JOURNAL OF EDUCATIONAL RESEARCH & PRACTICE

Journal of Educational Research & Practice
2022, Volume 12, Issue 1, Pages 63–71
DOI: 10.5590/JERAP.2022.12.1.05

Original Research

WALDEN UNIVERSITY

Importance of Developing Financially Literate Families and Communities: Opportunities for FCS Educators

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Abstract

Financial literacy has been an issue for decades in the United States; however, the COVID-19 pandemic put financial illiteracy in the spotlight. Family and Consumer Sciences (FCS) educators have the ability to influence the financial literacy rates among individuals, families, and communities. Despite Hogarth's 2002 call to action for FCS educators to promote fiscal education, this has not happened. FCS educators must now respond to this call. This manuscript addresses the financial illiteracy problem in the United States, the importance of financial literacy, financial literacy in the FCS National Standards, and the actions FCS educators can take to improve financial literacy.

Keywords: *family consumer sciences education, financial literacy, personal finance, financial education*

Date Submitted: December 19, 2021 | **Date Published:** May 2, 2022

Recommended Citation

Molchan, S. (2022). Importance of developing financially literate families and communities: Opportunities for FCS educators. *Journal of Educational Research and Practice, 12*, 63–71. https://doi.org/10.5590/JERAP.2022.12.1.05

Introduction

Before the COVID-19 pandemic, the United States faced a financial illiteracy crisis. The National Financial Educators Council (NFEC) states that financial illiteracy is a "problem that affects every level of American society. While the U.S. is regarded throughout the world as a financial superpower, many of its citizens are completely ignorant when it comes to managing their money" (2020, para. 1). For decades, Americans have struggled with understanding money. In 1999, researchers at the Securities and Exchange Commission "concluded that 66 percent of high school seniors could not pass a basic economic literacy test" (Pollack et al., 2011, p. 2). This trend continued in history through the mortgage foreclosure and bankruptcy crisis of 2008.

Due to the 2008 mortgage and bankruptcy crisis, Allen and Kinchen (2009) determined, with a sample of 300 college students in southeast Louisiana, that the students had inadequate personal financial skills—specifically, personal financial management practices, credit, and overall financial knowledge. They also found that prior generations' money managing habits influenced the subjects' current financial management skills. As personal financial management skills have not changed over the last few decades, the continuous cycle of poor financial management skills continues to pass to each new generation.

Therefore, personal financial management habits, skills, and behaviors may have a lasting influence on the economy for decades to come.

From March of 2020—when the COVID-19 national emergency was declared (Internal Revenue Service, 2021)—until the present day, the financial illiteracy bubble has popped. Charles Schwab conducted an online financial literacy survey in June of 2020, comprised of 2,046 U.S. adults ages 18 and above. This survey exposed how financially unstable families were during the COVID-19 pandemic and indicated that "half of all Americans (50%) would experience financial hardship if they had to cover an emergency expense of $1,000 or less in the next 30 days" (Charles Schwab, 2020, para. 1). Those surveyed wished they had better money management skills and, if they could, would have learned about basic money management growing up (Charles Schwab, 2020). Individuals and families find themselves unprepared for various financial events.

Individuals and families face a multitude of problems when it comes to personal financial management. Charles Schwab (2020) found that a lack of financial education has a 58% effect on poverty; a 53% effect on lack of job opportunities; a 53% effect on unemployment; and a 52% effect on wealth inequality. With the landscape of personal finances becoming even more complicated, individuals and families often find themselves in financial trouble, and COVID-19's effect on the economy is exacerbating this issue.

A poll conducted in September of 2020 by National Public Radio (NPR), Robert Wood Johnson Foundation, and Harvard T. H. Chand School of Public Health shows similar data to the survey conducted by Charles Schwab. Polling was conducted with 529 Chicago adults, and the results revealed that 50% of households faced serious financial problems; 35% of households used up all their savings; and 25% had trouble making mortgage/rent payments. This poll was replicated in cities across the country, including New York City and Houston. Similar to the Chicago poll results, households in New York City (53%) and Houston (63%) faced severe financial problems. These results indicate that Americans struggled to make ends meet during COVID-19, and the issues Americans face today are magnified by the financial illiteracy that has plagued Americans for decades—and could have potential implications for decades to come.

