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CLIENT NEWSLETTER

Financial Education Through Generations

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Who is the most financially literate?

Americans have not always prioritized financial education, even though knowing how to make informed decisions about managing finances and avoiding risks forms a critical foundation to long-term stability. From investing in land and crops in the past to buying cryptocurrency today, people should take financial literacy seriously since it plays a vital role in anyone's attempt to build wealth.

The Importance of Financial Education

You can define financial literacy as the ability to manage one's finances not only day-to-day but also for long-term financial goals. When individuals possess financial awareness and skills, they can strategically manage, save, and invest money.

When people think about financial education, they often believe that only the wealthy possess such knowledge. However, financial education is important for everyone.

How you handle your money, your investments, and your savings will impact your future. Financial literacy minimizes the possibility that individuals will become victims of fraud, identity theft, and Ponzi schemes.

A higher awareness of financial decisions leads to greater engagement in personal and community progress. When you think about it, governments rely on the financial competence of their citizens. Financially literate consumers actively reduce poverty.

Financial education plays a particularly crucial role for younger generations since they have the least amount of money saved. Younger people can also face relatively larger expenses compared to their income (e.g., student loans and purchasing their first house).

Financial literacy helps you control your financial affairs, change your behavior, and quickly choose the best option for investing. It can even lead many to retire earlier.

Many schools around the country seem to understand the importance of financial education, often allowing it to take center stage. The number of states that require high schools to teach personal finance to their students based on set standards continues to rise. In fact, 45 states have financial education in their curriculum standards for kindergarteners to high school seniors.

Financial education programs like *My Life My Choices – Student Edition* on our Money Fit site now assist parents in teaching their kids about the importance of financial awareness. However, parents from previous generations did not have such simple tools to access so easily. How has financial education developed through generations, and how did we get to where we are today?

Financial Education Through History

Since the time people originally conceived of money and began using it, they have relied on their friends and family members' experience and advice to learn how to better manage their money. Keep reading to learn how financial education has changed in the US over hundreds of years.

1700-1800: The Beginning of Banking in the US

In colonial days before federal banking systems came into existence, people often saved money by burying it or exchanging it for precious metals, cattle, or land. During this time, any tips on money management came from your closest network of parents, friends, or professional acquaintances.

At age 31, Benjamin Franklin wrote one of the earliest recorded financial advice columns entitled "Hints for those that would be Rich." Although focused much on business advice, we might consider Franklin's column, printed in 1737, as an early attempt to promote the idea of financial education.

When the first bank in the US was chartered in 1791, it offered loans to merchants, so citizens still had to rely on the advice of their peers to learn how to manage their finances properly. Beyond Franklin's column, we know of no businesses or institutions of the time that taught people how to save or invest.

1800-1900: Valuable Money-Saving Tips

These money-saving tips remained important during the 1800s and 1900s. According to Nicholas Osborne in "The Social Economy of Savings in the United States 1816-1914," many legislators claimed that workers must act prudently and pay attention to financial planning to become more independent within their economy (p. 3).

Eventually, this led to the creation of savings banks. These were supposed to help Americans with low earnings save and become more invested in managing their finances. The founders of savings banks managed to teach workers how to save enough money and remain safe in case of unemployment or injury.

In the late 19th century, a nationwide movement emerged to teach children how to save pennies and nickels based on teaching the younger generations that saving was a virtue.

This created a shift in how Americans thought about the value of their work and finances. The upper class poured its wealth into communities "via loans, bonds, stocks, banks, trusts, mortgages, and other financial instruments." Work and production replaced moral-based measurements as indicators of a community's success.

1900-2000: Financial Literacy Taught Officially

During this era, people started to understand the crucial role financial literacy played in the health and stability of households and communities. The Smith-Lever Act of 1914 had the most considerable influence on financial education at this time by establishing the Cooperative Extension Service offered by many universities to this day. It enabled universities to teach a number of topics, including personal finances.

The idea of financial education became well-established, if under different names—home economics, household finances, family finances, or consumer economics. These courses had their basis in Hazel Kyrk's 1920 research on personal finance. Her dissertation laid the foundation for consumer and family economics.

As the topic of personal finance became more important, Congress took notice and established extension programs and even provided research funds. In the 1950s, financial management, budgeting, saving, income, expenditures, and other aspects of finances took center stage in as much as 50% of the research done within home economics.

Financial education came at the right moment for many Americans, but these generations had to go through two World Wars and the Great Depression. This undoubtedly increased the need to save to survive.

Their children, the Baby Boomers, enjoyed the economic prosperity that followed and managed to save up to 10% of their income during the 1960s and 70s. Unfortunately, even though they inherited a prosperous country and possessed greater financial literacy than previous generations, a third of them have still failed to prepare for retirement. Some might even say they have created a legacy of personal financial disaster for the following generations, the Gen Xers, and Millennials.

2000 and Beyond: The Differences in Generations Today

The importance of financial literacy and education continued to grow as a priority entering the new millennium. Well-established financial institutions and numerous financial instruments can improve one's wealth and status.

You can find financial education in schools across the US and even come across a few mandatory personal finance courses here and there. Many programs focus on teaching financial literacy, like Money Fit and Junior Achievement, which reach millions of students each year, teaching kids how to navigate the personal finance and greater economic realms.

Though far from all, many banks and credit unions now provide adults with various financial education tools and resources to help them improve their lives. Many colleges and universities have entered the financial wellness realm to promote financial wellness with educational programs they have developed or contracted with. MyMoney.gov, an official federal government website, provides links and resources that can help Americans understand the basics of financial education.

