Where and How to Focus Financial Education?

NC Money Smart Week Kickoff Event
April 18, 2017

The views and opinions expressed are those of the presenter. They do not represent an official position of the Federal Reserve Bank of Richmond or the Federal Reserve System.
Financial Education Landscape

- Offered in many school systems and through numerous organizations
- Efforts range from teaching concepts to focusing on particular decisions
- Recent trend towards behavior change
Why Financial Education?

• Hard to argue against giving people tools and information about their financial choices to help them make good decisions!

• Raises three questions:
  – Do we know “bad” financial choices when we see them?
  – What decisions should we focus on?
  – What helps individuals evaluate financial choices?
Do we know “bad” financial choices when we see them?

- Making a mistake means selecting a particular choice when a clearly better one is available.
- Who decides – outside observer or decision-maker?
- Limit choices or improve people’s ability to evaluate them?
Which financial decisions warrant the most attention?

- The cost of making an uninformed choice is higher for some decisions than others.

- This has implications for where to focus financial education efforts.

- What decisions do you think should get the most attention? What makes them special?
What makes a financial decision major?

- Complex
- Irreversible
- Long-term
- Infrequent

\[
\max_S \int_S^{\infty} \exp \left( - (r + \nu) t \right) w(t) h(t) \, dt
\]

Source of Maximization Problem:
Acemoglu, Daron and David Autor. “Lectures in Labor Economics.” MIT.
What helps individuals evaluate financial choices?

- Reliable, unbiased information
- Numeracy
- Conceptual knowledge
- Using teachable moments
- Simple and clear disclosures
This series articulates the Richmond Fed's views on issues of particular importance to the economy and the financial system.

Financial Education

Instead of prescribing specific financial advice, financial education efforts arguably should focus on providing information to enhance the ability of individuals to evaluate their own options, particularly for life's major financial decisions.
Three Key Takeaways

• What decisions should we focus on?
  • The “major” ones – complex, infrequent, irreversible, long-term

• Do we know “bad” financial choices when we see them?
  • Rarely. Empowering individuals to make the best decision for themselves in the context of their own unique circumstances seems more effective.

• What helps individuals evaluate financial choices?
  • High-quality, timely and clear information; numeracy and conceptual knowledge
Financial Education Resources
Financial Education Resources

- 5F Navigator
- Higher Education
  Are you ready for the next frontier?
  - Constellations to guide your decision
  - Preparing for your deep space voyage
  ALSO INSIDE: Avoiding the black hole of noncompletion

- majorfinancialdecisions.org

- Invest in What's Next
  Life After High School
Financial Education Resources

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