

COVER STORY

FINANCIAL LITERACY

Several initiatives are underway to help educate people on monetary matters

BY BRAD RHEN
READING EAGLE

ON A recent Wednesday morning, 18-year-old Idalmi Rivera of Reading joined about half a dozen other people at a free financial literacy class at WCR Center for the Arts in Reading.

The class, one in a series organized by South of Penn Task Force and presented by Visions Federal Credit Union, covered topics such as credit scores, credit reports, identity theft and buying a car.

"I definitely have a lack of knowledge when it comes to financial literacy and credit scores and everything that goes into budgeting," Rivera said. "Normally, I ask my family members and friends, but it's better to get the information straight from a professional, so I thought I'd take advantage of this workshop."

Rivera, who is a student at Kutztown University, doesn't necessarily have any financial difficulties or debt; she just thought the class would be helpful. However, she said, she knows of many people her age who don't always make good decisions when it comes to finances.

"Some people don't get the best information from friends, so I know there are people who probably struggle financially," she said. "I'm in college now, and there's definitely people in college who spend money on things that aren't college-related, and it's nice to know how to budget for college expenses."

As the student-debt crisis

worsened in recent years, financial literacy education has become more prevalent in schools. Several Berks County school districts — including Wilson, Reading, Tulpehocken, Hamburg and Oley Valley — require that students take a personal finance class to graduate.

But outside of schools, the options for financial literacy education are limited. Classes like the one Rivera attended are helping to provide much needed financial education in the community.

Informed decisions

The Programme for International Student Assessment defines financial literacy as

"knowledge and understanding of financial concepts and risks, and the skills, motivation and confidence to apply such knowledge and understanding in order to make effective decisions across a range of financial contexts, to improve the financial well-being of individuals and society, and to enable participation in economic life."

More broadly speaking, to be financially literate means someone has the knowledge and the confidence to apply financial skills and make informed decisions that are the best financial decisions for themselves, said Hallie Davis, a researcher at the Global Financial Literacy Excellence Center at the George Washington University School of Business.

"It is not about following certain guidelines for financial success but having the knowledge, or knowing where to get the right information, to make decisions that are best suited for you and your financial goals," Davis said.

Two professors from the University of Pennsylvania's Wharton School developed a series of questions known as the "big three" and "big five" that indicate a person's financial literacy. They have been used worldwide, including in the National Financial Capability Study, which found that only 13% of 18- to 24-year-olds and 18% of 25- to 29-year-olds could answer the "big three" questions correctly.

Davis said financial literacy is important, in part, because the economy has become more complex and has shifted financial responsibility onto the individual. In particular, she said, the increasing amounts of debt with which recent college graduates are saddled makes it

The 'big three' financial questions

Professors Annamaria Lusardi and Olivia Mitchell of the University of Pennsylvania's Wharton School developed a series of questions known as the "big three" and "big five" that indicate one's financial literacy. They have been used worldwide, including in the U.S. National Financial Capability Study.

- 1) "Suppose you had \$100 in a savings account and the interest rate was 2% per year. After five years, how much do you think you would have in the account if you left the money to grow?"
A) More than \$102
B) Exactly \$102
C) Less than \$102
D) Don't know
E) Refuse to answer
- 2) "Imagine that the interest rate on your savings account was 1% per year and inflation was 2% per year. After one year, with the money in this account, would you be able to buy..."
A) More than today
B) Exactly the same as today
C) Less than today
D) Don't know
E) Refuse to answer
- 3) "Do you think the following statement is true or false? Buying a single company stock usually provides a safer return than a stock mutual fund."
A) True
B) False
C) Don't know
D) Refuse to answer

ANSWERS: 1. A; 2. C; 3. B

important for young people to be financially literate.

"Some examples include the shift from defined-benefit to defined-contribution plans and increasing life spans means individuals need to save more for longer retirements," she said. "There are also larger issues at play with growing inequality, wage stagnation, and the increasing cost of education. These issues require a host of solutions, and financial literacy



READING EAGLE BILL LAMBERT

is a critical piece of the overall solution to help individuals achieve financial well-being."

Life skills

The class at WCR Center for the Arts was mainly for residents of Reading's South of Penn community but was open to pretty much anyone who is interested, said Tony Veloz, the South of Penn Task Force's coordinator.

"We've realized that a lot of times people don't have as much knowledge and education when it comes to financial literacy as they could have, basically how to manage finances," he said. "That's something that should really start in high school, but because they didn't have those resources, that's where we step in to offer that."

Veloz, a Reading resident, said the idea behind offering financial literacy classes is to promote personal financial stability. The more people who have personal financial stability within a community, the more stable that community will be, he said.

"These are life skills that people should have," he said. "You can't really operate as a contributing member in your community if your personal life

isn't in order."

