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Significant Impact And Value Orientation On Importance Of Financial Education And Financial Literacy In Present Context

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Abstract:
The effect of personal finance education on financial knowledge, attitudes, and behavior is a hot topic of discussion, especially in light of more recent research. Financial literacy is low in developed nations, which contributes to the widening wealth gap. Better debt management and more efficient retirement savings are two advantages of raising financial literacy. However, acquiring financial literacy comes at a significant time and financial cost, suggesting that the population's perception of the value of doing so varies. This may make it challenging to plan effective interventions. People have, of course, always been in charge of managing their own finances on a day-to-day basis — deciding how much to set aside for a child's education or to give them a good start in life; how much to spend on a vacation or save for new furniture — but recent developments have made financial education and awareness increasingly crucial for financial well-being. The present research paper highlights the importance of financial education and literacy in present context.
Keywords: Financial education and financial literacy, debt management, efficient retirement savings

Introduction:

Not just for investors, financial education is becoming more and more crucial. For the typical family trying to decide how to balance their budget, buy a home, pay for their children's education, and guarantee an income when the parents retire, it is becoming increasingly important. One example is that consumers now have a wider range of options for borrowing and saving thanks to the increasingly sophisticated financial markets, rather than just selecting between interest rates on two different bank loans or savings plans. At the same time, workers are increasingly taking on more of the risk and responsibility for financial decisions that will have a significant impact on their future, such as pensions, and moving away from employers and the government. The pension issue is especially crucial because as life expectancy rises, people will be able to enjoy retirement for longer periods of time. If a person lacks financial literacy, they will not be able to make the best savings or investment decisions for themselves and may be vulnerable to fraud. However, if people do acquire financial literacy, they will be more likely to save money and to push financial service providers to create products that actually meet their needs. This should have a positive impact on investment levels as well as economic growth. More and more, people are being asked to assume sole accountability and risk for complex saving tasks that were previously at least shared with governments or employers, such as investing for a pension or their children's higher education. But in an ever-more complex financial market, how can individual employees or parents be expected to weigh the risks and make ethical decisions? Even in nations where consumers are generally familiar with financial products like credit cards, mortgage loans, and possibly private savings to "top up" company pension plans, this is still true. It is especially challenging in developing nations where a sizable population of consumers, many of whom have little or no experience with formal financial systems, now have access to financial services due to rapid economic growth. Consumers who are financially literate can ensure that the financial sector effectively contributes to real economic growth and the reduction of poverty in emerging economies. But in more developed economies, financial literacy is also essential to ensure that people save enough money for a comfortable retirement while avoiding excessive debt that could lead to bankruptcies and foreclosures. The information on consumer financial literacy is concerning for two reasons: first, most people do not have the necessary financial background or understanding to successfully navigate the complex market of today; second, most people mistakenly

