

Importance of financial education

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Presentation outline

- What is financial education
- Support at higher places
- Complexity of financial behavior
- Impact of financial education
- Simple rules with big impact
- Moving forward
- Our challenges
- Resources and References

What is Fin. Education

Financial Education: “is the ***process*** by which people improve their understanding of financial products, services and concepts, so they are empowered to make ***informed choices***, avoid pitfalls, know where to go ***for help*** and take other actions to improve their present and long-term ***financial well-being***”

(Organization for Economic Co-operation and Development, 2005)

President's Advisory Council FL



Important players in financial education world

- The Department of Treasury
- President's Advisory Council on Financial Literacy (2008)
- Office of Financial Education
- Consumer Finance Protection Bureau (CFPB)
- Financial Literacy commission (20 Fed. Agencies)
- Federal Reserve Bank System
- Cooperative Extension System (federal and state)
- Non profits, for profit entities
- Faith base communities, Civil society

Financial behavior is complex

- Theory – we are a rational human being
- Reality – we are emotional, compulsive, impulsive
- Multiple factors affect our financial behavior
 - **Personal:** knowledge, experiences, culture, personality
 - **Social:** parents, family, peers, schools
 - **Psychological:** emotions, personality
 - Markets: imperfect, aggressive, confusing
 - **Credit Environment:** easy but costly access to funds

Financial education enables us to --

- Understand and address events in the economy that effect their | financial situations
- Discuss financial choices and money issues without discomfort (with family members and professionals)
- Recognize & respond competently to life events that effect finances
- Plan for a financially sustainable future by managing their
 - Spending, borrowing, saving and investing

Simple rules with big impact

- Cash flow management
 - **Give** for a cause (5-10%); **Save** for large bills & unexpected expenses (10-15%); **Invest** for long term goals (20%); **Spend** it all & worry free: 60-65%
- Powerful practices
 - Spend less than what you earn
 - Carry No credit card balances
 - Save regularly & start early (watch magic of compound interest)
 - Invest safely – know risk return relationships of various assets

Moving forward – teach differently

- Start very Early
- Increase focus on person in personal finance (emotions, values, attitudes, beliefs)
- Recognize the important role family plays
- Focus on financial communication in our teachings
- Focus on routine actions to build habits
- Focus on everyday context, present day constitutes the future

Our challenges

- Increase knowledge level of all Americans
- Help create financially sustainable behavior
- Produce desired outcome – short and long term
- Provide hard evidence for the actual change
- Improve partnerships between researchers and practitioners
- Increase numbers of trained & financially healthy personal finance educators

Person in personal finance resources

- I Want That! (Thomas Hines, 2003)
- Seven Steps to Financial Maturity (Kinder, 1999)
- Common Characteristics of Millionaires (Stanley & Danko, 1996)
- Money & The Meaning of Life (Needleman, 1991)
- Your Money Personality (Kathleen Gurney, 1988)
- Money Motives, Behaviors, Styles (Goldberg & Louis, 1978)
- The Philosophy of Money (George Simmel, 1978)
- The Money Motives (Thomas Wiseman, 1974)
- The Power of Habit (Charles Dugigg, 2012)

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