards or checks or credit cards.

Standard 4, applying consumer skills to purchase decisions, encourages not only comparison shopping, but also an appreciation of the influence of marketing. That PACED decision making discussed earlier and how smart shopping can make a budget/plan much easier to live within than

thoughtless buying. Standard 5, considering charitable giving, reminds us that financial literacy isn't about learning to be money hungry selfish individuals. It is about staying in charge of one's self enough to know how to keep some of our funds available to help others. Standard 6, developing a personal financial plan, uses that word plan again, like standard 1 in this topic, but this time it is oriented towards a longer time horizon so the student will have goals worthy of staying motivated to stick with the standard 1's short-term budget. Speaking of the longer-term, our educators have free access to guidance for each stage in a person's life from the American Institute of Certified Financial Accountants (AICPA) at <http://www.360financialliteracy.org/>. This is another example of valuable materials offered at no charge, thanks to the philanthropic efforts of a well established organization. Just highlighted the existence of so many free resources should help spread their use. In standard 7, concerned with will and estates, we are hopefully really talking long-term. Still, lots of people do get caught by surprise, therefore encouraging our high school students understand how early in life a will and a "living will" can help ensure their wishes are followed is a concept that surely a high school junior or senior can handle. A 4th grader may just have an awareness of some family member owning something that once belonged to an earlier generation. Therefore I don't think we'd push this last standard before the high school level.

CREDIT & DEBT

Topic 4, Credit & Debt, is concerned with teaching students to maintain creditworthiness, to borrow at favorable terms, and to manage debt. It is underpinned by 4 standards, 1) Identify the costs and benefits of various types of credit, 2) Explain the purpose of a credit record and identify borrowers' credit report rights, 3) Describe ways to avoid or correct debt problems, and 4) Summarize major consumer credit laws. The first 2, identifying the costs and benefits of various types of credit and explaining the purpose of a credit record and identify borrowers' credit report rights, appear fairly manageable without a great deal of added training. The last 2, describing ways to avoid or correct debt problems and summarizing major consumer credit laws, look bit more difficult, but again the resources made available, at no charge, over the internet can help our future educators and their students. For standard 3 sites like <http://www.credit.com/credit-reports/> and the Federal Trade Commission (FTC) site www.ftc.gov are both useful and for Standard 4 the FTC site remains very useful.

RISK MANAGEMENT AND INSURANCE

In topic 5, Risk Management and Insurance, it looks to teach students to use appropriate and cost-effective risk management strategies. Let's look at its 3 underlying standards 1) Identify common types of risks and basic risk management methods, 2) Explain the purpose and importance of property and liability insurance protection, and 3) Explain the purpose and importance of health, disability, and life insurance protection. We see in its first standard, identifying common types of risks and basic risk management methods, an opportunity to brain storm for hours about all the different types of risk a person might consider. At the same time, many would ask what this is about "basic risk management methods" In this context the standard is referring to having to decide between avoiding the risk, reducing the risk, accepting the risk or transferring the risk to someone else. The concept of transferring risk leads into topic 5's standards 2 and 3. It gets the students to think about transferring risk via insurance for damage to property or liability claims against them for damage to other people's property or health. Then with standard 3 they again consider transferring risk via insurance for several more of life's possible dangers, e.g., medical costs, disability and/or death.

SAVING & INVESTING

Our next to last topic area number 6, Saving & Investing, concerns itself with getting students to implement a diversified investment strategy that is compatible with their personal goals. It is underpinned by these six standards: 1) Discuss how saving contributes to financial well-being, 2) Explain how investing builds wealth and helps meet financial goals, 3) Evaluate investment alternatives, 4) Describe how to buy and sell investments, 5) Explain how taxes affect the rate of return on investments, 6) Investigate how agencies that regulate financial markets protect investors. The first five of these standards look as though we could fairly reasonably expect an overview of them could be taught. However the standard 6, investigating how agencies that regulate financial markets protect investors, looks more challenging and again sends us reaching for the internet. This time the Securities & Exchange Commission's (SEC) <http://investor.gov/introduction-markets/role-sec> and the Financial Industry Regulatory Authority's (FINRA) <http://www.finra.org/Investors/ProtectYourself/> are most useful. Even simply alerting our future educators and in turn their students to the existence of these resources may prove valuable.