believe that they are much more financially literate than they actually are. Everyone should be knowledgeable about financial literacy in order to survive the complex financial world because it is just as crucial a skill as reading, writing, and math. However, research indicates that the United States has low financial literacy levels, particularly for those with lower incomes and educational levels (Lusardi & Mitchell, 2014). According to Lusardi, Mitchell, and Curto (2012), college students had greater financial literacy than students in high school. Additionally, Monticone (2010) discovered that those with higher incomes were more likely to learn about finances on their own, whereas those with lower incomes either found it too expensive or lacked the same incentives. Therefore, it is particularly crucial to estimate the effects of financial education on groups that research suggests have low levels of financial literacy in order to reduce long-term financial problems. Lack of financial literacy can lead to issues such as difficulty managing personal debt and student loans, low savings rates (Bernheim, Garrett, & Maki, 2001), and poor credit card usage habits that have long-lasting negative effects (Council for Economic Education, 2016; Lusardi & Mitchell, 2014) (Borden, Lee, Serido, & Collins, 2008). According to Lusardi and Mitchell (2014), if people were more financially literate, financial issues could be avoided. Numerous education programs have been developed to improve financial literacy as a result of the pervasiveness of personal finance issues and the value placed on it. Few studies for younger children were conducted before 2004, but many programs were developed between 2004 and 2008 (the study's focus period), according to McCormick's 2009 review. According to this study, adult and community-based financial education was still relatively new, and there was little information available. Financial education has been given even more attention since 2008 at all levels. For instance, personal finance standards, courses, or exams are included in many high schools across the country (Council for Economic Education, 2016); colleges provide credit management seminars for students; and businesses provide workshops for staff (Clark, Morrill, & Allen, 2012; Kim, 2016). The effects of financial education on financial literacy have been examined in earlier studies. Financial education, according to a recent study by Xiao and O'Neill (2016), improved several different financial literacy measures, including a subjective measure, an objective measure, financial behaviors, perceived financial literacy, and an index measure. The focus of this study is on how financial education is related to financial literacy for those with lower levels of education and income, which is the main distinction between it and previous studies. This study adds to the body of knowledge by estimating how financial education provided in high school, college, through an employer, or any combination of the three, affects a person's financial literacy score. It focuses on individuals with lower levels of education and income. The dependent variable in this study is a person's financial literacy score, while the independent variables are their demographics and level of financial education. The key findings point to a positive correlation between financial literacy scores and education in this area. The findings also demonstrate that those with lower incomes and education levels are more impacted by financial education. It seems that some proponents of financial literacy have a steadfast belief that having financial literacy education in schools is advantageous and that having higher literacy levels results in better economic decision-making (Hastings et al., 2013). Numerous studies use financial knowledge as a measure of financial literacy in the vast body of literature that examines this topic. A thorough review of the literature by Huston (2010) revealed that 47% of the studies used the terms "financial literacy" and "financial knowledge" interchangeably. However, financial literacy goes beyond knowledge; it also involves understanding and applying knowledge in all facets of life (Huston, 2010). Other elements like self-control and cognitive bias family interaction Institutions, the community, and peers have an impact on people's financial wellbeing (Huston, 2010). The degree of financial literacy of a person is a crucial determinant of that person's capacity to make financial decisions. Financial literacy is defined by the Organisation for Economic Co-operation and Development (OECD) as having the knowledge and understanding of financial concepts and risks as well as the skills, drive, and confidence to put that knowledge and

understanding to use in order to make wise decisions in a variety of financial situations, enhance one's own and society's financial well-being, and be able to participate in the economy. Financial literacy thus encompasses both financial knowledge and behavior.

Literature Review:

Prior studies have shown that many people lack what are considered to be "basic" personal finance knowledge and skills, which puts them at risk for future financial decisions and outcomes (Campbell, 2006; Lusardi et al., 2010; Lusardi & Tufano, 2015). Knowledge of risky assets (such as the distinction between stocks and bonds), time value of money concepts, and consumer loans are among the fundamentals of personal finance (Huston, 2010; Lusardi et al., 2010; Van Rooij et al., 2011). Our society as a whole is lacking in financial literacy. Campbell (2006), for instance, emphasized that many households routinely make bad financial decisions. He offered proof that there is little stock market participation among American households. Due to households' preference for investing in employer stocks and local or well-known companies, many individual portfolios are under-diversified. Many people sell assets that have increased in value while holding onto assets that have decreased in value, even when future returns are still expected to be the same, and fail to refinance a fixed-rate mortgage when mortgage rates have dropped. Other notable blunders in household finances can be found at all planning levels. For instance, buying whole life insurance rather than a more cost-effective combination of term life insurance (Anagol et al., 2017). According to Gross and Souleles (2002), many people have high-interest credit card debt while also maintaining a balance in a low-interest checking account. According to Amromin et al. (2007), many households prefer to pay off their mortgages more quickly than to make matching contributions to tax-deferred savings accounts. Employees who were over age 5912 and qualified for an employer match with immediate vesting and penalty-free withdrawals were studied by Choi et al. (2011). In order to receive the full employer match, 36% of these employees either did not participate in the program or made contributions that were insufficient. As a result, they missed out on free money. Henager and Cude (2016) did discover a favorable correlation between financial literacy and having a retirement plan, though, in more recent research. It is therefore of great interest to learn how financial education can lessen common financial errors. Given that it is unlikely that the typical high school student will have access to credit, a retirement plan, or resources to invest in the financial markets, the question of whether financial education should be taught in high school is still up for debate. Numerous studies have examined how high school financial education affects students' behavior. According to Danes et al. (1999), a high school financial planning curriculum improves students' financial knowledge, behavior, and self-efficacy both right away and for a few months after they complete it. In states where consumer financial education is required for high school students, Bernheim et al. (2001) discovered that these students were more likely to save and have a higher net worth as adults. Similar findings were made by Tennyson and Nguyen (2001), who found that high school students in states with specific requirements for financial education coursework performed noticeably better on a personal finance test than students in states with either a general mandate or no mandate. In their 2010 study of the effects of high school financial education programs on students' understanding of personal finance, Walstad et al. discovered that regardless of the course in which the curriculum was taught, students' test scores rose. The use of credit cards was examined by Brown et al. (2014) in three states that mandate high school students take a course in personal finance. They discovered that compared to students in the control states, students enrolled in school after the requirement for financial education had better credit ratings and lower relative delinquency rates. Financial education increases stock market participation and lowers the likelihood of unfavorable debt-related outcomes, according to research by Cole et al. (2012). In their 2015 investigation of the link between stock market participation and financial literacy, Almenberg and Dreber discovered gender differences. With varying degrees of success, several studies have looked at the relationship between the financial education provided in college and subsequent behavior.

