Provision of an European Platform for the Prevention of Over-indebtedness by the Increase Accessibility and the Improvement of effectiveness of Debt Advice for Citizens (PEPPI)

FINANCIAL EDUCATION

Beata Świecka

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european consumer debt network

Several views of financial education

Financial education	Description
Financial education as capital	Financial education is a non-physical capital, a good that allows you to eliminate poverty, reduce financial problems, prevent taking "bad" loans.
Financial education as a multi-tasking area	Financial education is a multi-tasking area that requires constant deepening and updating. It covers loans, savings, taxes, insurance, consumption, investments, pensions, and others.
Financial education as a set of activities	Financial education is a set of activities aimed at increasing financial knowledge, developing skills, and developing positive habits for rational and effective financial management, skillful use of financial products and tools.
Financial education as a process	Financial education is a process of increasing financial competence, which can be implemented at every stage of development. and can last a lifetime.
Financial education as protection/collateral	Financial education gives the knowledge which protects consumers in everyday life, and also for the future - pension.

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Goal and form of financial education

Debt advisors can mainly participate in non-formal and informal education, but also be a support in formal education as stakeholders of groups creating e.g. educational programs or financial education strategies.

FINANCIAL EDUCATION

Goal of financial education: The goal of financial education is to educate the society to increase knowledge, awareness and skills in the field of finance, the application of which leads to increased efficiency of money management.

Formal financial education	**Non-formal financial education**	**Informal financial education/learning**
Institutionalised, intentional and planned by public organisations and recognised private bodies, constituting the formal education system of a country.	Institutionalised, intentional and planned but organised outside the formal education system of a country.	Non-institutional, intentional, but less structured learning process, e.g. in the family, workplace, local community, etc.

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Source: B. Świecka., A. Grzesiuk, D. Korczak, O. Wyszkowska-Kaniewska. (2019) Financial literacy and financial education. Theory and Survey, Gruyter, Berlin.

Which financial education can be provided by debt advisors?

Debt repayment	Consumer bankruptcy	Loss of identity through theft of documents and incurring debt on the client's account	Problems with taxes	Cybersecutiry and loss of money
Gambling addiction and its impact on personal finances	Getting out of a difficult financial situation	Financial abuse	Using a food bank	Budgeting
Mortgage problems	Rent arrears	Action your creditor can take	Lending money other person	Problems with payment for mass services
Protection for future. Pensions	No testament	Succession of property	Legal advice	How to get social system support

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Financial education in Responsible Finance

Responsible Finance means service that is transparent, prudent and dependable, and that delivers better outcomes for consumers and society.

Responsible finance is manifested in coordinated activities undertaken in the financial system by public and private entities aimed at influencing financial institutions and their clients in a way that ultimately contributes towards establishing a more inclusive and fair financial market. Basic areas, in which responsible finance-oriented activities are conducted, refer to the following ones: consumer protection, a responsible financial services provider, and the development of financial literacy among consumers.

Three Pillars	Consumer Protection Regulation	Financial Institutions Self-regulation	Financial Education
	Customer protection regulation, client data privacy, financial education and awareness programs	Embedding RF practices in, customer acquisition and relationship management, product design and delivery, risk management, and operation.	Building capacity of end clients through financial awareness and financial education programs

(Nazirwan, 2020)

Institutions involved in financial education

- Debt advisors
- Ministry of Education, Labor, Justice, Finance
- Central bank
- Commercial banks
- Stock Exchange
- NGO
- Media
- Financial Ombudsman
- Financial Protection Bureau
- Partnership for Financial Education (PREF)
- Universities and schools
- Other

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Financial literacy

Financial literacy is knowledge and understanding of financial concepts and risks, as well as the skills and attitudes to apply such knowledge and understanding in order to make effective decisions across a range of financial contexts, to improve the financial wellbeing of individuals and society, and to enable participation in economic life. (OECD 2021).

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Financial literacy

FINANCIAL LITERACY			
Financial knowledge	**Financial skills**	**Financial attitudes**	**Financial behavior**
Understanding about the financial concepts and procedures as well as the use of this understanding to solve financial problems.	The ability to use knowledge and understanding to manage an expected or an unpredictable situation in order to solve a financial problem and convert it to a benefit and opportunity to one's advantage.	Readiness to use knowledge and economic skills in various financial situations.	Behavior in specific situations on the financial market.

Source: B. Świecka., A. Grzesiuk, D. Korczak, O. Wyszkowska-Kaniewska. (2019) Financial literacy and financial education. Theory and Survey, Gruyter, Berlin.

Importance of financial literacy

1. Financial Literacy helps make informed decisions
2. Financial Literacy helps gain control of money
3. Financial Literacy increases savings
4. Financial Literacy can help avoid fraudulent activities
5. Financial Literacy prevents from making costly mistakes
6. Financial Literacy helps budget and save for retirement
7. Financial Literacy improves credit score
8. Financial Literacy reduces stress and increases mental well-being
9. Financial Literacy helps make informed decisions on future investment
10. Financial Literacy helps preserve wealth within family units
11. Financial Literacy improves ability to handle large expenses
12. Financial Literacy can reduce the risk of identity theft
13. Financial Literacy allows a better organisation of monthly expenditure
14. Financial Literacy helps make better decisions for employment
15. Financial Literacy inspires confidence in entrepreneurship

https://curiousdesire.com/why-financial-literacy-is-important

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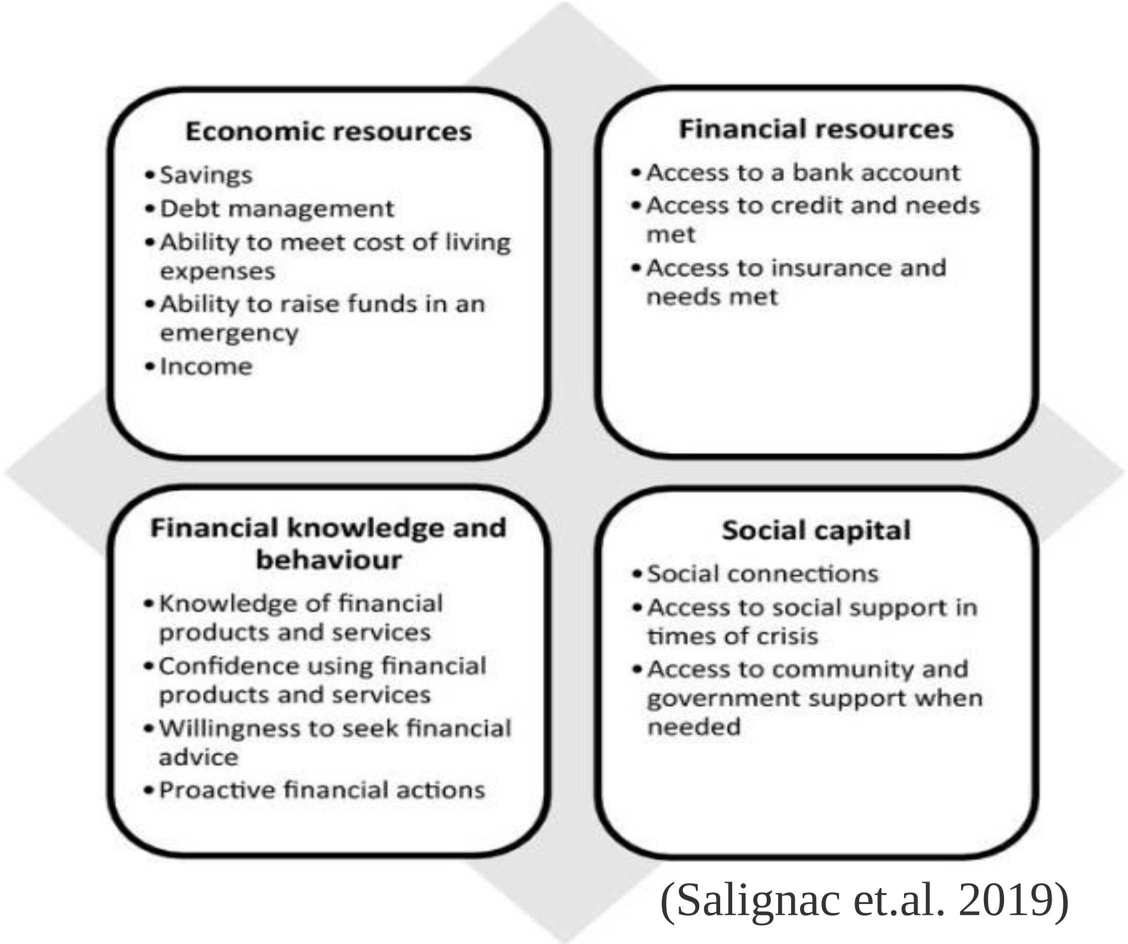
Financial literacy and Financial resilience

Financial literacy is strongly linked with financial resilience. Financial resilience is ability to withstand life events that impact income or assets. Many people are ill-equipped to deal with the financial decisions needed to navigate through a financial crisis. Increased financial literacy is associated with a lower likelihood of feeling constrained by debt. (Hasler et.al. 2023).

Financial resilience components



(Salignac et.al. 2019)

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Financial capability

- **Financial skill** – How consumer find process, and use relevant financial information
- **Financial behavior** – Day-to-day actions consumer take to secure financial life
- **Financial situation** – The objective facts of consumer financial life
- **Financial well-being** – Consumer perceived financial security and freedom of choice

Financial capability is an individual ability to apply appropriate financial knowledge, perform desirable financial behaviors and take available financial opportunities for achieving financial well-being.

(Bureau of Consumer Financial Protection, 2018; Xiao et.al. 2022a)

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Financial capability and financial education in consumers well-being

Financial education is crucial for improving consumer financial literacy, encouraging desirable financial behavior, and enhancing financial capability. The goal of financial education is to help improve financial well-being.

