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'Cradle to Grave' Financial Literacy Programs and Money Management

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Abstract

The objective of this paper is to develop an integrated conceptual model, termed as the "cradle to grave model" that forms the link between the roles of educational agents, socialisation agents and the media with financial literacy and its eventual impact on money management. The paper also proposes the moderating effects of money attitude between financial literacy and money management for future empirical research. The researchers deliberated on a rigorous literature to conceptualise the model. It is envisioned that the paper will assist individual citizens and the policy makers in understanding the use of educational institutions, society and media to intellectualize financial literacy in achieving money management. The proposed conceptual model by the researchers should not be generalized until further empirical testing. Auxiliary research is desired to empirically validate the concept through systematic investigations and devising of appropriate tools for quantification. The idea is original and makes the foundational contribution for an inaugural stream of financial literacy and money management research.

Keywords: educational agents, socialisation agent, role of media, financial literacy, attitude towards money, money management

1. Introduction

The Organization for Economic Cooperation and Development (OECD, 2005) defines "financial education" as:

"The process by which financial consumers/investors improve their understanding of financial products and concepts and, through information, instruction, and/or objective advice, develop the skills and confidence to become more aware of financial risks and opportunities to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being."

In line with that, it is critical to comprehend the dynamics of financial knowledge which may assist policymakers and all stakeholders to design effective interventions. Lack of financial literacy and money management can have severe consequences to the wealth optimization of an individual. In today's world, despite the overload and easy accessibility of information, most individuals seem to be financially illiterate and are under informed on the basic knowledge of finance. They are also confronted with complicated financial decisions as they are burdened by the exposure to huge student loans while in college, high mortgage payments for housing/car loans and credit card debts (as young adults), escalating cost of education for children (as parents) and an increasing inflation rate that depletes their savings. This may hinder their accumulation of wealth due to the inauspicious financial baggage at every stage of their life.

Thus, a comprehensive conceptual model is warranted in intellectualizing strategies towards effective money management for tomorrow's generation. The intention of this conceptual paper is to review some of the existing literature and derive a conceptual model by linking the roles of continues financial education, socialization agents and different sources of media on money management. It is important to be vigilant in concluding that financial literacy is the medicine for effective money management and wealth accumulation. This model proposes that financial literacy education be coined as a 'cradle to grave' concept, whereby individuals should be exposed to perpetual education on financial matters at every stage of their life; right from exposing kids on the importance of savings by their parents/guardians, money management and awareness of investment options while attending school, high school and university. Lastly, employers should also take initiatives to educate and engage employees on prudent savings and investments for retirement and strategies to ensure that there is preservation of capital. In other words, this paper advocates that financial illiteracy cannot be "healed" by a one-time assistance based on a distinct session on financial economics. It does not mean that financial education is ineffective, but rather that the cure is inadequate for the disease. This model also advocates that education alone many not be passable but an individual's perceived attitude towards money is equally important and thus it is imperative to furnish them with 'tools' to change their behaviours, instead of solely conveying financial education. In that context, a "one-size-fits-all" education program may not achieve the desired results but a more personalized approach may be preferred. Thus, education programs will be most effective if they are targeted to particular population subgroups, in order to address differences in saving needs and in preferences. So the crucial challenge is to better equip a wide range of households with the financial literacy 'toolbox' they require, so that they can better build retirement plans and execute them.

