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Teaching Social Work Students Financial Literacy to Improve their Financial Decision Making

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Introduction

The purpose of this paper is to facilitate awareness of the need to increase the financial literacy of social work students in the United States. Financial literacy and financial education are often used interchangeably, but such a practice may cause confusion and ultimately obscure efforts to enhance financial literacy and knowledge. Financial knowledge is an acquisition of information on the nuances of finances, but acquiring information alone will not lead to financial literacy. Financial literacy is “the ability to understand essential financial concepts in making informed decisions about saving, investing and borrowing” (“HowMuch,” n.d., para.1). Social workers must know about financial literacy. “Financial literacy is not the only key to the nation’s economic health, but also an important tool in the fight against inequality and poverty” (Moodie, 2015, para. 4). According to Klapper, Lusardi, and van Oudheusden (n.d.) “without an understanding of basic financial concepts, people are not well equipped to make decisions related to financial management.” The National Association of Social Workers (2017) Code of Ethics mandates social workers “enhance the human well-being and help meet the basic human needs of all people; however, social work students receive little or no practical training in helping families manage household finances or provide insight regarding client system financial matters (Wolfsohn & Michaelli, 2014, para. 29). Practical financial literacy is achieved not only through the necessary acquisition of financial information, but also a sufficient degree of preparation to the point of being able to make practical and appropriate applications to real-life financial scenarios. “Social workers need to become educated about mainstream financial institutions and alternative finance providers to be able to serve as a conduit for their clients in this regard” (Wolfsohn & Michaelli, 2014, para.30).This paper introduces a model to improve financial literacy in the field of social work by developing an interdisciplinary educational approach. The model is as follows: 1) Synthesize information from studies on financial literacy of college students in the United States; 2) Identify gaps in the literature on financial literacy in college students; 3) Discuss the impact of the lack of financial literacy in college students; 4) Present a proposed multi-dimensional model for financial literacy among college students; and 5) Identify subsequent implications for social work practice and research.

Definition of Financial Literacy

Financial literacy is defined as ‘the ability to use financial knowledge and skills to effectively manage financial resources for a lifetime of financial well-being’ (U.S. Government Accountability Office, 2009, p.4). Financial literacy can also be defined as “the ability to understand essential financial concepts in making informed decisions about saving, investing and borrowing” (“HowMuch,” n.d., para.1). Advanced levels of such literacy will comprise knowledge of insurance products; principles of real estate transactions; preparing for retirement; tax planning; making informed financial choices, and knowing where to get help. Financial literacy includes skills to create a budget; ability to monitor and control spending; debt management; and planning for retirement. Lack of financial literacy is linked to poor financial choices; financial bankruptcy; inability to receive bank loans; inability to obtain housing; and problems related to securing and retaining employment Norvilistis et al., 2006). Social work students must learn to help various client’s systems in managing financial stress and move towards financial wellness.

Overview of Financial Literacy

From 2007 to 2009, the United States entered into a recession which highlighted the most significant decline in employment since the Great Depression. Milan & Sufi (2014) noted the employment to population ratio dropped from 63% in 2007 to 58% in 2009, a loss of 8.6 million jobs (p.1). Due to the over-leveraging of homeowners and the decrease in the U.S. housing market, the financial crisis began in 2007, which resulted in the housing net worth channel. The event focused on a decline in employment because the housing market dropped. The financial crisis of 2007 and 2008 exposed the lack of financial understanding and the suboptimal financial decision-making of millions of Americans. Scholarly research completed during those years indicates that financial illiteracy was widespread throughout the American population (Lusardi & Mitchell 2007; Perry 2008). In recent years, however, the newest concerns are the looming financial crisis among college students as a result of poor decision-making skills and the massive student loan debts they will incur during college and after graduation. It is a trend that many scholars believe will be the next financial crisis of the magnitude of the 2008 financial meltdown that was precipitated by subprime loans by mortgage bankers and high-risk investments in derivatives and hedge funds. If this happens, it is highly unlikely that the federal government will offer any stimulus packages to college students, at least not like those offered to banks, financial institutions, and the automobile industries after 2008.

Impact on Students and Future Generations

According to Mimura, Koone, Plunkett, &, Pleskus (2015), College years are essential for young adults to develop financial capability because they are in transition from financial dependence to independence. Without sufficient understanding of the various realms and aspects of our society’s financial dynamics, millions of college graduates will default on loans that their incomes will not allow them to pay back. Consequently, many will be unable to secure employment in their chosen fields of endeavor and purchase or rent houses or apartments. In worst-case scenarios, many will become homeless, unable to have a family and be forced to rely on social welfare services to meet their basic needs, thereby adding even further to the already burgeoning caseloads of social welfare personnel.