Family and Consumer Sciences (FCS) education plays an essential role in developing financially literate individuals, families, and communities. And although better financial literacy skills would not have prevented major financial events like the pandemic, it would have better-prepared individuals and families to deal with their new reality. The National Coalition of Family and Consumer Sciences Education (2015) states, "Family and consumer sciences education serves as a foundation for life literacy education. One curriculum goal is to improve students' ability to be successful in today's world" (p. 1). Unfortunately, financial literacy continues to be a problem hindering the success of individuals, families, and communities, but FCS educators can fill the financial literacy gap in a multitude of ways.

In 2002, Hogarth suggested FCS educators (a) promote financial education when it comes to education policy; (b) serve as resources to financial institutions that want to address the financial literacy issue in the communities it serves; and (c) take part in the financial literacy discussion across local, state, and federal levels to ensure the problem is taken seriously. Unfortunately, over the past 20 years since Hogarth made this call to action, little has changed to improve Americans' overall financial literacy, reigniting FCS educators' need to take charge of the issue.

What is Financial Literacy and the Financial Literacy Problem?

Before FCS educators help fill the financial literacy education gap for individuals, families, and communities, they must first understand financial literacy and the issues individuals, families, and communities face. Financial literacy is "the ability to use knowledge and skills to manage financial resources effectively for a lifetime of financial well-being" (Hung et al., 2009, p. 5). Hung et al. (2009)

further defined financial education as a process where individuals improve their current understanding of finances to make sound financial decisions and ask for help when needed. It is essential that individuals not only understand how to manage their finances but know when they need assistance so they can ask for it rather than making ill-informed decisions.

Americans struggle with budgeting, keeping track of what they spend their money on, saving, planning, and managing credit card debt (Brockland et al., 2019). And although the current financial issues individuals and families face could not have been solved with every individual being financially literate, the present effects of the financial crisis could be lessened with the proper financial skills and strategies. Therefore, FCS educators must deliver financial education focused on increasing financial literacy rates for individuals and families.

The Importance of Financial Literacy

Individuals, families, and communities who are financially literate (or financially educated) tend to make better financial decisions and exhibit better financial behaviors than those who are not financially literate (Consumer Financial Protection Bureau, n.d.). Financial choices and behavior directly affect the economy, and when decision makers are financially literate, research shows a positive association between financial literacy and the economy. According to Hogarth (2002), "an effective and efficient marketplace requires knowledgeable consumers, [who are] able to make informed choices. Informed consumers provide the checks and balances that keep unscrupulous sellers out of the market" (p. 3).

Unscrupulous home lending institutions and financial illiteracy led to the stock market and housing crash of 2008. Mortgage firms used increasing home prices to justify giving mortgages to individuals with limited assets (Gjerstad & Smith, 2009), and individuals were sold homes they could not afford. Unfortunately, predatory lending was not isolated and was seen across the country, and over 2.3 million homeowners defaulted on their mortgages in 2008 (Kochhar et al., 2009). This predatory lending practice led to a banking crisis and eventually caused the stock market to crash, making investors less confident in the U.S. stock market.

Effect of Financial Crises

Nationwide financial challenges have long-term effects. Many individuals and families still feel the effects of the stock market crash of 2008, as well as the mortgage crisis, and are now saddled with the current financial crisis resulting from COVID-19, which Green (2021) states influences the financial stability of households across the United States. Although individuals cannot predict when pandemics and other natural disasters will happen, they can be prepared to withstand the financial hardship they unleash by having a solid foundation in financial literacy. Therefore, financial literacy programs are necessary and could significantly curb the effect of these significant financial events.