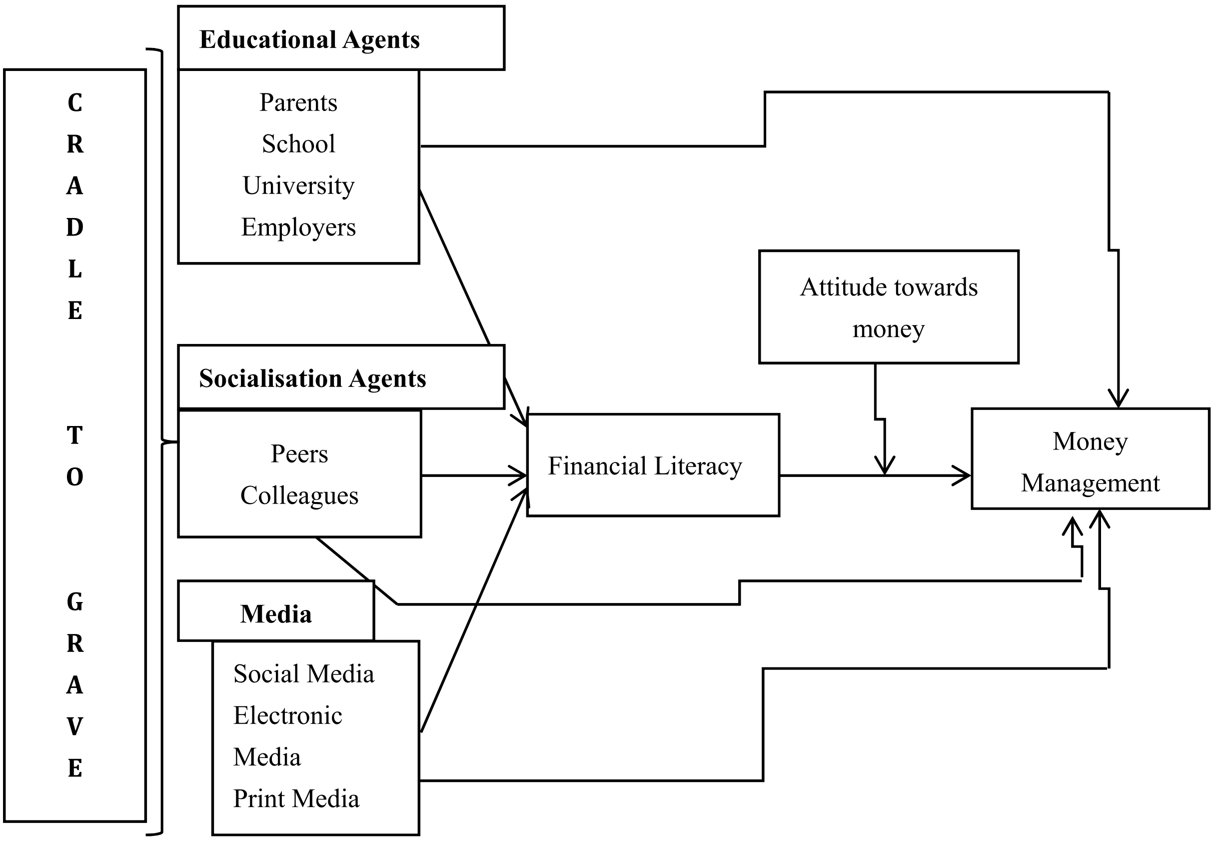
It has also been observed that most literatures look into antecedents of financial planning and retirement but failing to realise that money management plays a more crucial role in the financial planning puzzle. Similarly, it is often forgotten that human behaviour which are rooted and moulded by personal values and culture may also have an impact on financial literacy and money management. These are the knowledge gaps that the present conceptual paper intends to contribute to the existing literature. The end product to the conceptualization of this model is to enable government, regulatory bodies, institution of higher education, employers and parents to understand the holistic approach towards minimization or eradication of financial illiteracy, whilst augmenting effective money management and wealth accumulation.

3. Review of Existing Literature

Numerous scholarships have publicized the presence of a widespread absence of financial literacy and competence, both in OECD countries and emerging economies (Atkinson & Messy, 2012; Lusardi & Mitchell, 2011). This is perturbing due to the fact that a substantial amount of financial risk is being transmitted to households and this can be detrimental to their future well-being. Therefore, it is imperative at this juncture to advocate on the importance of financial education in school curricula, in order to better prepare young people for the challenges they will face as consumers. In reality, there are two means of increasing one's wealth; the first one is income earned as an employee or being self-employed and secondly, making the money earned work for you. This second method is called wealth optimisation. Wealth optimisation is a long-term process of astute management of one's moneys in order to achieve long-term financial goals, while at the same time trying to trouble shoot the financial barriers that inevitably arise in every stage of life. In most cases, wealth optimization comes predominantly in the form of carefully diversified investments, i.e., investment in properties, stocks, trust funds and insurance. Money management embraces budgeting, spending, saving and investing (Murdy & Rush, 1995) and the lack of it can be detrimental to the financial well-being of individuals (Knight & Knight, 2000). Literature documents that lack of effective money management is the main cause of escalating financial debts (Lea, Webley, & Walker, 1995; Lunt & Livingstone, 1992; Murdy & Rush, 1995; Ranyard & Craig, 1995; Walker, 1996). Enhanced budgeting by laying out a proper financial plan can improve money management and reduce the likelihood of financial debt (Lunt & Livingstone, 1991; Ranyard & Craig, 1995). As much as it is predicted that financial education on budgeting, savings and investments may contribute towards improved money management, Carsky et al. (1984) and Knight and Knight (2000) documented otherwise. Their research documented that educational awareness on financial literacy have not effectively improved money management. This is quite alarming because developing operational and suitable approaches to motivate budgeting behavior will circumvent the undesirable effects of financial debt which may be caused by a nonexistence of proper money management. This conceptual paper advocates that, in addition to financial education, presence of other factors such as educational agents (e.g., parents, school, university and employers), socialization agents (e.g., peers and colleagues) and media (e.g., social media, electronic media and print media) may play a critical role in effective financial literacy and preceding money management.