For instance, Robb and Sharpe (2009) found no significant difference between students who passed a personal finance course and students who did not take a personal finance course with regard to revolving credit card debt. They emphasized that graduates of the personal finance course were probably going to have higher balances. A more encouraging finding was made by Peng et al. (2007), who discovered that graduates from a significant Midwestern university who took a personal finance course showed improved investment knowledge. According to Goetz et al. (2011), college students who had taken a personal finance course were more receptive to learning about personal finance in other educational settings. According to Lyons' (2004) research, college students who took financial education courses had a lower propensity to use credit in risky ways. More recently, Britt et al. (2015) found an increase in financial knowledge among college students but no change in financial behavior after examining the results of peer-based financial counseling. The impact of financial education on behavior is influenced by psychological characteristics, according to Fernandes et al. (2014), which lessens the overall impact of financial education on behavior. We also contend that if financial education is put into practice quickly, the effect on behavior will be more pronounced. Focusing on millennials, Kim et al. (2019) note the potential bias suggested by Fernandes et al. while also finding a positive relationship between financial education and subsequent long-term financial decision-making (Fernandes and others (2014). Financial well-being is a result of financial education, according to Xiao and Porto (2017). Researchers are also interested in the impact of workplace financial education on financial behavior. According to Kim et al. (2005), attending workshops on financial literacy was associated favorably with both employees' and their spouses' contributions to retirement savings plans. According to Joo and Grable's research from 2005, people who had access to financial education in the workplace were more likely to participate in a retirement savings program, which had a positive impact on retirement confidence. The relationship between financial literacy and the effectiveness of retirement savings plans was investigated by Clark et al. in 2017. They discovered that employees with greater financial knowledge had annual risk-adjusted expected returns that were, on average, 130 basis points higher than those with less financial knowledge. Wagner (2019), who concentrated on people with lower incomes and less education, looked into the effects of financial education through a variety of channels, including high school, college, and the workplace, in order to determine how it affected someone's financial literacy score. The researcher discovered that people who had any kind of financial education were more likely to have higher financial literacy scores than people who had none. Numerous authors have also looked into receiving financial education at home. One of the first researchers to suggest that financial knowledge transfer frequently occurs in the home (parent to child) as opposed to only coming from sources outside the home was Clarke et al. (2005). According to Shim et al. (2010, 2015) young adults' current financial learning experience, attitude, and behavior were significantly influenced by the financial education their parents gave them when they were adolescents. Financial socialization, which takes into account the combined experience of home, school, and work experience on adolescent money management, has produced conflicting results, according to Grohmann et al. (2015). However, we discovered that two major informational sources families and schools have a significant and positive impact on financial literacy. According to Tang et al. (2015), parental influence was positively correlated with prudent financial behavior. They also looked at how gender influenced behavior, finding that women's financial behavior was improved more than men's by parental influence and financial literacy. Tang (2017) found that the development of general self-control skills has an impact on children's financial behavior both directly and indirectly. LeBaron et al (2020) .'s study of the transmission of financial knowledge from parents to children during childhood discovered that these people later on in life as adults displayed a greater level of sound financial behaviors. These findings continue worldwide, demonstrating the critical importance of parental influence on children's financial education and knowledge. Using the Financial Literacy Assessment from the Programme for International

