

## Financial Learning is a Lifelong Process

Individuals today face a broad array of difficult financial choices, such as deciding how to pay for college or a home or calculating how much to save for retirement. Yet surveys reveal that many consumers lack the confidence and knowledge to make these financial decisions.

Efforts to provide economic and financial education have expanded in recent years. Nearly all states have made economics and personal finance part of their K-12 education standards. Here in the Fifth District, North Carolina, Virginia, and West Virginia require high school students to take a personal finance class before graduating. National organizations like the Council for Economic Education also provide tools for financial educators and students.

Research suggests that knowledge of core financial concepts, such as how to calculate compound interest, is associated with an individual's ability to navigate tough financial choices. For example, those who are able to make interest rate calculations are much more likely to save for retirement and are less likely to have difficulty paying off debt.

Providing this information to students from a young age helps build a foundation for the decisions they will make later in life. But it is important to also recognize that financial education is a lifelong process that requires ongoing attention and updating. The knowledge students receive in school may be far removed from the time when they are faced with key financial decisions, and their circumstances likely will have changed during this period.

A sound understanding of fundamental economic concepts is critically important for making informed financial choices. At their core, many important financial decisions are about economic principles. Being able to calculate interest may help an individual understand the cost of a home mortgage, but without an understanding of opportunity cost — the value of an alternative choice that a person has forgone — it is difficult to fully consider the merits of buying a home versus renting. Here at the Richmond Fed, we've developed resources to help individuals learn core economic and financial concepts, which you can find by visiting the Education page of our website, [richmondfed.org/education](http://richmondfed.org/education).

Another reason to focus on core skills such as these is that each person is different. Financial education designed only to guide students toward "correct" choices presupposes that some decisions, like taking out a high-interest loan, are a mistake. But it is difficult for an outside observer, such as an educator or policymaker, to know enough to determine when another individual is making an unwise choice. For example, someone with little savings may find that a short-term high-interest loan is the best option for fixing a car if the car is that person's only means of reaching work.

Recognizing that financial knowledge decays over time and that people are different can inform how we approach

financial education for working adults. In addition to educating Americans during their school years, we should focus on providing information to individuals about major financial decisions as they are preparing to make those decisions. When consumers buy goods like a microwave or television, they have easy access to all the information needed to make



a decision. Also, the consequences of making what later appears to be a poor choice are not necessarily very large. In contrast, major financial transactions, like purchasing a home or going to college, require more specialized knowledge that is not so easily obtained. And the consequences of those choices can be much more severe and long-lasting.

When people are making such important decisions they are especially motivated to learn about the choices they face. Research has found that providing even brief training during these "teachable moments" can be as effective at improving decision-making as more extensive training undertaken in the months prior.

Regulators can also help by requiring clear and explicit disclosure of significant information in financial contracts. Here, simplicity and concision are key. Consumer testing conducted by the Fed after the financial crisis revealed that contracts like home mortgages often could be written in a way that was more easily understood. Presenting the most significant terms of a contract explicitly and at the beginning, for instance, would help individuals to make more informed decisions.

In short, financial education efforts should avoid a narrow prescriptive approach based on the idea that policymakers know what's best for everyone. Instead, we should focus on providing the tools that assist individuals in choosing the best options for themselves. In addition, timely information about complex and consequential transactions can help households better understand their choices when faced with major decisions.

**EF**

A handwritten signature in black ink, appearing to read "Jeffrey M. Lacker". The signature is stylized and fluid.

**JEFFREY M. LACKER**  
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