The class was one of several classes that the task forces partners with New York-based Visions Federal Credit Union to present. Instructor Josie Hill said she believes most people know right from wrong when it comes to finances, but they don't always make the best choices or don't have all the information they need to make the right choice.

"When we talk about budgeting or saving, people think you have to sacrifice your whole life and not enjoy the little things, so that's why it's important they know what to do and how they can do extra things," said Hill, who is the community education coordinator for Visions Federal Credit Union's Muhlenberg Township branch. "I want to help them make the right choices, and I think people are prepared and sometimes choose not to make the right choices."

Hill previously worked at an auto dealer and saw firsthand how making bad financial decisions can adversely affect someone's credit and thus their ability to do something important such as purchasing a car.

"I've seen it all," she said. "I

came from nothing; I used to have welfare, so for me it was very important to build each other up and be prepared for the ups and downs that you have in life, and I'm trying to use my personal life to inspire other people."

A class for teens

The class at WCR Center for the Arts isn't the only financial literacy class going on. Another one will begin July 12 at The Village in Reading, a lounge for teenagers at 237 N. Third St.

The five-week class will be held every Thursday from July 12 to Aug. 16 from 7:30 to 9 p.m. On Aug. 23 there will be a graduation ceremony and presentation of certificates for those who complete the series.

That class, also presented by Visions, will cover many of the same topics as the WCR program, but it will be geared toward 13- to 18-year-olds, said Lisette Epps, director of Impact and Engagement for the Pennsylvania region for Visions Federal Credit Union.

"We gear the content to make sure that the younger teenagers can absorb the information," Epps said. "We're not talking to

Josie Hill, community education coordinator for Visions Federal Credit Union, teaches a free financial literacy class at the WCR Center for the Arts in Reading.

them at the same level that we would be speaking to the adults. We make it relatable, and we also incorporate real-life stories and situations from our own background to help the children understand these are real-life instances."

Since financial decisions can have a major impact on one's life, Epps believes there should be more financial education for younger people. There's been some momentum in recent years, and some schools seem to be offering more, but more is still needed, she said.

"For the younger children, we want to teach them as young as we can about financial literacy," she said. "Even into adulthood because there's things as adults that we might not even realize until we get to the position of needing a loan or a mortgage, and we don't know what goes along with that."

Contact Brad Rhein: 610-371-5047 or brhein@readingeagle.com.

Addressing need for financial literacy crucial to future

The Issue: Efforts are underway to educate young adults on managing money. Our Opinion: Any help in addressing this issue would be welcome, but this education should start at home.

THERE'S NO doubt that our nation should be doing a much better job at teaching financial literacy. The challenge is figuring out the best way to get this accomplished.

While many Americans of all ages could use a refresher course on how to keep debt under control and save for the long term, the problem is particularly acute for young adults who are just starting to manage money.

The National Financial Capability Study found that only 13% of 18-to 24-year-olds and 18% of 25- to 29-year-olds could answer a financial literacy quiz's three questions correctly. The questions had to do with simple interest calculations and investment strategy.

Correcting this problem is crucial, as students who go to college typically emerge from four years of school with heavy student loan debt. Combine that with excessive credit card spending, and it's a recipe for disaster, putting young people at a deep disadvantage in terms of housing, transportation and future educational opportunities. Even those who don't go to college easily can find themselves in the same predicament if they're not careful.

For many the first instinct is to call on public schools to take on the responsibility of making sure high school graduates are well-educated in personal finance. Indeed several Berks County school districts — including Wilson, Reading, Tulpehocken, Hamburg and Oley Valley — do require students to take a personal finance class in order to graduate.

Any efforts schools can make to address this problem certainly are welcome, but it's important to remember that there are limitations to what they can do. There are only so many hours in a school day, and educators are under tremendous pressure to do a better job of teaching core academic subjects while being called on to address a variety of social ills.

That's why it's so heartening to learn of efforts to promote financial literacy under the auspices of local financial institutions and other organizations.

Local classes such as those offered by the South of Penn Task Force and Visions Federal Credit Union help participants better understand important topics such as budgeting, understanding credit scores and reports, avoiding and detecting identity theft, and how to borrow for a car and other expensive needs.

The idea is to help people develop the knowledge and confidence to make sound decisions from an early age and avoid putting themselves in a financial hole.

This matters to all of us, not just the individuals immediately affected by financial challenges. Tony Veloz, coordinator for the South of Penn Task Force, noted that having more people with personal financial stability enhances the well-being of the community.

Of course not everyone can participate in the relatively few classes available. Regardless of what schools and others are offering, it's imperative that this sort of education take place in the family setting. Parents should make sure their children understand the basics of financial management and have a grasp on how much things cost and how they are paid for.

These matters only grow more complex and difficult as the world changes. We owe it to our young people to help them get off to a good start.