A few crucial things happened in recent years that also changed the landscape of financial education and how people see it. The proliferation of smartphones erased boundaries that had previously kept many individuals from accessing financial information and tools. Now, virtually anyone can find helpful financial information online 24/7.

Online forums have replaced the in-person money-saving tips from the 1800s. Others have kept the topic alive via different media. As technology evolves, banks have introduced mobile apps, which help users react more quickly to any changes in their bank account.

In 2020, Baby Boomers and the Silent Generation held 70% of household wealth in the US. Generation X has more than five times the wealth of Millennials yet less than half that of Baby Boomers. However, Gen Xers continue to struggle and deal with more money-related stress than previous generations.

Baby Boomers also tend to do a better job of staying debt-free, while Millennials show signs of doing better at saving for retirement, starting as early as 24 years old. These two generations also contribute the most to their 401k: 10% each. Unfortunately, no matter how financially educated Millennials become, they can't change the economic realities determined by when they were born.

For example, a college education comes with a high price tag. Millennials often feel they have no other option than to apply for student loans, although they often fail to consider the many ways to minimize these debts. They also tend to experience more layoffs, more pay cuts, and fewer promotions than other generations, perhaps as a result of their age and relative inexperience compared to older generations in the workplace.

In the end, Millennials feel they will need a different response to their financial challenges than what their parents used.

Still, Millennials need more financial literacy if they want to find a way out of their current financial challenges. Based on recent studies from the National Endowment for Financial Education, only 7% of Millennials show high levels of financial literacy, while less than 25% have had some sort of financial education.

What the Future Holds

Gen-Zers clearly have taken notice of the financial struggles Millennials endure. Many fear what the future holds, especially in terms of job opportunities and the relevance of their education. They stay away from the idea of debt. Those who decide to start using credit cards seem to have little knowledge of how credit reports and scores work.

Many Gen-Zers rely on their parents for financial information that might not offer as many benefits as they think. Fortunately, Gen-Zers have grown up with smartphones and computers and have no problem using such tools to handle their money or look for answers to personal finance questions.

In fact, 49% of them say they want to learn more about finances, and 46% believe their school should offer a course on personal finances. Additionally, both Gen-Zers and Millennials feel more aware of various asset classes such as cryptocurrency, ETFs, or stocks.

It should surprise no one if different and currently unknown classes of assets appear and become widely accepted by future generations. For this very reason, financial literacy and education will remain important, and it will become more digitized.

Financial education of the future will occur through webinars and videos and will depend much more strongly on technology than the seminars, classrooms, and lectures of their predecessors. Mobile banking and apps will disrupt the financial industry and help new generations to prepare for financial independence.

Summary

Financial education began as a way to ensure the family's survival. It made it from one generation to another in the form of advice and tips.

When the first banks appeared in the US, institutions realized the importance of attracting people to their services.

Throughout history, some people remained wealthy and knew how to manage their investments wisely, while others had to rely on the experiences of others.

The Silent Generation managed to pass on their idea of saving to Baby Boomers who, in turn, built massive amounts of consumer and government debts. Some may even see this as the cause behind the vast wealth gap between Millennials and Baby Boomers.

Today, many Millennials struggle, knowing they'll face difficulties in achieving financial freedom. Still, the future lies in Gen-Zers' hands. They've witnessed the mistakes of prior generations and now look for ways to manage their finances better.

Featured Online Resource

Raising a Financially Empowered Generation

Few American adults have escaped financial difficulties, many having learned critically important money lessons the hard way: through the school of hard knocks.

Debt Reduction Services offers multiple tools on our websites to support parents, mentors, and teachers in their efforts to raise the next generation with a greater financial understanding and capabilities.

We make these resources available to all at no cost whatsoever. Here's a sampling of what you'll find at moneyfit.org/raising-a-financially-empowered-generation:

Early Childhood

From recommended books to tools to systems for parents to implement, our page provides help to teach young children the importance of money in achieving their life goals and how to use it wisely.

Middle Childhood

As children in middle school begin to earn money at home and around the neighborhood doing chores and odd jobs for others, they need to develop habits for saving, delaying gratification, and comparison shopping. Parents need to provide solid support and positive examples at this age.

Teenagers and Young Adults

Debt Reduction Services offers multiple posts on our blogs, including steps to help them prepare to use debit cards wisely and how to know whether they are ready for credit cards.

Webinar Showcase

How to Budget for Summer Vacations

On Thursday, May 6, 2021, author and Debt Reduction Services education manager, Todd Christensen, led a live chat during the premiere of our 19-minute webinar, “Budgeting for Summer Vacations.” As part of our Money Fit LIVE webinars, this video reviews 9 vacation-related spending categories that vacationers need to pay attention to before setting out on the road after the nearly 18-months of COVID-19 quarantine. Whether your vacation involves driving, flying, or cruising, you will find practical ideas to consider and questions to answer.

Find this and other previously premiered Money Fit LIVE webinars at https://moneyfit.org/live-archive.

Client Connections

We’re Here for You

Getting out of debt, whether it takes five months or five years, is exciting. However, we recognize that all personal finance scenarios can create feelings of anxiety and questions you want answered. That’s why…

We’re Here for You

We invite you to reach out to our Client Experience (CX) team with your questions and concerns. We would rather help you resolve a difficult question or situation now than let it grow to an unfixable issue later. Take advantage of one or more of the many ways you can reach our skilled and helpful CX team members:

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