The mortgage crisis of 2008 points to how critical financial literacy is to individuals, families, consumers, and communities. Banks provided individuals with loans on homes they could not afford, and, at the time, individuals and families did not understand they were taking out loans outside of their means. This would ultimately lead to filing for bankruptcy, becoming homeless, or selling their home for less than they owed the bank. These actions, coupled with deregulations from the federal government on home lending, led to one of the most catastrophic financial collapses the United States has witnessed (Financial Crisis Inquiry Commission, 2011).

What if individuals and families were equipped with a proper financial education before seeking loans on homes they could not afford? Although individuals cannot go back in time to find out, one can assume they may have chosen a more affordable home to purchase or would continue to rent while saving for a larger down payment.

Individuals should know what they can afford and should live within their means, which is one of the main concepts acquired when learning how to budget. Developing a budget and setting financial goals, while also tracking expenses and income, allows one to know what they can afford.

Planning for Retirement

Individuals now must plan and, in many cases, finance all or a portion of their retirement. During the 1940s through the 80s, pensions were a popular financial tool that government agencies and employers offered to their employees. A pension essentially provides the employee with a monthly income, at no cost to them, after they retire until they pass away. This pension, coupled with Social Security benefits, was usually enough for families to live off in retirement. Unfortunately, government agencies and employers are straying away from this model due to the financial burden it puts on them.

The 401(k) is the most popular retirement tool offered by employers, where individuals can contribute pretax dollars to an investment account to grow and ultimately utilize during retirement. Unfortunately, individuals are uninformed about planning for their retirement and are often confused about their investment options in their 401(k) plans. Also, taking out additional money from one's paycheck to set aside for retirement can be challenging for many, since most Americans live paycheck to paycheck and barely have any money left after paying for their necessities. While thinking about retirement for many adolescents is challenging, FCS educators must have these conversations and develop engaging lessons to encourage their students to plan and save for their future financial needs.

Financial Literacy and the National Standards

The National Standards for Family Consumer Sciences Education (FCSE) connect FCS education and financial literacy. Content Standards 2.5, 2.6, and 3.3 define influential competencies individuals need to better manage their finances. More importantly, these standards essentially serve as the framework for what FCSE teachers and educators need to know in the classrooms they teach.

Mimbs-Johnson and Lewis (2009) state that these National Standards for FCSE illustrate what FCS educators should know—and should be able to teach. Since FCS educators are expected to address these standards related to personal financial management and financial literacy overall, they need to be prepared to teach and distribute this information. Table 1 shows selected National Standards for FCSE content standards and competencies defined by the National Association of State Administrators of Family and Consumer Sciences (NASAFACS) and their connection to financial literacy.

Table 1. *National Standards for Family Consumer Sciences Education*

Content Standard	Competencies	Financial Literacy
2.5: Analyze relationships between the economic system and consumer actions (NASAFACS, 2018).	2.5.1: Analyze the use of resources in making choices that satisfy needs and wants of individuals and families (NASAFACS, 2018).	Help individuals and families realize the importance of their economic roles. Without knowing how to manage a family's financial resources and financial behaviors properly, families will struggle to be successful participants in the economy.
2.6: Demonstrate management of financial resources to meet the goals of individuals and families across the life span (NASAFACS, 2018).	2.6.1: Evaluate the need for personal and family financial planning (NASAFACS, 2018).	This standard is crucial as individuals and families struggle to manage their finances and meet financial life goals they set for themselves. Individuals and families need to know the importance of financial planning from budgeting, investing, setting financial goals, preparing for the financial unknown, and more.
3.3: Analyze factors in developing a long-term financial management plan (NASAFACS, 2018).	3.3.1: Explain the effects of the economy on personal income, individual and family security, and consumer decisions (NASAFACS, 2018).	As individuals and families think about the financial decisions for the present, they should also be concerned about how those decisions affect their financial future. Individuals and families must understand how the economy affects them, define their necessities, and better manage their money.

