Securing Long Term Financial Wellbeing

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Presentation Outline

• Global Financial Crisis and Its Aftermath
• Financial Education and Financial Sustainability
• Complexity of Factors Influencing Financial Behavior
• Correlates of Financial Success & Failure
• Education, Regulations, Policies
• Where to Now?
• But What Can I Do?
• Best Practices and Value Clarification
• Useful Resources

Global Financial Crisis

• Many players:
  • Corporate/financial system, market professionals (new and innovative financial products and services, fees & costs),
  • Investors (uninformed, ignorant),
  • Regulations (disclosures & transparency),
  • Policy makers, rating agencies, SEC
• Effects of financial stressors-long and short term
  • financial systems, individuals, investors, students, families and communities, unemployment,
• Challenges and potential remedies

Financial Education, Literacy, Capability

We want people to be able to:

• Discuss financial choices and money issues without discomfort
• Plan for a financially sustainable future
• Respond competently to life events that effect finances
• Understand and address events in the economy that effect personal financial situations

Financial Sustainability …

Is achieved when personal and financial resources are managed in a manner that:

\[ \text{ensures sufficient funds to meet personal financial obligations and resources over the life cycle and through changes in financial conditions} \]

Being Financially Literate is a Life Long Process

• Families are an important source of financial education, values, beliefs and attitudes underlying financial behaviors
• Experiences and opportunities to learn through observation and role models are influenced by religion, ethnicity and culture learned from the family
• Financial skills and behaviors vary widely between individuals and households
• Research shows that formal education plays a significant role in financial knowledge, which in turn affects financial behavior
Those Who Know Better Act Better

Complexity of Financial Behavior

- **External/macro factors**
  - markets (inflation, interest rates), social mood, moral hazard, business (products, services, practices)
  - government policies/regulations, peers, schools
- **Internal/micro factors**
  - individual (personality, psychology, cognition, emotions)
  - family (parents, ethnicity, culture, social environment)
  - community (ethnicity, religion)

Family Resource Management Model

Values Influence our Financial Behavior

- Inner Values
- Social Values
- Financial Values
- Physical Values

All this is unrelated to how much money we make or have, or what we know about money.

Correlates of Financial Success

- Personality
- Practices
- Family
- External Environment

Those Experiencing Financial Failures

- Procrastinate
- Have need for instant gratification (living only for today)
- Lack a sense of responsibility
- Feel out of control
- Have low self-esteem
- Lack healthy role models
- Are involved in unhealthy relationships
- Have experienced other failures (school, work, relationships, health)
- Exhibit compulsive & excessive behaviors
We Need Education, Regulations & Policies

- Policies to protect long term financial security of American households
- Regulations to assure quality, protection against poor business practices, and those regulations to be applied diligently
- Financial education to prepare every American to secure his/her financial security, both now and in the future

Financial Education Benefits Us All

House Hold Financial Wellbeing: money management, spending, borrowing, saving, investing

Financial Service Providers: better informed & low risk customers, increase in use of products & services, customer loyalty

Employers: increase awareness and appreciation of employer benefits, 401-k contributions, employee productivity and loyalty

Where to Now

- Involve family to bring about change in behavior – recognition of the critical role family plays in shaping and molding a person
- Focusing on children – the importance of childhood experiences on later age behaviors
- Partnership and collaboration – within and across field
- Specialization to integration – recognition of commonalities among various behaviors – eating, spending, exercising
- Build connections between health & wealth (sorting out the role of education, environment, personality on behavior)

Yes But!!
What can I do?

Get Involved in Money Matters

- At a personal level:
  - yourself, children & grandchildren
- At your work place:
  - know your benefits and manage them well
- At the community level:
  - with friends, schools, social service agencies
- Share with others:
  - your knowledge and expertise & your money
- Talk about money with people in your life and with those you do business

Follow Best Practices

- Track your expenses and know how much you spend on various items
- Develop a spending plan to live within your means
- Start building an emergency fund
- Start saving regularly to meet your needs, goals
- Develop and keep current your cash flow and net worth statements
- Pay your bills on time
- Pay credit card bills in full
- Understand the basic principles of investing and make safe investments
- Understand basic principles of risk management and take steps to protect themselves from various risks
- Estimate financial needs during retirement and develop a saving plan to meet those needs
- Show positive trend in household cash flow and net worth
- Feel satisfied, empowered and in control of your finances
Resources

- An Exploratory Study for a Model of Personal Financial Management Style - Gross, Crandall and Knoll, 1981
- From financial literacy to financial capability among youth - Johnson & Sherraden, 2007
- Family Resource Management model - Deacon and Firebaugh's, 1988
- Kiplinger's Personal Finance
- McGregor Consulting Group
  http://www.consultmcgregor.com/
- Pearl Projects
  http://www.perlprojects.org/
- www.aflatoun.org/
- http://moneyasyougrow.org/
- www.nefe.org/
- www.smartaboutmoney.org
- www.myMoney.gov

Questions – Discussion