(Bureau of Consumer Financial Protection, 2018)

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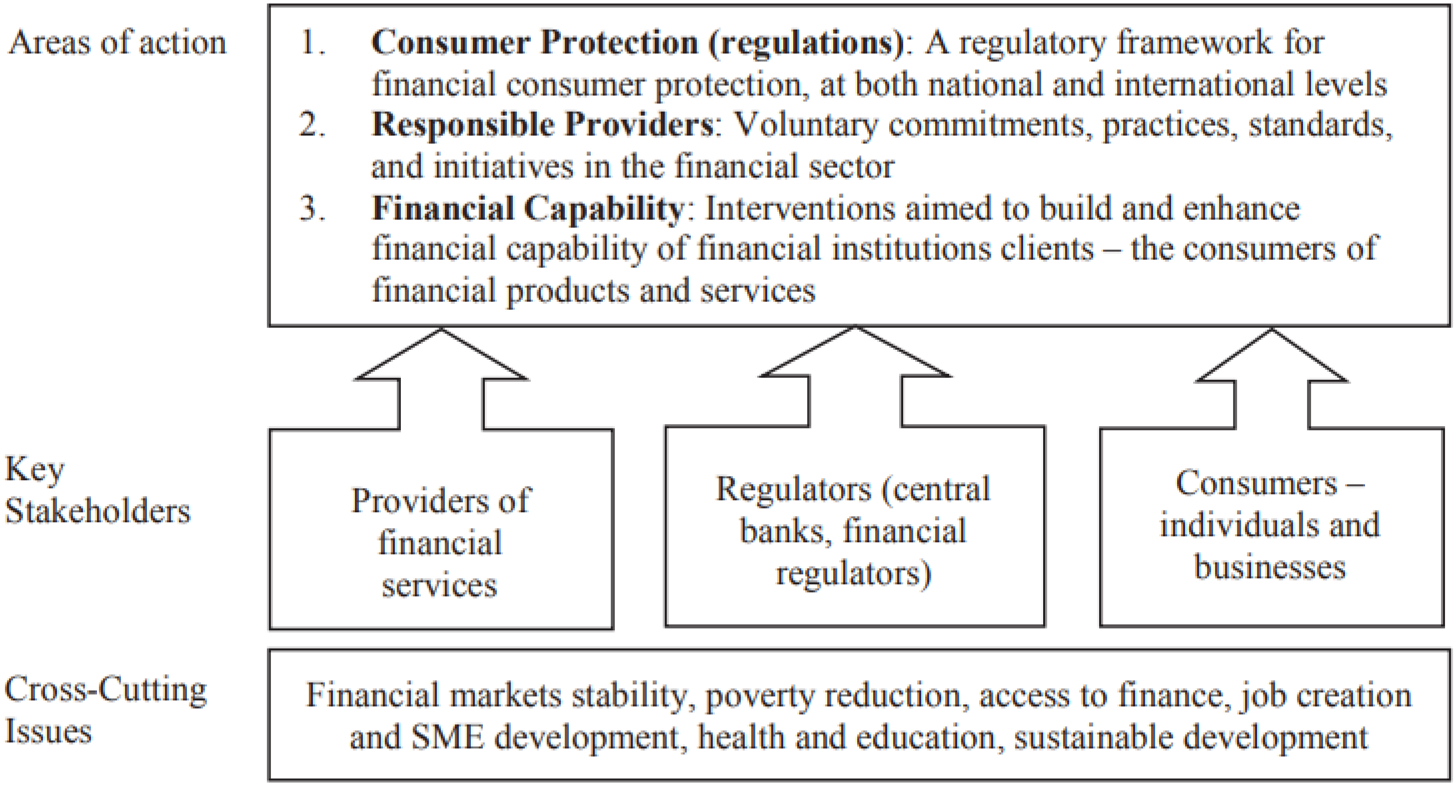
Financial capability in responsible finance



Source: Advancing Responsible Finance for Greater Development Impact (2011)

Financial capability and stakeholder roles in responsible finance 1/2

STAKEHOLDER GROUP	MAIN ROLE(S)	SECONDARY ROLES	STRENGTHS	LIMITATIONS (ACTUAL AND POTENTIAL)	EXAMPLES
GOVERNMENTS/ REGULATORS	Establish and enforce consumer protection laws and regulations	Promote financial capability via public policy, encourage industry to adopt voluntary codes and conduct	Ability to mandate changes for industry, enforce non-compliance, include financial literacy in public school cirriculum	Institutional capacity and resources to fulfill role, regulatory capture by powerful financial sector interest.	Developing countries: South Africa, Mexico, Malysia Developed Countries: European Union, Australia, New Zealand, UK
FINANCIAL PROVIDERS	Adopt and implement responsible financial practices (including industry - wide responsible finance voluntary codes where they exist)	Provide targeted financial capability training and relevant information to consumers at time of transaction	Proximity to consumer, especially at critical decision time – „teachable moment", (account opening, payment due, etc.); ability to change business practices, adopt responsible finance	Institutions' incentives are not always aligned with consumers' interest, have limited resources to implement in crisis environment	British Banking Association – Codes of Conduct for Responsible Lending, Resonsible Borrowing, Banking Code EFSE Development Facility
MULTILATERAL, BILATERAL ORGANIZATIONS	Coordinate stakeholders, promote good practices, fund initiatives	Support applied research, M&E and develop evidence base on most successful polices and interventions	Broad reach across countries, regions; linkages to government, International regulatory agencies/institutions	Shifting priorities may limit long-term engagement on issue, limited hands-on knowledge of consumers' needs	OECD – Financial literacy WB/OECD – Financial Education Fund GIZ/KfW – Responsible Finance tools

EFSE - European Fund For Southeast Europe; GIZ – Deutsche Gesellschaft für Internationale Zusammenarbeit; KFW – Bank aus Verantwortung, KfW is one of the world's leading promotional banks; WB/OECD - Word Bank/Organization for Economic Cooperation and Development;

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Financial capability and stakeholder roles in responsible finance 2/2

STAKEHOLDER GROUP	MAIN ROLE(S)	SECONDARY ROLES	STRENGTHS	LIMITATIONS (ACTUAL AND POTENTIAL)	EXAMPLES
NON – GOVERNMENTAL ORGANISATIONS	Provide financial capability training and outreach to consumers; promote responsible finance code	Advocacy for issue with governments, donors and multilaterals	Experience in project implementation on the ground in developing countries	Limited resources, not well coordinated, varying quality and skill levels	Accion / Center for Financial Inclusion – Campaign for Client Protection Microfinance Opportunities – FC curriculum development Operation Hope – Banking on Our Future
FOUNDATIONS	Fund and support strategic initiatives to promote responsible finance and financial capability	Facilitate partnership and knowledge sharing	Resource availability, catalyst and agenda-setting role	More resource limitations since crisis; limited ability to engage in policy discussion (funds not to be used for lobbying)	Gates, City, MasterCard
POLICY ADVOCACY AND INDUSTRY INFLUENCE ORGANIZATIONS	Provide an independent voice on consumer issue in finance	Support targeted research	Independence, consumer orientation	Limited resources, tend to have somewhat narrow focus	European Coalition for Responsible Credit (ECRC) Center for Responsible Lending (USA) Fair Finance Watch (USA)
ACADEMICS	Research and document most effective approaches for achieving responsible consumer finance	Advocacy for better government and sector policies	Rigorous analysis, ability to innovative (such as work on behavioral finance)	Limited practical application of insights at Times, frequently Focus on developed country experience	Barr, Mulianathan, Lusardi (Dartmouth)

Source: Advancing Responsible Finance for Greater Development Impact (2011).

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The impact of financial decisions on household financial health

FINANCIAL DECISION

How much of the income should be spent on consumption?	Consumptions decision
How much income should be used for savings?	Savings decision
How should you invest the saved money?	Investment decision
When and how should households use other people's money to implement their consumption and investment plans?	Credit decision
How and under what conditions should households seek to reduce financial uncertainty, and when should they decide to increase the risk?	Risk management decision

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Barriers to making financial decisions

- The information barrier consists in not having enough information to make a decision.
- Personality and competence barrier resulting from personality traits and competences of the decision maker.
- Resource barrier related to having limited human and material resources.
- A social barrier resulting from the fact that, for example, there are many people with different expectations, a desire to please, to find acceptance.
- Motivational barrier expressed by the lack of motivation to save.
- A bureaucratic barrier resulting from too many stringent regulations
- A competitive barrier related to the existence of competing companies on the market.