Moving forward, it is equally important to have adequate understanding on 'financial education' and what it entails. Financial education refers to the mastery of finance related knowledge and expertise essential to undertake daily transactions and wealth accumulation investments. As for young adults, formal education is said to play a key role in financial literacy (Bernheim, Garrett, & Maki, 2001; Arcoe, Martin, Devitto, & Go, 2005) and it is important to equip oneself with financial literacy at the early stage of their life as it creates a foundation for future financial behavior and well-being (Beverly & Burkhalter, 2005; Martin & Oliva, 2001). Almenberg and Widmark (2011) investigated the impact of financial literacy on financial resolutions and recommended that financial illiteracy could be incidentally improved by nurturing the level of numeracy. It will also assist in their other daily activities such as managing the allowances, maintaining a bank account, investing and saving (Kotlikoff & Bernheim, 2001; Johnson & Sherraden, 2007; Kotlikoff & Bernheim, 2001). It is widely documented that a positive connotation exist between financial literacy and all behaviours related to financial decision-making; Calvet, Campbell and Sodini (2005) conjectures that financially refined households have the tendency to be efficiently involved in high-risk investments. Similar findings were noted by Kimball and Shumway (2006) and Hilgerth, Hogarth and Beverly (2003). In addition to formal financial education, interaction of an individual with socialisation agents such as parents, friends, teachers and media play a role in money management and wealth optimisation. It has been widely documented that formal education and socialization agents such as friends, family, and media have an impact on financial literacy (Hilgert et al., 2003) In the current information era, media plays a pivotal role as an alternative socialization proxy for youth, (Lyons et al., 2006; Oibl & Hira, 2001). Since social media is being used widely for all marketing purposes, knowledge on literacy level and money management can also be advanced via this platform. Peers undeniably play a crucial role in determining an individual's financial conduct (Delfabbro & Thrupp, 2003; Moore & Bowman, 2006; Kretschmer & Pike, 2010; Masche, 2010). Nevertheless, above all, parents are acknowledged as one of the prime socialization agents for young adults (Clarke, Heaton, Israelsen, & Eggett, 2005; Rettig, 1985), credit approaches (Norvilitis et al., 2006), and financial facts collections (Lyons, Scherpf, & Roberts, 2006). An in-depth study by Shim et al. (2009) concurs that young adults are confident in their dealings with financial decisions if they had received proper guidance from parents in addition to receiving formal financial education and from other environments such as workplace etc. Webley and Nyhus (2013) analysed the role of economic socialization on the financial behaviour and asset build-up of young adults. Their results indicated a positive link between parental encouragement and the ability of individuals to governor expenses, saving inclinations, future direction, carefulness, and saving. Similar finding were recorded by Elliott et al. (2011) and Ashby et al. (2011). Thus socialization agents, particularly parents play a pivotal role in the money management of individuals. Parents who had exerted constructive financial behavior and were involved in unswerving coaching during youth were more intensely considered by their children as financial exemplars, thus undertaking actions conforming towards proper wealth management. To ensure a life-long learning process, financialization has been deliberated and associated with internal corporate strategies and management alignments (Gleadle & Haslam, 2010). This is to safeguard that financial literacy and money management acts as an uninterrupted platform to attain future financial well-being.