Student Assessment (PISA) of the Organization for Economic Co-operation and Development (OECD), Chambers et al. (2019) discovered that among high school students, a mother's presence in the home had a greater impact on the household's financial literacy. There are some restrictions when it comes to studying financial education. In their 2014 article, Fernandes et al. discussed the problems with earlier studies on personal finance education. The researchers claimed that "measured" interventions, such as financial knowledge surveys, have a greater impact on financial outcomes than "manipulated" interventions, such as education. They made the point that psychological and behavioral traits, such as self-control and time preference/delayed gratification, are examples of omitted variables that lessen the impact of education-related interventions. Furthermore, Meier and Sprenger's findings from 2007 indicated that time preference has a significant impact on people's behavior, citing the fact that respondents with lower time preferences self-select into financial education programs. Although it is difficult to fully isolate the effects of education on financial behavior, this research study aims to expand the conversation about financial capability and advance the idea of effectively timing educational strategies. Numerous studies have emphasized the value of timing, or teaching about money at "teachable moments," but none have looked into the special and cumulative effects of learning about money in high school, college, the workplace, and at home.

How financially literate are we?

The majority of nations, including developed nations, have low levels of financial literacy, according to research done for the OECD's study on financial education. While surveys in the US and Korea revealed that high school students failed a test meant to assess students' ability to choose and manage a credit card or save for retirement, 71% of adults in Japan did not know anything about investing in stocks and bonds. Perhaps more concerning, consumers frequently exaggerate their knowledge. In an Australian study, 67% of participants claimed to understand the idea of compound interest, but only 28% were able to use the idea to solve a problem. Governments must convince their citizens that financial education is necessary before they can even begin to implement it. The evidence suggests that highly educated consumers with high incomes can be just as uninformed about financial matters as less educated, lower income consumers. Financial literacy levels typically vary according to education and income levels. Countries are already offering a range of financial education programs, from Web sites and pamphlets or brochures to training sessions and media campaigns, as they are becoming more and more aware of the value of financial education. They address topics like credit, insurance, investing, and saving for retirement. But getting people interested in financial education is not always simple. Choosing the best investment for a retirement savings plan, according to survey respondents in Canada, is more stressful than going to the dentist. It is difficult and expensive for governments to find ways to assess whether financial education has succeeded in changing consumer behavior or increasing consumer awareness, so not all programs have been evaluated. However, programs have been shown to be successful when put through evaluation. When employers provide financial education programs, whether in the form of brochures or seminars, workers' participation in 401(k) retirement savings plans funded by employee and employer contributions rises, according to research from the United States. Mortgage counseling has been found to be effective in lowering the risk of mortgage default before borrowers accept their loan. Consumers who participate in one-on-one financial counseling sessions have lower debt and fewer delinquencies. Financial education is crucial, but it is only one pillar of a sound financial strategy that will increase access to financial services and financial literacy. The consumer protection and financial institution regulation that are essential components of sound financial policy can never be replaced by financial education. Increasing access to financial markets and services should go hand in hand with improving financial education. Many emerging economies struggle with access to financial services, as do important groups in OECD nations like minorities or low-income consumers without bank accounts.

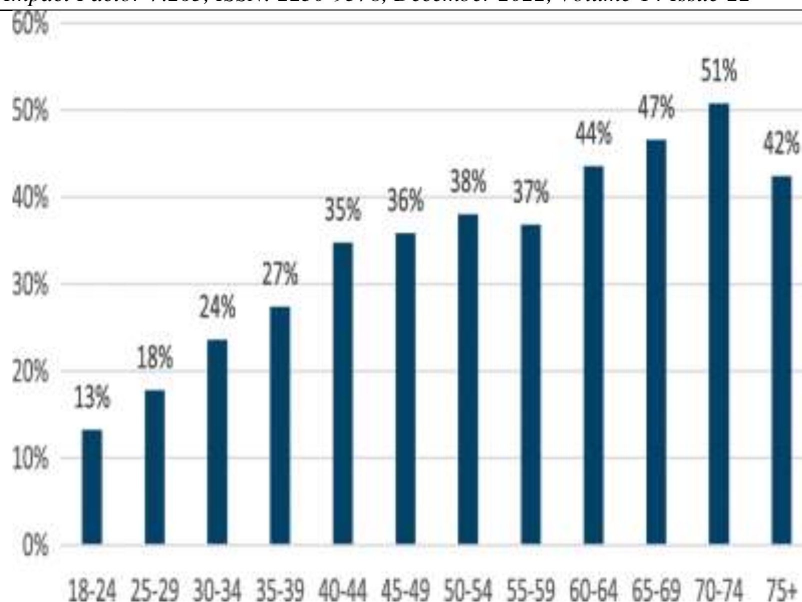
What more should be done?