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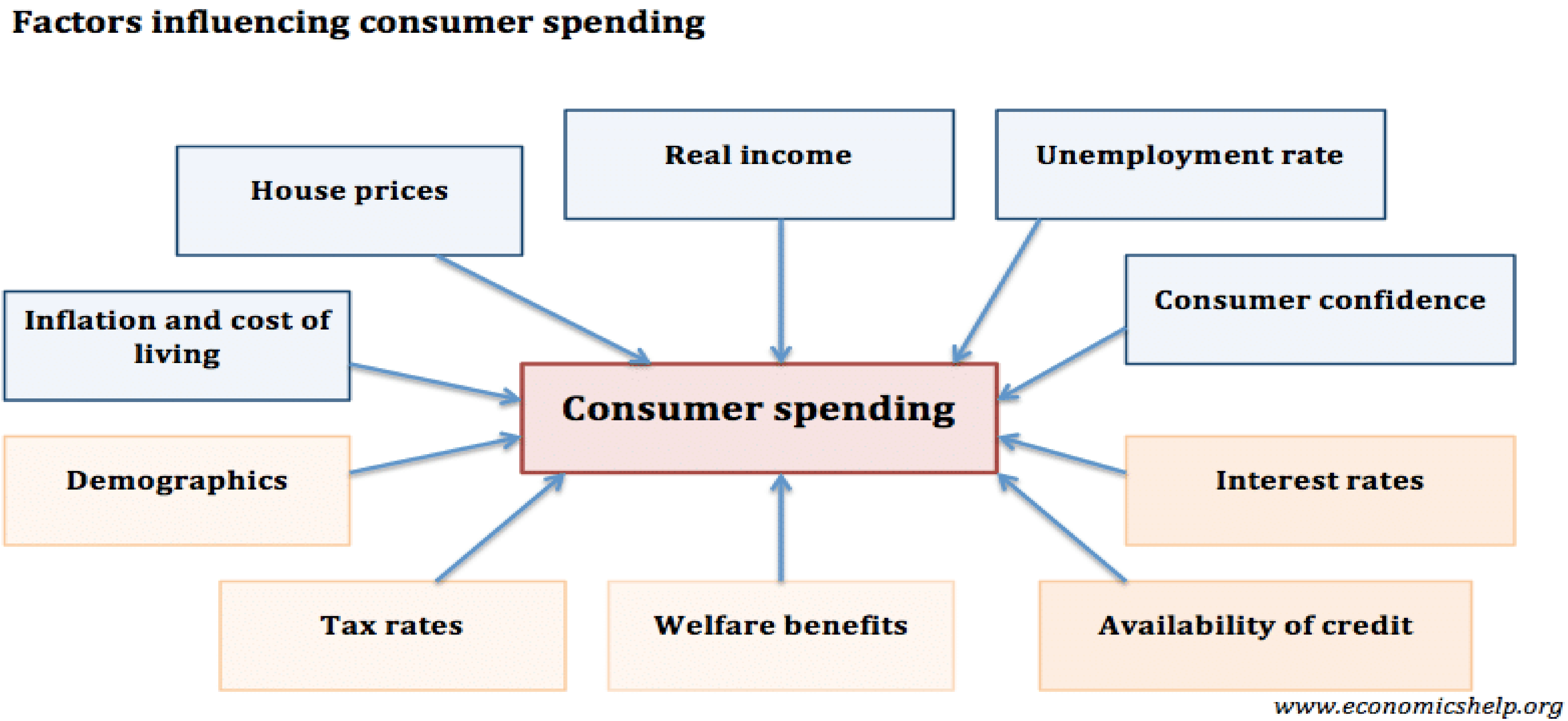
Consumption decision



Saving decisions

The most important thing in maintaining financial health is having an emergency fund.

The emergency fund is that in the event of unforeseen circumstances, consumers will still be possible to live at a good level using savings. First, it will be good to know how much money a consumer needs per month in an emergency. The cover should cover as many months as we think is appropriate. The consumer must think about how long it would take hypothetically to recover from an illness or find a new job. The minimum amount of the cover is therefore the number of months for which we want to have the guaranteed x monthly expenses drawn up in advance. Sometimes it is difficult. Firstly collect 2000 units (euro (dollars, PLN, other), and next think about the time to recover or find a new job which is important to calculate the emergency fund.

Clue: Get financial cover as soon as possible. This is the minimum goal that must be achieved. May keep this money in a safe and easily accessible place

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Saving decision

Saving for an emergency fund

- This is a MUST HAVE and the first step in achieving financial health.

Saving for a large purchase

- Big expenses require more resources. They can be implemented with saved funds or with a loan. So it's crucial to be aware that every piece of equipment (refrigerator, washing machine, car, etc.) has its "use by" time and needs to be replaced at some point. Whether you want to buy a car, a house or pay for post-graduate studies, it's essential to be prepared for these types of expenses.

Savings for recurring expenses

- An example is going on vacation, which often costs a lot. Planning and financial preparation in the form of savings allows you to finance from your own funds, not from a loan. An example of such expenses are the aforementioned holidays, home and car insurance, or heating fees, which in many cases are higher in winter.

Savings to pay off loans

- Paying off your loans on time and paying them off early can save you thousands of dollars in interest. It is worth referring to the Debt SnowBall Method (described later).

Savings for retirement

- Financial resources in retirement are often much lower than during the period of professional activity, therefore, to maintain a good level, it is worth saving for retirement. The earlier this happens, the better.

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Debt decision

Credit (loan) in a bank account

- It can be granted in two forms: overdraft and revolving loan.
- Overdraft give possibility to overdraw the account for a small amount that must be repaid at the end of the month. It does not require signing an additional agreement with the bank. Almost everyone has experienced unexpected expenses. Equally some of us consumers had a situation where it was simply not enough for the next salary. Overdraft is a state when the consumer has spent more than have on the account up to the limit granted by the bank. Overdraft is repaid automatically, as soon as funds appear on the account.
- Revolving Loan. Requires an additional agreement with the bank. The limit is usually the amount of the monthly, cyclical inflow to the account. Each time a payment is made to the account, the debt is repaid. Convenient, but relatively expensive. It gives a sense of security. It is a debt for a year, rolled over, extended automatically for another year. The extension involves commission costs for renewing the contract and re-examination of creditworthiness.

Credit in card credit

- Convenient form. Knowing the grace period is key. Possibility of free use of the bank's funds when paying back in the settlement period. Otherwise, it is the most expensive form of credit.

Mortgage credit

- For the purchase of real estate. It has the lowest interest rate.

Consolidation credit

- It allows you to combine several liabilities into one relatively low monthly installment.

Reverse Mortgage credit

- It is a financial service that allows you to change a fixed asset, which is a residential property, into liquid funds used for private retirement benefits. It allows the property owner to release the property accumulated in it, while maintaining the right to use the house or apartment inhabited. Thus, the fixed asset becomes a source of liquid cash used for consumption by people of retirement age.

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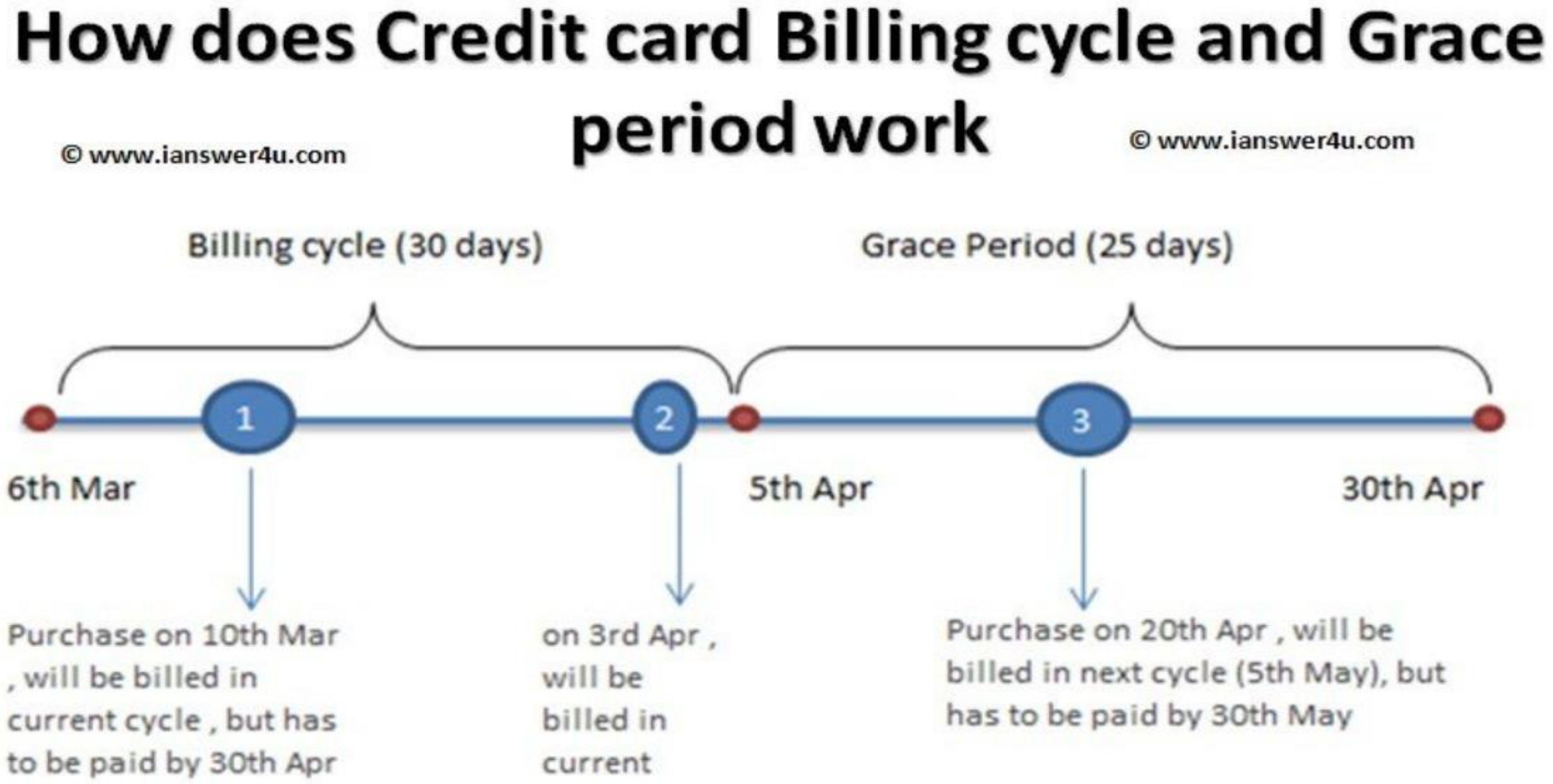
Grace period

Golden Rule: Pay 100 percent of your credit card bills not later than finish grace period (52 days from begining of start biling cycles). In this situation consumer will pay no interest.

If consumer will pay only 10 precent of credit card bills will pay high interest.



Debt decision – bad indebtedness decisions

- Loans for temporary whim
- Buying things that don't really matter to us
- Falling into fashion
- Following the trends
- Buying luxury items with a credit card (we cannot afford),
- Buying cars for show
- Buying properties that are too large and cannot be maintained – to big house
- Submission to environmental (friends, classmate, neighbors, family) influences etc.

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Debt decision - Usury

Usury is an unethical act of enriching the lender with a loan granted on very unfavorable terms. The other party - the aggrieved party - usually agrees to it only as a result of withholding certain information from it or because it is in the so-called no-win situation.