HOUSING

The last of the 7 topic areas, Housing, encourages students to consider local housing options, both renting and buying. The 4 standards a.k.a. learning objectives that underpin it are: 1) Identify initial and continuing costs of renting an apartment, 2) List questions to ask when determining if you are ready to buy a home, 3) List costs associated with renting and owning, and 4) Describe the benefits and pitfalls of renting versus owning a home. These are all straight from the FDIC's free financial literacy curriculum called Money Smart. These Money Smart's materials for this topic, much like the Jump\$tart Coalition materials behind the 6 earlier topics, are substantial and are again available for free to anyone interested.

ADDITIONAL RESOURCES

There are still many other resources available, at no charge, for both training our future teachers and for use directly by their students. Some of the best of these are:

<http://centsables.com/lessons/> - Cartoon heroes based stories and games, payable on the internet, to teach financial literacy to young children. This site is available in English and Spanish.

<http://www.fdic.gov/consumers/consumer/moneysmart/young.html> - Virtual reality series of 8 learning modules targeting 12 to 20 year olds distributed via CD-ROM or print versions, available in 9 languages, shipped free from this site. This is also available as computer-based instruction online in English and Spanish.

<http://www.councilforeconed.org/> * A mixture of free and reasonably priced resources are available at this site. It also provides an organized opportunity for students to compete against teams from other schools on the depth of their financial literacy knowledge.

<http://www.genirevolution.org/index.php> Provides online video games, promoting personal finance skills, for middle and high school students.

<http://www.insureuonline.org/> Free resources for young adults and adults to better understand various insurance products.

http://www.educateiowa.gov/index.php?option=com_content&view=article&id=2478&Itemid=4594 – full K – 12 curriculum provided throughout the Iowa public school system with financial literacy lessons targeting four different grade level ranges.

CONCLUSION

From the above it can be seen that a very comprehensive set of lessons in financial literacy, and the materials to support delivery of those lessons, are already available for use by today's and tomorrow's educators. It should not require a great deal of additional time to make more of our Education degree candidates aware of these predominately free resources. The larger challenge is, most likely, getting the time set aside in the already packed lesson plans with their future K – 12 students.

Some in the Education field are interested in considering where some of these concepts might fit in with other existing elements of current high school level curriculum, i.e. Social Studies and Math classes. Some of that interest in integration into existing courses is driven by a fear that public school budget's simply cannot afford to pay for a new specialized course and the faculty to go with it. Even if entire courses, in this area, were distributed for free online, it seems school administrators and their faculties are reluctant to set aside time for third-party provided courses. Another reason, for interest in integrating at least a portion of these materials into existing courses, is for students to arrive better prepared to benefit from the material, if and when we ever do get that high school "Financial Health" class I am after.

REFERENCES

National Standards in K – 12 (2007) Retrieved February 14, 2011 from http://jumpstart.org/assets/files/standard_book-ALL.pdf

Money Smart - A Financial Education Program (2001) Retrieved July 15, 2011 from <http://www.fdic.gov/consumers/consumer/moneysmart/>

Welcome to the Division of Consumer Protection (2012) Retrieved December 15, 2012 from <http://www.dos.ny.gov/consumerprotection/>

Federal Trade Commission Consumer Information (2012) Retrieved October 8, 2012 from <http://www.ftc.gov/bcp/consumer.shtm>

360 Degrees of Financial Literacy – American Institute of CPAs (2012) Retrieved October 8, 2012 from <http://www.360financialliteracy.org/>

Credit Reports (2011) Retrieved August 5, 2011 from <http://www.credit.com/credit-reports/>

The Role of the SEC (2011) Retrieved August 7, 2011 from <http://investor.gov/introduction-markets/role-sec>

Protect Yourself (2012) Retrieved August 7, 2011 from <http://www.finra.org/Investors/ProtectYourself/>