

## WORDS OF WISDOM

### For Financial Literacy Educators Serving Low-Income Families

We know from our work and our own personal experiences that financial literacy education can benefit families of all income levels and circumstances—when we reviewed best practices in financial literacy education, we were surprised at how much we needed to “brush up” on! But we also know that low-income families, especially those below the federal poverty line, face additional obstacles in achieving the financial literacy that can enable safe and stable housing. Many approaches to financial literacy education with this population aim to “fix the poor;” our aim as a 100-Day Challenge team is to begin to **fix the system**.

In our work, the system characteristic of mindsets came up over and over again—the “poverty mindset” that can prevent some families from seeing a way out of their current situation, *and* that can prevent other actors in the system from seeing low-income families as assets. The following are our “Words of Wisdom” for those working on financial literacy education with low-income families (drawn from best practices and our collective experience).

1. Educators have to understand that our knowledge is not universal. What may be considered common sense to one person about financial literacy may not be to another.
2. It is necessary to engage families in designing strategies to address these issues.
3. Focus on addressing poverty mindsets – *in both directions*. Educators need to fully understand the realities of poverty, and what kinds of things are personally and culturally important to those in poverty.
4. Financial literacy education must be culturally relevant to the intended audience – meet people where they are and make it real to them. E.g. a family below the poverty line does not have enough cash on hand to use the “envelope method” of setting aside a certain amount of money for each expense category, and must use any available money for whatever expense is most urgent.
5. Families seeking financial literacy education do not need to face bias or blame as they take steps to improve their situation; respect goes a long way!
6. Families in crisis have to operate in “survival mode,” and adjust priorities and resources (including physical and mental energy) accordingly. Once the crisis is addressed for those in dire circumstances, service providers can inject financial literacy/address poverty mindsets to prevent future crisis.

The Institute for Financial Literacy publishes National Standards for Adult Financial Literacy Education, a series of outcomes and skills that build upon each other to create good financial literacy. How many of the following have you learned or practiced? Are there any that surprise you? Which would be difficult to maintain if you experienced a crisis today (job loss, sudden illness, etc.)?

## STANDARD I. MONEY MANAGEMENT

### **Cash Flow Management** - Adults can:

- ⇒ Identify the components of a budget
- ⇒ Create personalized budget documents
- ⇒ Revise their budgets to reflect current cash flow

### **Personal Net Worth** - Adults can:

- ⇒ Identify the components of a personal net worth statement
- ⇒ Create personalized net worth statements
- ⇒ Understand that their net worth will fluctuate as the values of their assets and liabilities change

### **Financial Goal Setting** - Adults can:

- ⇒ Differentiate between short and long term financial goals
- ⇒ Prioritize their financial goals
- ⇒ Construct a realistic financial goal action plan
- ⇒ Revise their financial goals as life circumstances change

## STANDARD II. CREDIT

### **Obtaining Credit** - Adults can:

- ⇒ Differentiate among the types of credit
- ⇒ Understand which types of credit are better suited for particular purposes than other types
- ⇒ Identify types of financial institutions where credit can be obtained
- ⇒ Understand how the credit application process works

### **Utilization of Credit** - Adults can:

- ⇒ Comprehend the legal implications of using credit
- ⇒ Understand what a credit report is, how to dispute errors in credit reports, and what a consumer's rights are regarding credit reports
- ⇒ Understand what credit scores mean and the significance of their use in modern life
- ⇒ Recognize what precautions can be taken to prevent identity theft and fraud, and what to do if victimized

### STANDARD III. DEBT MANAGEMENT

#### **Debt Measurement** - Adults can:

- ⇒ Know what tools are available to them to measure their debt load
- ⇒ Determine what their appropriate debt load is
- ⇒ Understand the difference between good debt and bad debt

#### **Debt Resolution** - Adults can:

- ⇒ Recognize the warning signs of excessive consumer debt
- ⇒ Understand options available to assist with excessive debt loads
- ⇒ Evaluate which professionals can assist in dealing with excessive debt issues

### STANDARD IV. RISK MANAGEMENT

#### **Insurance** - Adults can:

- ⇒ Differentiate among the types of insurance products
- ⇒ Understand their insurance needs
- ⇒ Comprehend the implications of being insured or uninsured

#### **Risk Management** - Adults can:

- ⇒ Evaluate the effectiveness of risk management tools in protecting against financial loss
- ⇒ Assess their risk tolerance level
- ⇒ Use risk tolerance levels in developing risk management strategies

### STANDARD V. INVESTING & RETIREMENT PLANNING

#### **Investing & Retirement Planning** - Adults can:

- ⇒ Differentiate among the types of investment vehicles
- ⇒ Identify the types of financial institutions where investment products can be purchased
- ⇒ Understand the differences between retirement and nonretirement, and qualified and non-qualified investments
- ⇒ Recognize the importance of planning for retirement

#### **Investing & Retirement Strategies** - Adults can:

- ⇒ Evaluate the risks and rewards associated with investment options
- ⇒ Understand the role risk tolerance plays when choosing investment vehicles
- ⇒ Comprehend the legal implications of investing
- ⇒ Assess their overall financial situation in determining retirement needs