Usury is a form of exploitation that can also be fraudulent.

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Examples of conditions for recognizing a loan as usurious

1. The aggrieved party must be in a forced position at the time of concluding the contract. The "compulsion of position" is interpreted in jurisprudence as subjective. So, it is enough to have a personal feeling and recognize your situation as critical by the injured party.

2. The lender must specify in the contract a disproportionate consideration, being aware of the situation of the other entity and acting intentionally.

3. If the lender deliberately raises the cost of the liability because he knows that his client must agree to it due to a difficult situation, we are talking about usury, i.e., a crime. Such activity can be reported to the police station as any other prohibited act.

4. One of the most important information for the consumer that the consumer should know is the maximum cost of payday loans.

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Example Usury cost in Poland

1. Benefits may not involve non-interest costs higher than 25% of the loan value, plus 30% for each year of crediting.

2. The costs of payday loans resulting from interest are related to the rates set by the central bank, so changes must be tracked on an ongoing basis.

3. Loan companies cannot grant low-value payday loans and loans against an apartment, car or valuables.

4. The lender must also each time, on a durable medium, before concluding the contract, provide the client with the total amount to be paid and the Actual Annual Interest Rate.

WHAT LOAN IS USURY?

If a consumer borrows PLN 5,000 with a 12-month repayment period, the sum of non-interest costs may not exceed PLN 2,750. A loan company that grants a loan more expensive by even one euro is illegal. However, interest may be added to this amount.

Unfortunately, the limits of such costs do not apply to the private loan market, which is unregulated, and service providers can impose any commissions and fees (only interest is fully limited by law).

An additional downside of solutions from the private sector is the inability to withdraw from the contract within 14 days of its conclusion. By signing a document with a loan company, two weeks is a guaranteed period in which you can still change your mind

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SITUATIONS IN WHICH CONSUMERS ARE EXPOSED TO USURY?

1. Lack of creditworthiness. Victims of usury are most often people whose creditworthiness precludes the chance of receiving the necessary benefits from the bank. Deprived of the safest option and unskillfully moving outside the system of banking institutions, they may come across a fraudster.

2. A difficult financial situation requiring a quick loan. The more urgent and difficult the financial situation of such a consumer is, the easier it is to make an ill-considered decision. Acting under the pressure of time and under great stress, consumers become the perfect target of moneylenders.

3. No reliable analysis of the loan offer. Usury is not conducive to calm, reliable analysis of the offer and careful study of all the terms of the contract.

4. No information about the Actual Annual Interest Rate or the total amount to be repaid.

5. Very short time for repayment, disproportionate to the amount of the liability.

6. APRC much higher than in the case of other market proposals (with a similar amount and payment date).

7. High costs and penalties in case of late repayment.

8. Lots of extra fees besides commission and interest. The "initial" costs, "for submitting the application", "for analyzing creditworthiness", "for preparing documents" are only an attempt to increase the price of the service in such a way that it is difficult for the client to calculate the actual amount due.

9. Feeling strong pressure from the lender. Marketing based on frequent calls and slogans "sign the contract now because our offer will expire in two hours”.

10. The bidder's avoidance of explanations regarding questionable provisions in the contract.

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How consumers can protect themselves by usury?

1. First they have to be financially literate and understand how works debt.

2. Next they should understand what they are committing themselves to when they borrow any amount of money or enter into any contracts.

3. For loans normally, a safe approach is to check with a reputable bank for a loan, or if they have a loan offered by a private party share it with or bankers to see what they think of it, or if they can do it under better terms and conditions.

4. For professional input, they can check with a licensed attorney, accountant, or financial advisor or debt advisors.

Investment decision
Levels and types of investors

LEVEL 0 Spending money	At this level there are buyers and borrowers, who end up in debt. They spend every penny they earn, and often even more. The Level 0 investor lives in the present moment. If he has money, he will spend it, if not, he will borrow it. Such people solve their financial problems by spending more and more money and getting more and more into debt.
LEVEL 1 Savers	Their main investment is a house. Sometimes they will put something aside, but they save to spend, not to invest. Savers are often afraid of financial matters and reluctant to accept risks. They usually work hard all their lives.
LEVEL 2 Passive investor	Investors at this level are already aware of the need to invest. They learn how to invest and start accumulating resources. They tend to seek solutions from "experts". They're easy to pick up.
LEVEL 3 Active investor	They realize that they are responsible for their financial future. They master the language of finance by learning investment strategies and techniques. They make money work for them. They focus on multiplying wealth. At this point, they have already moved on to high-growth, low-yield investments as their main instrument of getting rich. They use the time and knowledge of professionals.
LEVEL 4 Professional investor	A small group of people. They have a solid capital base that generates a passive fixed income that allows them to choose a lifestyle. Investors at this level are well educated, proficient in finance, and have mastered the art of investing. They know the law well, which helps them to avoid many financial pitfalls.

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Risk management decision
Threats and risks for household financial situation

To achieve financial health, households should be aware of the threats and various types of risks to which are exposed, and which may prevent them from achieving and maintaining financial stability.

Area of financial management	Threats and risk
Raising income	The risk of losing some or all of income
Spending	The risk of overpaying, the risk of buying unnecessary things, the risk of fraud when buying, the risk of the price of goods
Saving	Risk of theft, risk of losing the value of money (increase in inflation), risk of choosing inappropriate savings products, risk of lack of savings
Investing	Investment risk, exchange rate risk, risk of a missed investment, risk of investment fraud, risk of a decrease in value (e.g. with cryptocurrencies)
Debt	Credit risk (default, creditworthiness), interest rate risk, risk of excessive debt burden on the budget
Retirement planning	Political risk, legal risk, inflation risk, elderly poverty risk
Tax planning	Risk of refund due to incorrect calculation of tax reliefs, risk of not paying tax on time
Asset transfer	Debt inheritance risk, legal risk, risk of an incorrect testament

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Household risk management strategies

Risk avoidance – avoiding activities that may create risk, e.g. people who are afraid of losing do not invest in shares. People whose families are close to bankruptcy do not take out loans.

Loss prevention and control - loss prevention is the action to reduce the likelihood of losses (e.g. selling assets previously purchased for a higher amount), and loss control is to reduce the severity of losses that will happen (e.g. having a financial cushion).

Insurance - selection of appropriate insurance products to protect both household members and their assets on the terms described in the contract with the insurer.

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Key phenomena affecting the household financial situation

Decline in the debt servicing capacity of households

- causes losses on existing loans
- increases the risk when granting new loans
- the scale of both phenomena is related to the duration of the shock, possible structural changes it will cause and protective measures

Loss of source of income

- causes a decrease in income
- results from the reduction of their professional activity
- unemployment
- sickness

Decrease in the valuation of instruments on financial markets

- reduces the value of assets in which households have invested

can lead to losses

results from the deterioration of the economic outlook and the increase in risk

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The importance and possibilities of debt advisors in providing financial education

Financial education is a good prevention tools

Prevention is better than cure.

Prevention of overindebtedness is a mix of measures, activities and provisions, which are directed to make people financially capable and to make them behave in such a way that they keep their finances in balance.

Primary prevention is the activities, measures and provisions that prevent financially healthy people from getting into financial problems.

Secondary prevention is the activities, measures and provisions to signal a financial problem at an early stage. The problem can be treated fast, so that a solution is reached earlier. This type of prevention can be implemented in households already having problems or those at higher risk.

Tertiary prevention is the activities, measures and provisions to prevent complications or worsening of the financial problems.

(Nibud, 2012)

Budget training is a good example of a measure to prevent over-indebtedness.

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Universal prevention

Universal prevention aims at (groups of) the general population. These are individuals who are not characterized by a higher risk of over-indebtedness. The goal of universal prevention is to increase the whole population's financial health and reduce the probability of financial problems. Financial education at schools is an example of universal prevention.

Debt advisors in financial education is crucial

Selective prevention is aimed at groups of the population with an increased risk. Its goal is to increase the financial health of specific risk groups. Specific programs for low-income groups, ethnic minorities, or young adults are examples of selective prevention measures.

Indicated prevention is aimed at individuals who do not have a diagnosed illness yet. But they do have some complaints or symptoms. The target of indicated prevention is to prevent the state of overindebtedness or other damage to the individual. An approachable advice center can be a good suggested prevention measure.

Care-related prevention is aimed at individuals who are in a state of over-indebtedness. Its target is to reduce the burden that financial problems bring with them and to prevent complications.

(Nibud, 2012)

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Financial Rehabilitation

Financial rehabilitation is needed when an individual is insolvent, and his estate is subsequently sequestrated.

Financial rehabilitation is therefore the process (whether it is automatic or made by an order of court) to rid the individual of his insolvent status.

Insolvency occurs on two levels.

Factual insolvency occurs where your liabilities are greater than your assets.

Commercial insolvency occurs when your cash flow is insufficient to pay your debts as they become due and payable.

The difference between these two forms of insolvency is that with the latter your assets may still exceed your liabilities.

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Financial needs of different stages of life

Main financial life stages

Accumulation of capital
- Savings
- Liquidity
- Emergency fund

Protection
- Diversification of wealth
- Asset allocation

Distribution of wealth
- Reduce risk

Individuals five basic financial service needs throughout their lifetime

SAVINGS/LIQUIDITY	CREDIT	INCOME	PROTECTION	LEGACY
Emergency fund	Mortgages	Daily expenses	Life Insurance	Testament
Bank deposits	Credit Cards	Investing	Employee Capital Plans	Succession
	Commercial Loans		Individual Retirement Accounts	Inheritances and donations

Savings in different stage of live

The need to save for financial security increases with age, the number of children, and the total value of capital held.

20 year olds

- They save in order to achieve financial liquidity, the possibility of covering all their liabilities.

30-year-olds

- Saving for a rainy day. Start to think about the dark hour.

40-year-olds

- Saving to raise capital for investments. It occurs only around the age of fourty, when the income is already at a level that allows them to be postponed.