University faculty members and administrators have failed to fully embrace the need for comprehensive financial literacy education in the college curriculum. Any such proactive approach should include the implementation of planning seminars or consideration of alternative options outside of the traditional classroom setting. Many college officials cite the already increasing tuition costs as a hindrance to the establishment of such programs and even express reluctance to accept financial literacy education as the responsibility of universities (Geddes & Steen, 2016). Sadly, it is a scenario that university administrators, financial institutions, and policymakers may not be willing to adequately address until the situation reaches a critical level (Geddes & Steen, 2016). The good news is that it is not too late to avert a financial crisis that could have tremendous negative ramifications for future generations.

Intervention Framework for Financial Literacy

This financial literacy program will be undergirded by a multi-systems framework that involves all stakeholders. The multi-systems framework model, as proposed, has proven effective in reducing juvenile detention, literacy skills in children in elementary schools, and institutional placement for children in the child welfare system (Carta et al. 2015). This approach involves collaboration between multiple stakeholders to establish an effective literacy program for college students. It is a four-stage model for improving financial literacy among college students via the direct involvement of the participants in the following manner. In the first phase, Higher education institutions will include an essential financial education component during the freshman orientation. Areas covered would include managing student loans, setting realistic financial goals, the basics of management credit, and establishing a realistic budget. In the second phase, Lending institutions will require each loan recipient to attend a mandatory financial literacy seminar as a precondition for receiving student aid assistance. The third phase would entail the family and students attending an information session, either through the school or local social work organizations, in which they are provided access to online support and financial literacy education. The final phase would involve a basic refresher course offered periodically through the school or local social work organizations to reinforce the knowledge acquired in the previous modules.

Implications for Social Work

Social work students need to be made aware as to how to access support resources as they relate to finances, sustainment of financial literacy, and an increase of financial knowledge. Higher education institutions must assume leadership by incorporating comprehensive financial planning education in the curricula. Lending institutions must be reminded as to how such an effort is ultimately in their best business interest. Families and students must be reminded of the consequences of failing to abide by the expectations associated with student loans and other financial obligations. Such coordinated efforts would require interdisciplinary collaboration between colleges and universities, lending institutions, and the families of the students as well as the students themselves. Social work students often talk about wanting to change the world. Global social work is vital to the well-being of individuals, families/couples, communities, and organizations around the world. Researchers found global social work practice should be a "progressive, comprehensive, and future-oriented term that encompasses social work and social, economic, and sustainable development at multiple levels: local, national, regional, international, multinational, and global" (Pawar & Weil, 2016, para. 1). These researchers also found "global practice needs to translate into local level social work and development practice and local level agendas, making a case for social work and sustainable social development leadership and practice at grassroots and national levels" (Pawar & Weil, 2016, para. 1). Social workers must think from an economic, financial, and entrepreneurial mindset in order to develop and implement a global social work agenda at multiple levels. At the highest level, financial literacy around the world appears most robust in countries with developed and advanced economies, especially Western Europe and English-speaking countries. There are no countries in South America where more than 50% of people are financially literate, and only one country in all of Africa" ("HowMuch," n.d., para 3.).

Global Financial Literacy is imperative to the field of social work. "Worldwide, only 1-in-3 adults are financially literate. Not only is financial illiteracy widespread, but there are big variations. Among countries and groups. For example, women, the poor, and lower educated respondents are more likely to suffer from gaps in financial knowledge" (Klapper, Lusardi, & van Oudheusden, n.d.). Schools of social work must address gaps in financial knowledge. "Financial literacy is not the only key to the nation's economic health, but also an important tool in the fight against inequality and poverty" (Moodie, 2015, para. 4). According to Klapper, Lusardi, and van Oudheusden (n.d.) "without an understanding of basic financial concepts, people are not well equipped to make decisions related to financial management." Not only are social work personnel favorably situated to assist with the achievement of such programmatic objectives, but it is in their best interest as well; college-loan defaults could directly impact social welfare personnel if such situations served to add to their already burgeoning caseloads. Local social workers are in a unique position to offer financial literacy liaison services between all concerned entities. Thus, it would seem logical and practical for social work organizations to be directly included in any such formula for success regarding the facilitation of financial literacy among college students.

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