Although the recommendations of the OECD are a start, governments are clearly aware of

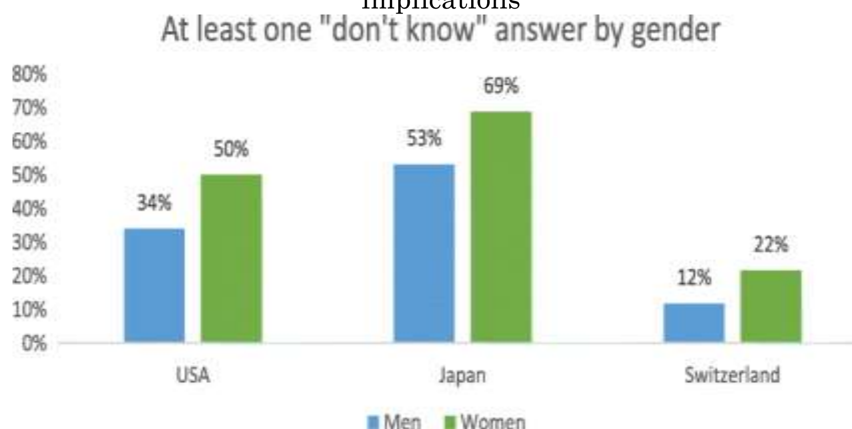
the need to increase financial literacy. Convincing consumers that they require financial education and providing them with access to it are important future factors. Better financial education in schools is also crucial. If today's graduates are to successfully manage their personal finances throughout their lives, they will need to be much more financially literate than even their parents were. It is necessary to further define and promote the role that financial institutions play in providing financial education to both their own staff and clients. At both the international and national levels, more knowledge is required regarding good policies, procedures, and strategies for fostering access to financial services. Sharing knowledge about positive experiences can be beneficial for everyone. Governments must learn more about what consumers need in terms of financial education at different stages of their lives if they hope to win them over. Governments must learn how to draw in the attention of people who are preoccupied with their jobs and families. The method of delivering this education is also crucial. Governments must devote time and resources to evaluating financial education programs because it is clear that more work needs to be done to develop ways to gauge their success. Particularly in the areas of insurance and retirement savings, the OECD is intensifying its work on financial education. The importance of financial education in raising consumers' awareness and comprehension of insurance issues, including the advantages of insurance coverage, will be more thoroughly examined. It will also emphasize the function of financial literacy in defined benefit and defined contribution pension plans, as well as the creation of suitable guidelines for financial literacy for retirement savings.

Does financial literacy matter?

Financial instruments like payday loans, pawn shops, and rent-to-own stores that have extremely high interest rates are among the alternative financial services that have grown in importance. In addition, people's responsibility for personal financial planning, as well as for saving, investing, and spending money over the course of their lifetime, is growing as a result of the shifting economic landscape. Not only the asset side of household balance sheets, but also the liability side, has undergone changes. For instance, many Americans nearing retirement carry significantly more debt than did earlier generations (Lusardi, Mitchell, and Oggero, 2018). Overall, people are living longer, making a lot more financial decisions throughout their lifetimes, and having access to a wide range of new financial products. These patterns, along with the widespread lack of financial literacy, particularly among vulnerable population groups, suggest that policymakers should make improving financial literacy a top priority. The influence of financial literacy on people's decisions and financial behavior is amply supported by the available data. For instance, it has been demonstrated that financial literacy has an impact on borrowing and debt management as well as behavior related to saving and investing. Empirically, those who are financially literate are more likely to amass wealth (Lusardi and Mitchell, 2014). There are a number of reasons why greater financial literacy leads to greater wealth. Numerous studies have shown that people with higher financial literacy are more likely to make retirement plans. This is probably because they are more likely to understand the value of compound interest and have better math skills. The Flat World project found that in Germany, the USA, Japan, and Sweden, correctly answering one more financial question is associated with a 3–4 percentage point higher likelihood of planning for retirement. The Netherlands is where financial literacy is found to have the biggest an impact; there, knowing the correct response to one more financial literacy question is linked to a 10% higher likelihood of planning (Mitchell and Lusardi, 2015). Empirically, planning is a very strong predictor of wealth; those who plan have two to three times as much wealth as those who do not plan when they are close to retirement (Lusardi and Mitchell, 2011b).