50-year-olds

- Saving for retirement. The theme of retirement really gains in importance most often in the fifth decade of life, which does not make sense, because in this case the investment horizon is of great importance.

60 years old and older

- About 60 years of thinking about leaving something for children and grandchildren.

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A lifetime of financial needs

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Cycle of life and needs of financial literacy in debt advisors’ financial education

Level	Cycle of life	Question/needs of financial literacy	Financial education tools	Support debt advisors
1.	Early Childhood (Ages 3-5)	What is a money? What is the value of money? How much can you buy with coins and how much paper money?	Picture of money - how they look like, for what they are?; Simple games	faint
2.	Middle Childhood (Ages 6-8):	For what is a bank? Where does the money come from - "from the wall?" Why a money comes from the whole? Why and for what we must pay? How much the individual goods cost, how much they cost everyday shopping? How should money be spent (e.g., not all at once)?	Finance in elements of math (1euro+1euro= 2 euro); Observation of family	faint
3.	Late Childhood (Ages 9-11)	How to buy a shop? How much cost various things? What to do to have more money? "Money does or not give happiness?„Can financial management be learned?	Experience (buy in shops); Play a games (Cash flow, Monopoly, Post office)	low
4.	Adolescents (Ages 12-17)	How to earn first money? How to use my first bank account set up by my parents? How to pay for my needs? How wisely use my first in-my-life debit card? What should I know when withdrawing money from an ATM?	Theory in school with practice; Observation of college; First Experience; Internet; Books	average
5.	Young adults (Ages 18-25)	How spend and save a money? What is a priority in consumption? When and how open account on internet? How to pay for my needs? Which areas of personal finance are the most important? What is digital money? What is cryptocurrency?	Theory in school; Experience; Observation; Short courses; Internet; Books	big

Cycle of life and needs of financial literacy in debt advisors’ financial education

Level	Cycle of life	Question/needs of financial literacy	Financial education tools	Support debt advisors
6.	Early Adulthood (Ages 26-35)	What is a mortgage credit? To purchase or rent an appartment? Fixed rate or variable rate of the loan? How much money I need to alive without parents? What a qualification I need to receive a good paid job? Take a credit or save and buy later? How quickly to pay for the debt? What insurance I need? What can I do when I already insolvent? Where can I go when I will have a financial problem? What is collateral for loan default? What happened I will not pay my debt? How big can be a guaranteed income?	Experience; Short courses; Website of debt advisors; Books ; Webinars; Seminars; Conferences	big
7.	Midlife (Ages 36-50)	Is bankruptcy always the best solution to get out of debt? What financial situations do I need help from the police, debt advisors and financial advisors? How to prepare my self for difficult economy situation? What is consumer bankruptcy law, and who can use it, and in which situation? Choosing the deductible on car insurance, on homeowner's insurance? How to save for various needs? What is over indebtedness and how to avoid it? How avoid cyberattack in finance?	Experience; Short courses; Internet; Books	very big
8.	Mature Adulthood (Ages 51-80)	What are the signals that indicate emerging financial problems? Can I prepare in advance? How to secure myself and my financial situation? Vocation or staycation? Help grandchildren in financial area or use for myself? Using new solution in banking and finance (for example mobile payment, internet banking, cashless payment, etc)? How avoid financial abuse? Drawing income saving during retirement? Retire or work a few more years. Health insurance annual enrolment?	Experience, Short courses; Internet; Books;Intergenerational transfer of knowledge	big
9.	Late Adulthood (Age 80+):	How to write a good testament? What can I do when I lose all my money in lottery? Should I use a reverse mortgage? Should I transfer my property before death? How to increase cybersecurity in the financial sphere? How to Protect myself and my family?	Intergenerational transfer of knowledge to grandchildren	average

EU/OECD-INFE financial competence framework for adults

THE STRUCTURE OF THE FRAMEWORK

- The joint EU/OECD-INFE financial competence framework divides the competences into four content areas.
- 1. Money and Transactions
- 2. Planning and Managing Finances
- 3. Risks and Reward
- 4. Financial Landscape

CROSS-CUTTING DIMENSIONS OF THE FRAMEWORK

- Digital financial competences
- Sustainable finance competences
- Financial resilience
- Essencial competences

Source European Union/OECD (2022).

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G20/OECD High-Level Principles on Financial Consumer Protection

Source: G20/OECD, GPFI (2022).

Principles of financial household management

- Organize finances
- Spend less than earn
- Put money to work
- Limit debt to income-producing assets
- Continuously educate yourself
- Understand risk
- Diversification is not just for investments
- Maximize employment benefits
- Pay attention to taxes
- Plan for the unexpected

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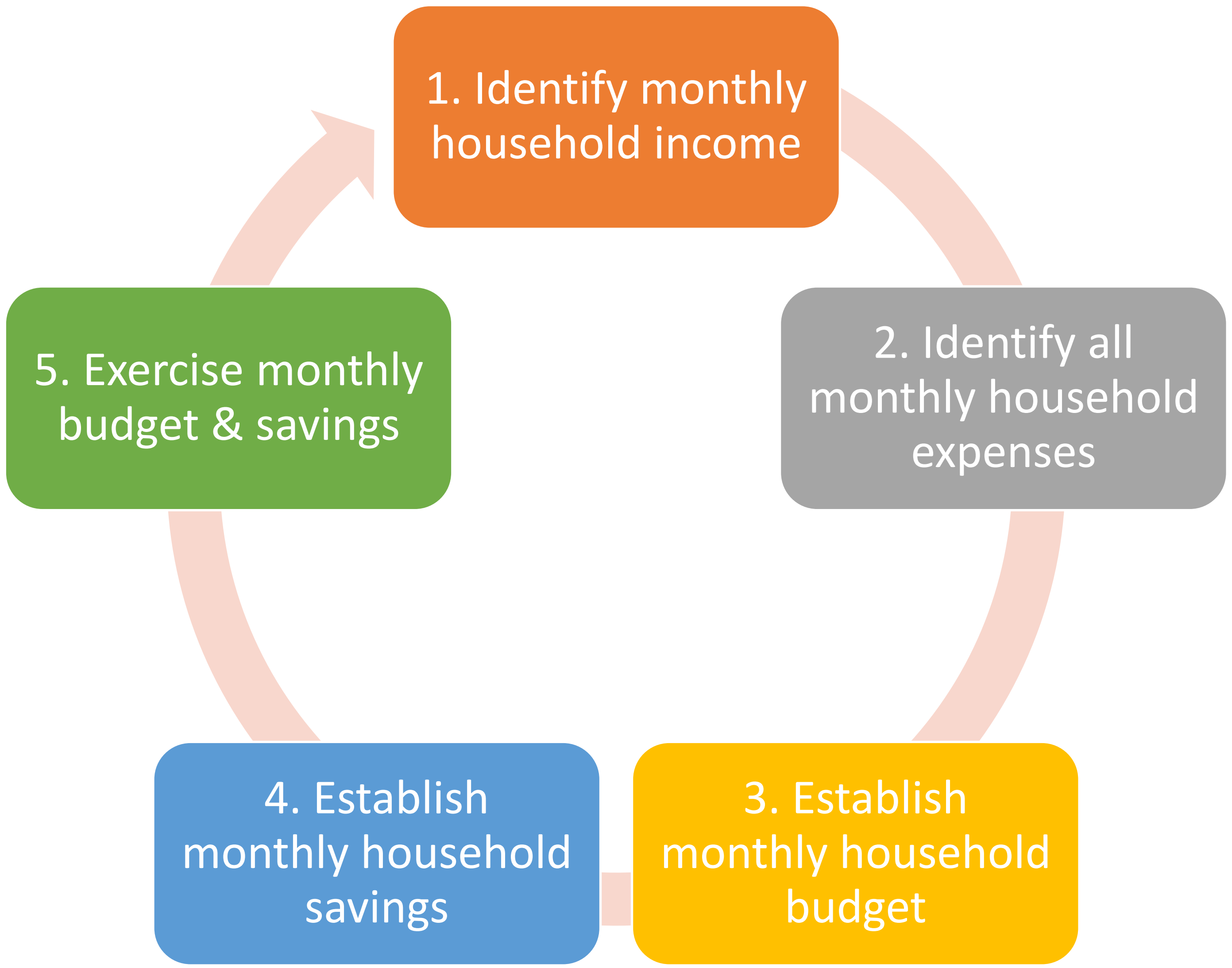
Principles of financial household management



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Principles of financial household management

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Snow Ball Method - principles of financial household management

List all debts in order from smallest to largest.

May attack the smallest debt and make minimum payments on the rest.

Get extra money. Lower expenses, cut spending, sell stuff, and a side hustle.

Once the smallest debt is gone, pack the payment (and extra money) on to the next smallest.