Though financial education, socialization agents and media play a key role in influencing an individual's financial literacy and money management skills, attitude of an individual towards money also plays an important role. It is universally accepted that money is a powerful tool and motivator that shapes a person's life. Money is accepted by certain individuals as a status symbol, whilst others consider money as power, ability to attract friends and relationship. It is also accepted as a symbol of achievement and success, freedom and security. Money attitudes play a pivotal role in attempts for an individual to improve on their financial literacy and well-being (Edwards, Allen, & Hayhoe, 2007) as different perceptions about money impacts the extent of financial knowledge and behaviors acquired by individuals (Norvilitis et al., 2006; Roberts & Jones, 2001). Money attitudes also influence the self-direction of individuals (Burgess, 2005) and act as stimulus to information search on financial matters (Edwards et al., 2007). As literature documents that attitude towards money moulds one's behaviour on financial matters, this paper conceptualizes that an individual's attitude towards money may alter the relationship between financial literacy and money management. As documented in most literature, socio-demographic factors such as difference amongst gender, race, income, education, occupation, age and marital status undeniably have great influence on the perception of money management (Anderson et al., 2000; Glass & Kilpatrick, 1998b; Gregoire, Kilty, & Richardson, 2002). With regard to gender, Lee (2003) conjectures that gender differences have an impact on financial well-being; men tend to plan for wealth accumulation for later age compared to women (Glass & Kilpatrick, 1998b; Perkins, 1995; Richardson, 1990). Age is also a factor affecting financial well-being as most individuals do not make retirement plans until much later stage of their life (Anderson et al., 2000) and the older age brackets are more potential in financial well-being (Turner, Bailey, & Scott, 1994). Most individuals demand for finance during their mid-life more to support children's education, ageing parents and their basic needs such as house, car etc (Turner, Bailey & Scott, 1994). Marital status too has an impact on financial planning (Gregoire et al., 2002); it is an advantage in old age especially for women. Research has also inaugurated that education; career and remuneration are interrelated to retirement planning (Anderson et al., 2000). A positive relationship is documented between household income and wealth maximization (Maser, 1995; Schellenberg, 1994). All the above mentioned facts indicate that demographic factors play a role in money management and wealth accumulation of an individual. The following conceptual model on figure 1 is depicted based on the above reviewed literature.



Conceptual Model

Figure 1. Conceptual framework on 'Cradle to Grave' financial literacy programs and money management

The following propositions are drawn based on the conceptual framework:

P1: Educational Agents play a significant role on financial literacy and money management.

P2: Educational Agents play a significant role on money management when financial literacy plays a mediating variable.

P3: Socialization Agents play a significant role on financial literacy and money management.

P4: Socialization Agents play a significant role on money management when financial literacy plays a mediating variable.

P5: Media play a significant role on financial literacy and money management.

P6: Media play a significant role on money management when financial literacy plays a mediating variable.

P7: An individual's attitude towards money plays a moderating role between financial literacy and money management.

3. Conclusion, Limitation and Future Research

This paper opens the floodgate to the awareness that financial literacy, money management and eventual wealth maximization is a 'cradle to grave' process, whereby individual's need to be educated and guided at every stage of their life-cycle. To further validate the model, the researchers agree that the proposed conceptual framework should be empirically tested through systematic investigation on the nature of the phenomenon and its results. This is imperative because previous research indicates that vast numbers of individuals, especially the young citizens are ignorant on the subject of money management, wealth optimization and retirement planning. Thus, it is advocated that acquiring a certain level of financial literacy is crucial in the quest for acquiring a holistic knowledge on future financial planning. Accordingly, to acquire the financial literacy, the roles of educational agents, socialisation agent and the media play an important role in every stage of their life-cycle. It is also important to be aware that an individual's attitude towards money can act as a moderator amidst financial literacy and money management. It is anticipated that these statements can essentially be generalized and be epitomised at its best, post empirical testing based on a well-represented sample size. Findings from this research may prove useful to the policy makers as well as individual citizens to understand the vast scope of financial literacy and money management; exploring the alternative contributing factors towards financial literacy, the importance of financial literacy on effective money management and lifelong financial literacy education through social media. Subsequently, all relevant stakeholders will be able to educate, guide and affirm an individual's endeavours in maximizing effective money management and wealth optimization. This will unquestionably deliver a durable impact on the overall economic prosperity of a nation. Proper literacy education will also minimize the potentials of creating huge financial mistakes in the early levels of one's lifetime, which may have major issues in their wealth accumulation and further contribute to the increase in house-hold debts and bankruptcy levels. Individuals who are exposed to prudent money management, properly diversified investments and minimisation of financial mistakes will definitely be able to accumulate wealth over the longer horizon and these desirable habits will be later transferred to their offspring. This empowerment of financial responsibility of the individuals will assist the government tremendously in terms of handling issues such as increasing household debts and social effects of bankruptcy among adults. This will eventually contribute towards a healthy and wealthy nation as government can then channel their resources into other macro issues associated to the economic well-being of the nation.

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