Above image showing Financial Literacy and the need for financial education: evidence and implications



Above image showing financial literacy and the need for financial education: evidence and implications

Delegation and nudges:

People being encouraged to delegate their financial decisions to other agents is one solution suggested to address the problem of widespread financial illiteracy. Governments, for example, have frequently "intermediated" population saving decisions in the past in a variety of contexts, such as by mandating public pensions. Mandatory occupational or company-based pensions, where employees must work for a company their entire career in order to receive the retirement pension benefit, are still in place in many nations. The fact that workers with shorter life expectancies, such as farmers or coal miners, receive lower returns on their contributions than, say, lawyers or university professors, is a drawback of mandatory participation in defined benefit plans. The ability of governments and employers to continue using the intermediated saving model has recently decreased due to changes in the labor and financial markets. Workers today have very different personal circumstances than those of previous generations, and labor market mobility is on the rise. As a result, determining how much money to set aside for retirement is difficult, and creating customized savings plans is necessary for success. When workers are well-equipped to make wise decisions, taking charge of their own savings can improve welfare. However, those who are truly unwilling to make their own decisions can still delegate saving and investment decisions to financial advisors. Delegation, however, cannot completely replace financial literacy because of potential conflicts of interest between the advisor and the employee. A 2012 study provides a sobering example, demonstrating how financial advisors encouraged their clients' prejudices and promoted managed funds with higher fees, leading to worse outcomes for the clients. Other authors have suggested that

"nudge" interventions, also known as "behavioral framing," can aid in overcoming financial illiteracy. These interventions have been shown to be successful in addressing well-known issues like procrastination and present bias, which is the tendency to overstate the present and underestimate the future (i.e. delaying important decisions). For instance, enrolling employees automatically in a retirement savings plan significantly increases savings, and while employees are free to opt out if they so choose, evidence suggests that few do. The Canadian province of Quebec recently implemented a savings program that mandated employers without pension plans to provide a voluntary savings program that automatically enrolled savers in Registered Retirement Savings Plans (RRSPs), which are similar to US 401(k) plans. Since many people are passive savers, a program like this is likely to increase participant savings, but it is still unclear whether this will improve overall welfare. This uncertainty arises from the fact that increasing savings may not be the best course of action for all people, and that different workers' best investment portfolios may differ. Additionally, because contributions are typically set at a low rate, typically around 3%, saving may not be sufficient or high enough to ensure a secure retirement.

Effectiveness of financial education:

Education and experience are the two ways that skills are learned, but many (though not all) educational programs have been shown to be successful at imparting new skills. The question of whether financial education is effective at boosting financial literacy for those who have too little of it is similar to that of whether it is useful or effective. To properly respond to this query, one must carefully consider the targeting, evaluation, and design of such programs. Establishing causality is essential in any policy question. Giving employees financial education may not make much of a difference if experience such as learning-by-doing drives improvements in financial literacy. Instead, one might suggest that employees purchase stocks so they can eventually become familiar with compound interest and diversification. But given that so many people, including many with investment experience, are unable to respond to the Big Three questions, this strategy is implausible. On the other hand, when financial literacy improves financial outcomes, the recommended course of action is to offer affordable financial education. The most recent literature offers more convincing evidence in favor of financial literacy training, whereas some reviews offered conflicting evidence of program effectiveness.

Conclusion:

A substantial body of research from the past 20 years has revealed that many countries have relatively low levels of financial literacy and that this level is correlated with better financial outcomes. The spread of wealth inequality is also largely influenced by financial literacy, and recent research on the impact of financial education indicates that it has beneficial effects. The population's need for financial education varies because there are various advantages and disadvantages to learning new things. Therefore, policymakers should consider the costs and benefits for various socioeconomic groups before aiming for universally high levels of financial literacy. They shouldn't regard behavioral interventions like defaults as pure replacements for financial literacy either. These interventions may be effective at addressing behavioral biases, but they can only be relied upon to produce results that will improve welfare in a society where workers are financially literate. The creation of targeted education programs should be encouraged, and policymakers should pay close attention to how well these programs are evaluated using cutting-edge techniques like randomized controlled trials. A new set of challenges, characterized in particular by increased financial responsibility, are presented to workers as a result of significant changes in the labor and financial markets. In order to address these issues, policymakers should pay close attention to people's capacity for complex financial decision-making and facilitate easy access to educational opportunities.

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