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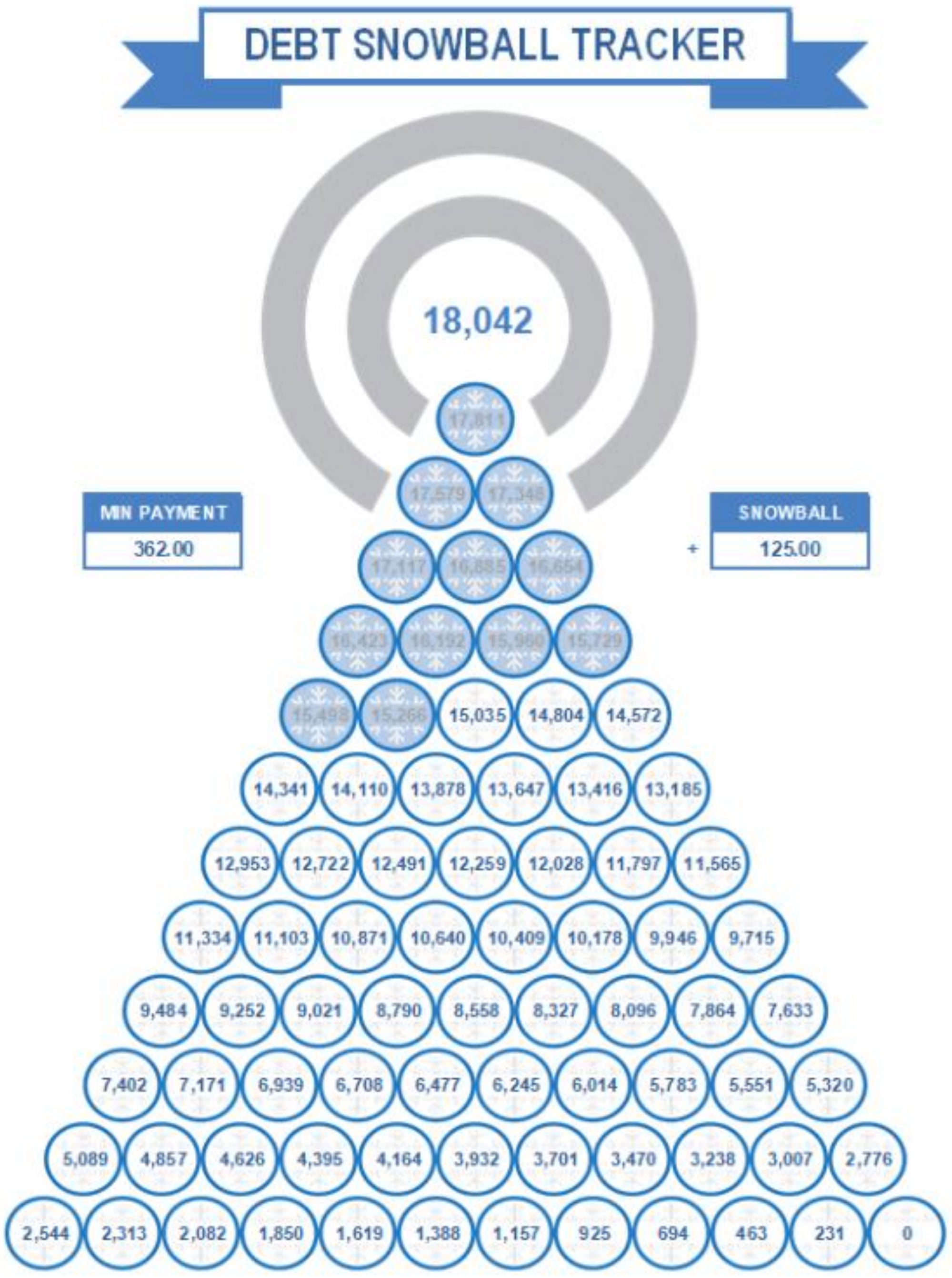


Savings Snowball Calculator

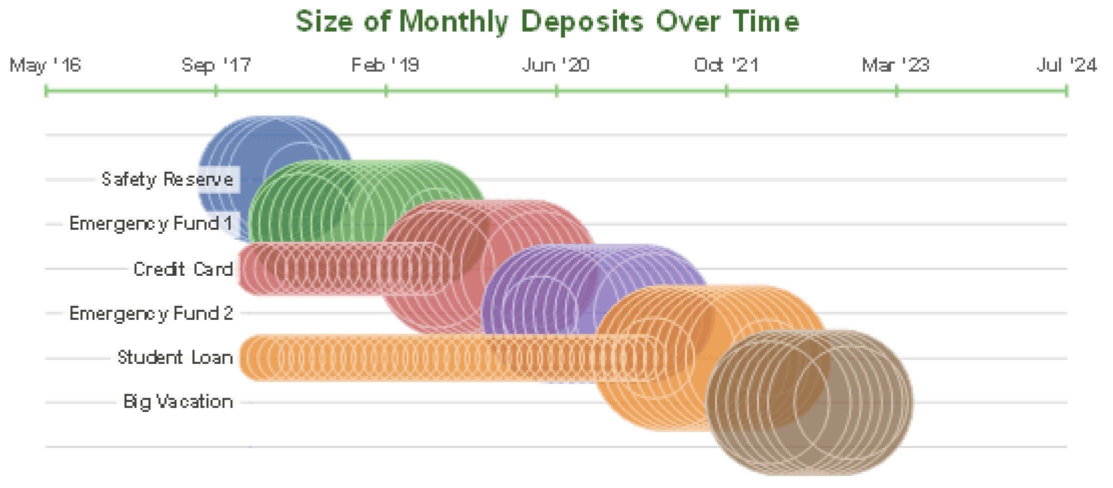
https://www.vertex42.com/Calculators/savings-snowball.html

vertex42 © 2010-2018 Vertex42 LLC

Savings Plan — Start Date: 1/1/2018 — Monthly Savings: 300.00

GOAL DESCRIPTION	GOAL AMOUNT	STARTING BALANCE	INTEREST RATE	MINIMUM PAYMENT	SNOWBALL ORDER	COMPLETED	YEARS TO COMPLETE	INTEREST EARNED / (PAID)
Safety Reserve	1,000.00	0.00	0.100%		1	Jun-2018	5/12	0.20
Emergency Fund 1	3,000.00	0.00	1.000%		2	Jul-2019	1 6/12	16.64
Credit Card	0.00	(2,750.00)	14.500%	40.00	3	May-2020	2 4/12	(746.81)
Emergency Fund 2	3,000.00	0.00	1.000%		4	Apr-2021	3 3/12	13.15
Student Loan	0.00	(3,500.00)	6.750%	30.00	5	Mar-2022	4 2/12	(817.47)
Big Vacation	2,500.00		0.100%		6	Nov-2022	4 10/12	0.84
						-	-	-
						-	-	-
						-	-	-
						-	-	-
Totals:	9,500.00	(6,250.00)		70.00		Total Interest:		(1,533.45)
			Initial Snowball:	230.00				

Results



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Household balance sheet – Net Worth Analysis

Net Worth Analysis - determining the value of the property. It shows how much wealth we have after deducting the debt

ASSETS	LIABILITIES
FINANCIAL ASSETS Cash Bank deposits Insurance Accounts recivable Stock, bond, investment fund Pension funds NON FINANCIAL ASSETS Gold and jewellery Vehicles House, flat Land	Bank loan Loans from non-bank institutions Private loans Other
Assets - Liabilities = Net Worth (wealth)	

Balance sheet in financial household management

PERSONAL BALANCE SHEET	
ASSETS	
Liquid Assets	EUR
Cash	500.00
Checking account	3,500.00
Savings account	0.00
Total liquid assets	**4,000.00**
Fixed Assets	
Home	0.00
Car	1,000.00
Furniture	1,000.00
Total Fixed assets	**2,000.00**
Investment Assets	
Stocks	3,000.00
Total investment assets	**3,000.00**
TOTAL ASSETS	**9,000.00**

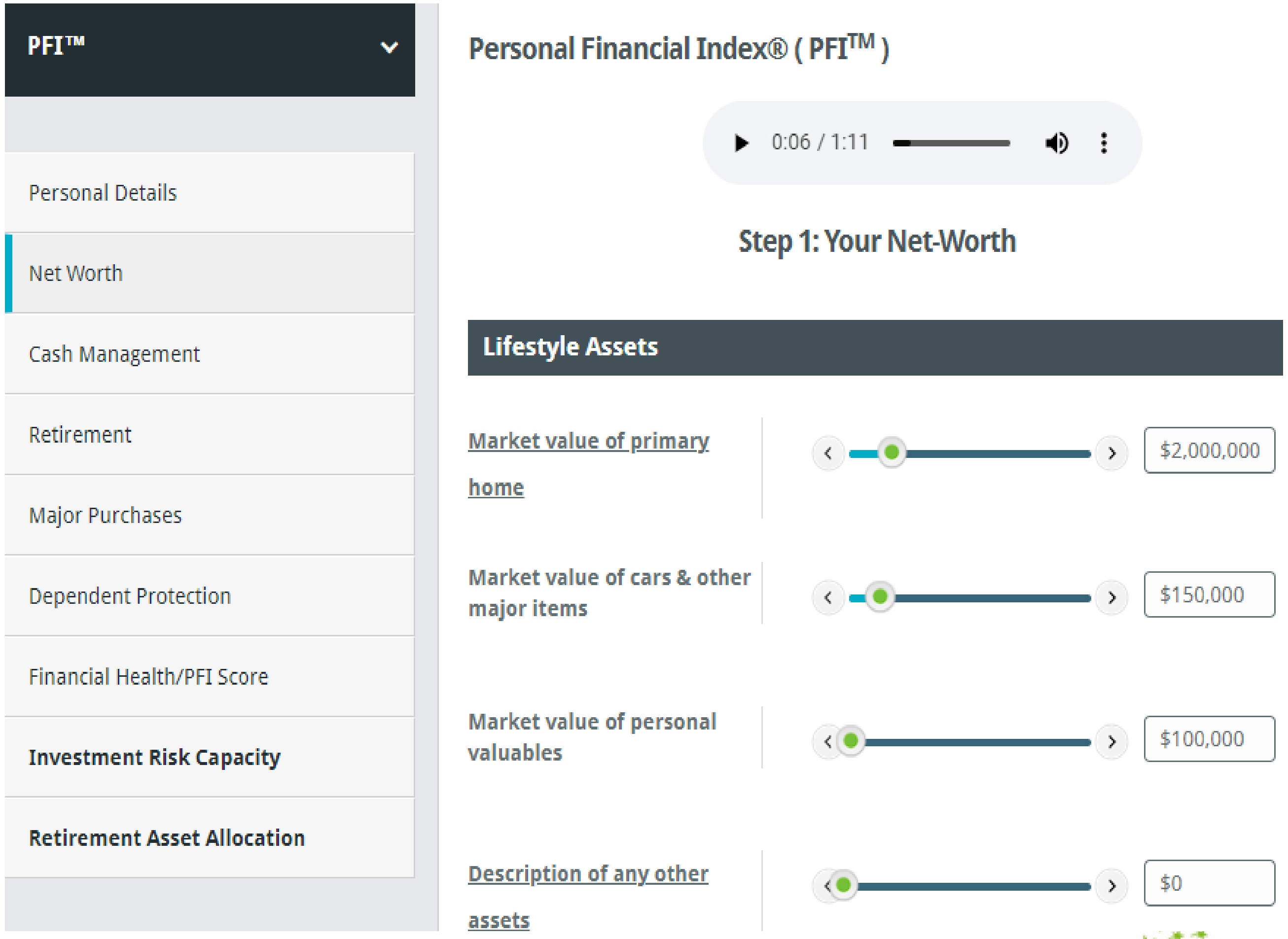
PERSONAL BALANCE SHEET	
LIABILITIES	
Current Liabilities	EUR
Credit card balance	2,000.00
Total current liabilities	**2,000.00**
Long – term Liabilities	
Mortage	0.00
Car loan	0.00
Total long – term liabilities	**2,000.00**
TOTAL LIABILITIES	**2,000.00**
NET WORTH (TOTAL ASSETS – TOTAL LIABILITIES)	**7.000,00**

Tool support debt advisors
Personal Financial Index® (PFI)

Personal Financial Index® (PFI) is a comprehensive financial benchmark for individuals and families. In a few easy screens, it takes a 360 view of personal finances and allows to measure and monitor financial health via personalized PFI score (similar to a credit score).