These content standards can help drive the financial education FCSE educators provide to their students and communities and also show a direct relation between FCS education and the importance of financial literacy. For example, Varcoe et al. (2001) surveyed what teenagers wanted to learn regarding personal finance, which is important for FCS educators to consider when guiding their educational programs with the National Standards in Table 1. The topics teenagers were most interested in included saving for college, planning for purchases, general savings, opening and using a checking account, credit, and filing a tax return. It is also interesting to learn, from this study, that teens said school was the best place to learn about money and money management, and the topics they wanted to learn were directly tied to the abovementioned standards.

FCS Education Solutions to the Financial Literacy Issue

FCS educators have various opportunities to help solve the financial literacy issue the United States is currently facing. However, FCS educators may not be the assigned teacher to educate their students on financial literacy. Therefore, it is crucial to integrate financial literacy into FCS educator classes. An example of this includes an FCS educator teaching a nutrition and wellness course that can incorporate financial literacy into their curriculum by teaching students how to financially prepare to eat healthfully. Teaching students to shop for healthy options within their budget is an essential aspect of sustaining a healthy diet. Another example may be an FCS educator teaching a parenting class for new parents to integrate financial literacy into their curriculum. This can be done by going over the various financial implications of being a parent and how to prepare for the various financial events of having a child. Having a child is expensive, and parents face various financial challenges throughout their child's life, including day care, education, medical care, and other expenses.

Building off the recommendations of Hogarth (2002), FCS educators should be advocating to be the ones teaching financial literacy in their school districts and communities, as they are best prepared to deliver this material. FCS educators should find out what topics individuals want/need to learn about, which can be done by asking students what questions they have about personal finances and managing their money. If students are provided with the financial education they want to learn, understanding and implementation will be more effective. FCS educators should also be active community members by serving as resources, advocates, and drivers of financial literacy education because they understand the family unit and its decisions, while also knowing families' financial management practices. By applying this perspective, FCS educators can better understand the needs of the populations they serve to ensure individuals, families, and communities are competent in personal finance.

There are also a variety of resources FCS educators can utilize when educating others about financial literacy. These resources include the following:

1. Jump$tart Coalition: This network of organizations promotes financial literacy and supports financial education. It also provides professional development opportunities.
2. National Financial Educators Council: It provides financial literacy resources and training programs for educators and businesses.
3. Finance in the Classroom: It provides free online resources to those who teach about financial literacy.

Access to various financial education resources (like the sources noted above) will help FCS educators fill the financial literacy gap. In addition, FCS educators interested in narrowing the financial literacy gap should explore the Certified Personal and Family Finance Educator (CPFFE) credential from the American Association of Family and Consumer Sciences (AAFCS). This credential validates an educator's knowledge and skills in personal finance and provides them with the ability to effectively teach personal finance topics to individuals and families. AAFCS also has an exciting recent partnership with Wells Fargo, where they are creating a Family and Consumer Sciences Financial Innovator and Trainer Network. This network will be comprised of FCS educators with experience providing financial education and will improve the Hands-on Banking program sponsored by Wells Fargo, which offers free resources for money skills needed throughout life. FCS educators will improve and update the lessons provided through this platform by aligning them to the aforementioned National Standards and promoting the overall program. This resource will be an excellent tool for FCS educators to integrate into their classrooms to infuse financial education into their curriculum at no cost.

Conclusion

Now is the time for FCS educators to tackle the issue of financial illiteracy. For 20 years, there has been a call to action that the profession has not responded to. FCS educators have a unique opportunity to educate individuals, families, and communities about the importance of financial literacy. Financial literacy builds on FCSE's mission to prepare individuals for success in the real world. The literature discussed shows that individuals, families, communities—and the world—all benefit by being informed, making proper financial decisions, and planning for the future. FCS educators can utilize their knowledge about the family unit, as well as the decisions they face, to help them become financially literate individuals and families who actively participate in their communities and the economy. By applying the profession's National Standards, advocating for financial education programs, and staying current with financial education through continuing education, FCS educators can help individuals and families prepare for their financial future.

This is a new call to action for FCS educators to take hold of financial literacy in their classrooms and communities. Without taking bold action in educating our students and their communities, individuals and the communities they live in will continue to see the same financial issues the United States has been plagued with over the past few decades.

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