PFI score is index created by TIAA Institute – Global Financial Literacy Excellence Center by Annamaria Lusardi Team at George Washington University School of Business in Washington, D.C

www.personalfinancialindex.com/
Everyone can by them self or with debt advisor check their financial situation using the PFI Index.



Savings and Investments

Cash savings	$0
Current value of retirement accounts	$500,000
Value of all brokerage accounts	$500,000

My Liabilities

Mortgage balance on primary home	$500,000
Loan balance on cars & other major items	$50,000
Credit card debt & loan balance on appliances, etc.	$50,000
Description of any other loan(s)	$0

PFI™ Score Details and Recommendations

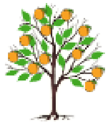
Your overall PFI™ Score is **562** against a maximum possible score of **750**. That means you are doing a **good** job managing your personal finances. Review your individual category scores below to check if there are any improvement opportunities. A financial advisor may help you to further improve your finances.

Details of your PFI™ score by category

Debt Management Score

Debt management is how well you are managing your short-term and long-term debt. Short-term debt refers to payments you need to make over the course of the year, including your mortgage, auto loan, credit card, etc. Long-term debt refers to the total amount of loans and mortgages.

Your PFI™ debt management score is **350** against a maximum possible score of **350**.



Savings Discipline Score

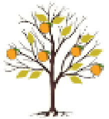
Savings discipline represents how well you are saving to achieve your future financial goals, such as retirement, a major purchase like a home, saving for your kids' college education, etc.

Your PFI™ savings discipline score is **85** against a maximum possible score of **200**.

Risk Management Score

Risk management is how well you are protecting yourself and your family against risks by buying insurance or eliminating the risk. For example, if you own a car, you need auto insurance to protect against the risk of an accident.

Your PFI™ risk management score is **127** against a maximum possible score of **200**.



Reference budgets

Reference budgets are illustrative priced baskets of goods and services that represent a given living standard. They refer to the minimum required resources that people need in order to participate adequately in society.

The reference budget is a supplementary budget for households that already have an acceptable standard of living. It is referred to as a long-term budget because it assumes that money is set aside monthly for more infrequent purchases of expensive and durable consumer goods.

Links to do a reference budget

Tailor Made-Budget Course Beyond the Budget https://tailor-made-budgets.teachable.com/

Budget planner https://moneysmart.gov.au/budgeting/budget-planner

EU Platform on Reference Budgets https://www.referencebudgets.eu/

Reference Budget for Consumers Expenditure https://www.oslomet.no/en/about/sifo/reference-budget

Monthly family budget

Summary	Total projected cost	Total actual cost	Total difference
	$1 203	$1 317	($114)

Housing

	Projected cost	Actual cost	Difference
Mortgage or rent	$1 000	$1 000	$0
Second mortgage or rent	$0	$0	$0
Phone	$62	$100	($38)
Electricity	$44	$125	($81)
Gas	$22	$35	($13)
Water and sewer	$8	$8	$0
Cable	$34	$39	($5)
Waste removal	$10	$10	$0
Maintenance or repairs	$23	$0	$23
Supplies	$0	$0	$0
Other	$0	$0	$0
Total	$1 203	$1 317	($114)

Projected monthly income source

Income 1	$4 000
Income 2	$1 200
Extra income	$300
Total monthly income	$5 500

Actual monthly income source

Income 1	$4 000
Income 2	$1 200
Extra income	$300
Total monthly income	$5 500

Balance

Projected balance	$4 297
Actual balance	$4 183
Difference	($114)

Monthly Household Income/Expense Sheet

Income	Budget	Actual	Difference
Salary #1			
Salary #2			
Rental Income			
Other			
Total			

Expenses	Budget	Actual	Difference
Fixed Expenses			
Rent/Mortgage/Insurance			
Car/Heath/Home Insurance			
Loan Payments			
Variable Expenses			
Electricity/Gas			
Telephone #1			
Telephone #2			
Disposal			
Cable			
Gifts Given			
Beauty/Hair			
Household Repairs			
Health Expenses			
Savings			
Subscriptions			
Travel/Vacation			
Spending Cash/Allowance			
Groceries			
Clothing			
Childcare			
Dining			
Entertainment			
Other			

Household risk management

Household risk management is precautionary, that is, increases when uncertainty is higher, and that there is a sense in which "the poor cannot afford insurance".

Optimal household income risk management is incomplete and monotone increasing in the households' net worth, that is, richer households are better insured.

Rampini et.al. (2017)

Financial risk

Risk of Inflation

- One of the biggest financial risks consumers have. Inflation or the decrease in the value of money with time is a challenge for consumers and increases the cost of life.

Risk of Interest Rates

- Is important for the debtor, who want to have the lowest interest rate, and savers and investor which dream to have the highest one.

Risk of Liquidity

- The flexibility for any asset or investment to quickly turn into cash easily, without incurring high costs, is what liquidity is all about.

Credit Risk

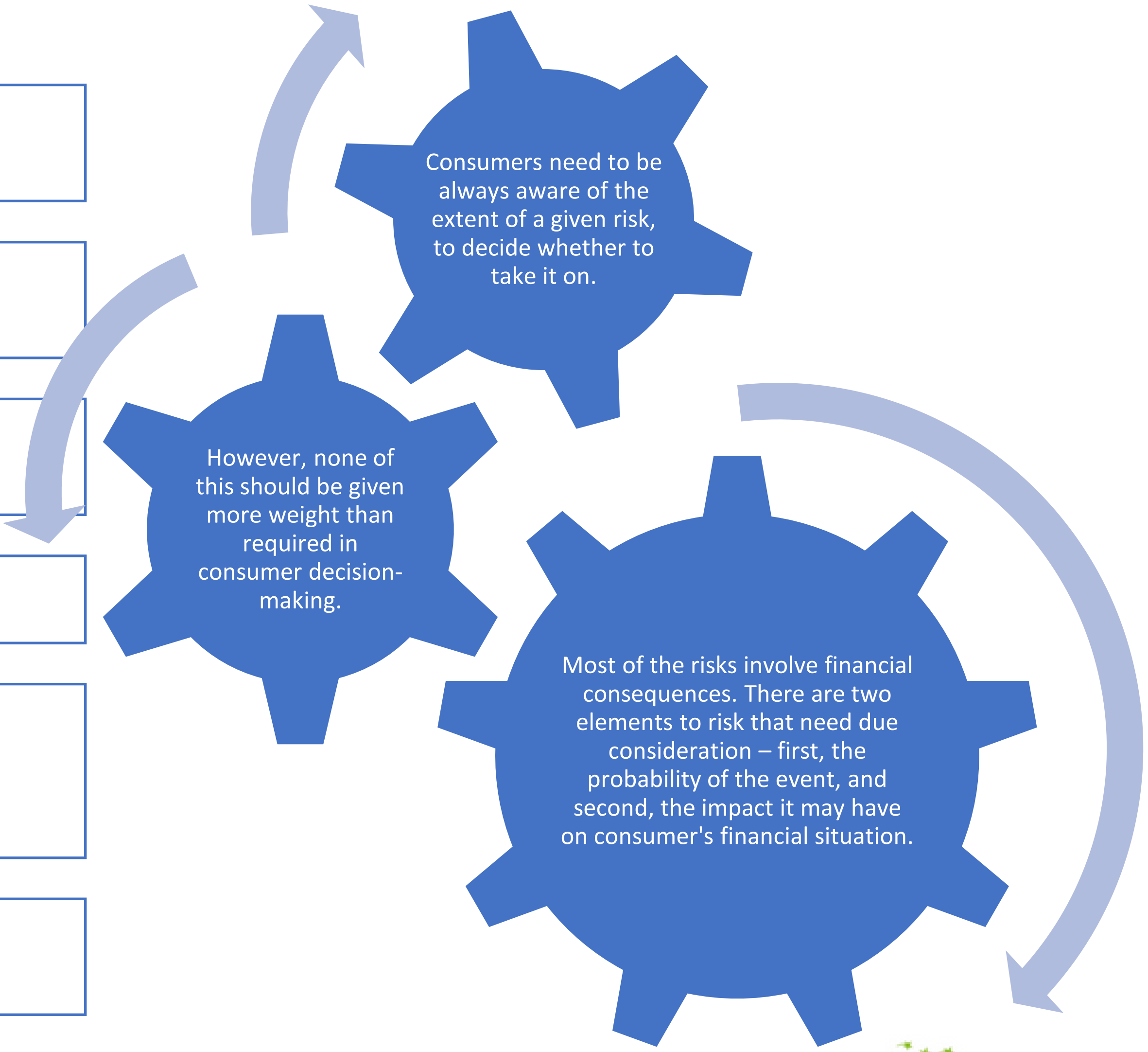
- Credit risk broadly means the risk to consumer capital.

Market Risk

- In 2020-2021 the equity markets had a sharp contraction after the Covid-19 pandemic spread. In 2022-2023 war in Ukraine influenced for cost of life. We can consider such broad-based market corrections as market risks. They can happen from time to time, either due to some financial/political crisis or events like wars, climate, etc.

Specific Risk

- Opposite to market risk, is a specific or unsystematic risk where the risk is concentrated on a particular industry, etc. These risks are easy to manage through diversification or with quality financial decisions.



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Risk management in personal finance

- Avoid Risk (conservatism: not smoking, healthy life, safe travel)
- Reduce risk (preparation: take knowledge, educate yourself)
- Share risk (with partners, have life insurance)
- Transfer risk (transfer to next generation, insurance)

Risk management is crucial, for sustaining and repelling the detriments of risks.

By employing risk management strategies, consumers are better equipped to address unpredictable scenarios that can negatively influence financial conditions.

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Market and specific risks for the financial household management

- inflation
- increasing interest rates due to Euribor strategies
- governmental decisions like increases in energy costs due to environmental laws or political sanctions
- governmental decisions like during SARS-COVID pandemic, e.g. lockdowns
- increasing costs of living
- consequences of not paying debt
- risks and dangers of modern financial products (cryptocurrency)
- others

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Effects of Inflation on Personal Finance

Inflation can affect personal finance in various ways, and some of the most prominent effects are:

Decreased Purchasing Power

As inflation increases, the value of money decreases, and it takes more money to buy the same goods and services. This means that consumers can buy fewer goods and services than before, leading to a decrease in purchasing power.

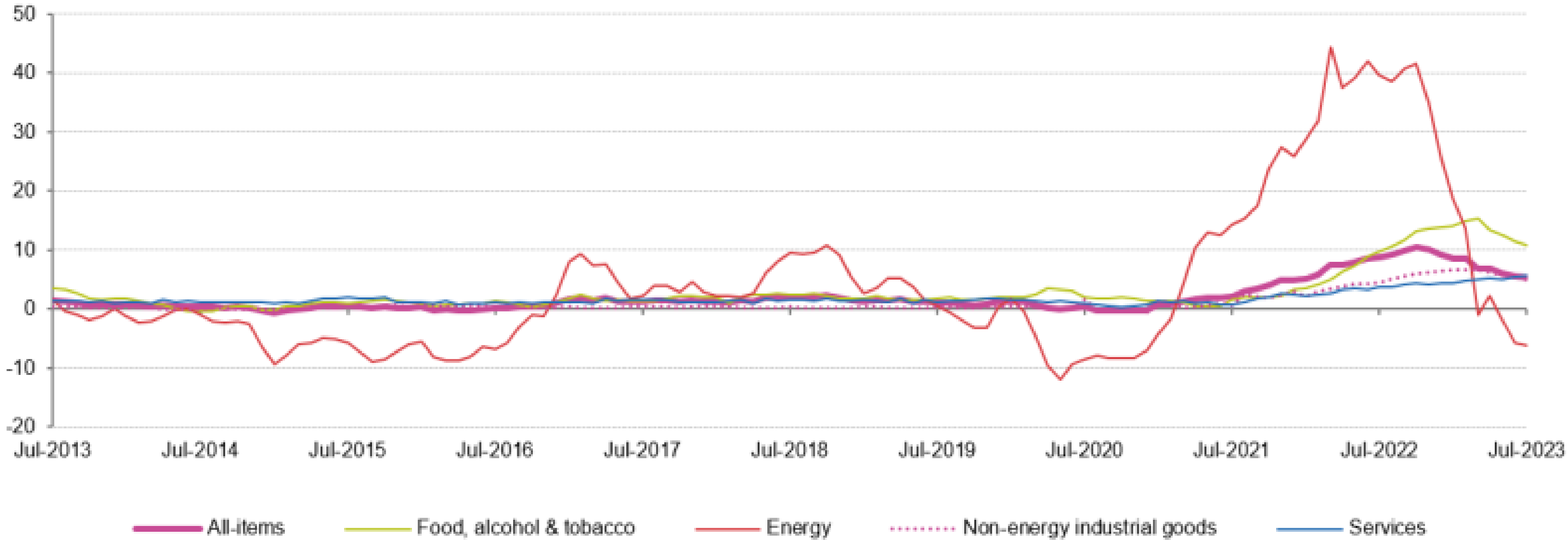
Increased Costs

Inflation can increase the costs of living as the prices of goods and services rise. This can affect everyday expenses such as food, rent, utilities, and transportation, leading to a decrease in disposable income.

Reduced Saving

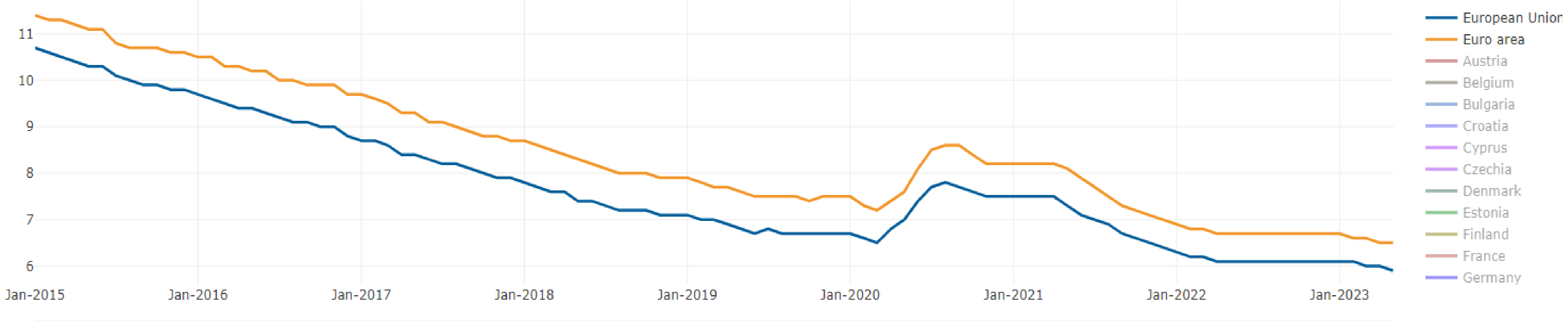
Inflation can also affect savings as the value of money decreases over time. This means that the real value of savings can decrease, leading to a reduction in purchasing power.

Euro area annual inflation and its main components July 2013 – July 2023



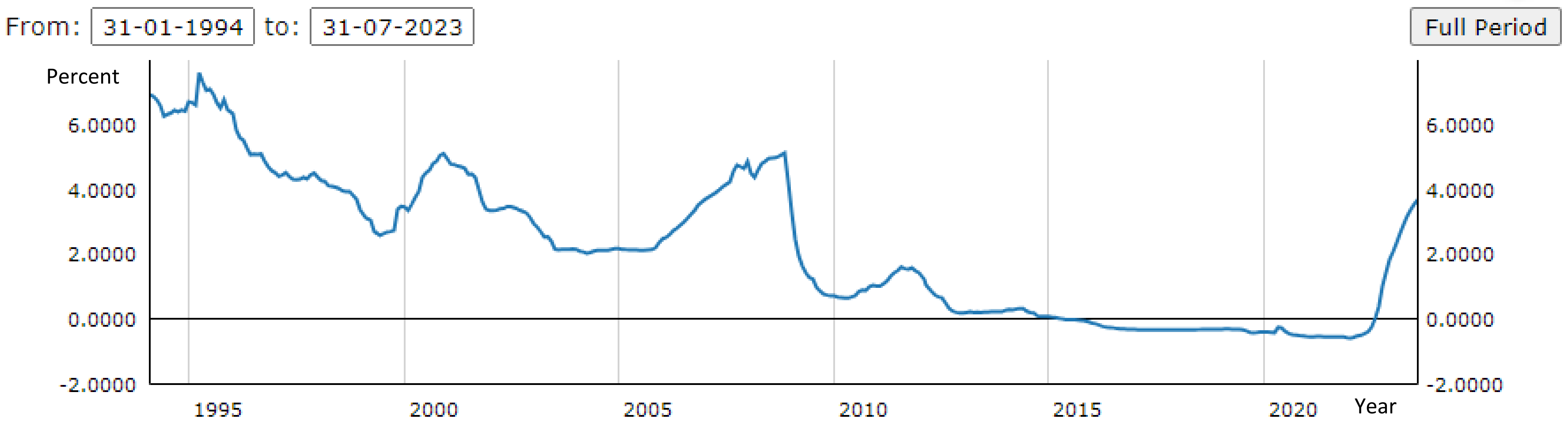
Source: Eurostat.

Unenployment rate (%)



Source: Eurostat.

Euro area Euribor 3-month (percent)



Source: European Central Bank

CASE. How to prepare a good financial education project 1/2

Choosing the area of financial education → Selection of the target group → Objectives of the project - direction of activity → Defining the geographical area

Objectives of the project - direction of activity
- Main goal
- Specific goals

Inputs → Activities → Results

Results
- Hard Outputs
- Soft Outcomes

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CASE. How to prepare a good financial education project 2/2

Examples of goal, activities, results

MAIN OBJECTIVE

- Increasing the competence of over-indebted people

SPECIFIC OBJECTIVES

- Increased knowledge of personal finance management, with particular emphasis on debt.
- Increased skills in the use of legal services in the field of consumer bankruptcy

INPUTS

- Financial inputs
- Non-financial inputs (personnel, material, relational)

ACTIVITIES (competitions, conferences, seminars, workshops, olympiads, individual consultations) - online and stationary

- Conducting workshops on the scope of credit products
- Providing individual consultations on improving the financial situation of over-indebted persons

RESULTS

- OUTPUTS (Hard results) - 2x workshops for 50 people, demonstrating coping strategies,e.g. how to reduce debt
- OUTCOMES (soft results) - 80% of participants increased their knowledge of consumer rights in the use of credit services

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