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# **AFI Core Competencies and the Assessment Instrument**

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## ***AFI Core Competencies and the Assessment Instrument***

This session will focus on providing you information about this topic.

Specifically, as a result of this session, you will be able to:

- Differentiate assessment from evaluation.
- Use the AFI Resource Center Assessment Instrument.
- Modify the AFI Resource Center Assessment Instrument.
- Explain the relationship between the AFI Resource Center Instrument and the AFI Resource Center Core Competencies.
- Use the AFI Resource Center Core Competencies in designing or revising financial education efforts.



## AFI Assessment Instrument

Identifier

Date

### Financial Attitudes

Please rate how much you agree with each statement, where 1 is "Do not agree at all" and 5 is "Agree Completely"

**(1) I could find the money to pay for a financial emergency that costs about \$1,000.**

1                      2                      3                      4                      5  
                                                                                          
Do not agree at all    Disagree Slightly    Neither                      Agree Slightly    Agree Completely

**(2) I believe it is necessary to carefully track how I spend my money.**

1                      2                      3                      4                      5  
                                                                                       

**(3) I believe that it is important to save money from every paycheck.**

1                      2                      3                      4                      5  
                                                                                       

**(4) I rarely worry about being able to meet normal monthly living expenses.**

1                      2                      3                      4                      5  
                                                                                       

**(5) I do not measure my family's financial success by our ability to match the spending of our friends and neighbors.**

1                      2                      3                      4                      5



### Credit Knowledge

|  |                            |                             |                                |
|--|----------------------------|-----------------------------|--------------------------------|
| <b>(6) When you borrow money, you are really borrowing from your future income.</b>  | <input type="radio"/> True | <input type="radio"/> False | <input type="radio"/> Unsure - |
| <b>(7) As long as you make your minimum payment each month, maintaining a balance on your credit cards has no effect on your credit score.</b> | <input type="radio"/> True | <input type="radio"/> False | <input type="radio"/> Unsure - |
| <b>(8) You are entitled to a free credit report from each of the three credit bureaus every 12 months with no obligation.</b>                  | <input type="radio"/> True | <input type="radio"/> False | <input type="radio"/> Unsure - |
| <b>(9) A credit score is used by banks and other lenders to decide whether or not to provide you a loan.</b>                                   | <input type="radio"/> True | <input type="radio"/> False | <input type="radio"/> Unsure - |
| <b>(10) Lenders are required by law to offer you the lowest interest rate available for a loan.</b>  | <input type="radio"/> True | <input type="radio"/> False | <input type="radio"/> Unsure - |

### Financial Services Knowledge

|  |                            |                             |                                |
|--|----------------------------|-----------------------------|--------------------------------|
| <b>(11) If you bounced checks in the past, you may be listed in a database that keeps you from opening a new checking account.</b>                   | <input type="radio"/> True | <input type="radio"/> False | <input type="radio"/> Unsure - |
| <b>(12) There is no point in shopping around for a checking account because all banks and credit unions charge the same fees for their accounts.</b> | <input type="radio"/> True | <input type="radio"/> False | <input type="radio"/> Unsure - |
| <b>(13) If someone has financial problems there are free counseling services available that can give advice on how to handle financial issues.</b>   | <input type="radio"/> True | <input type="radio"/> False | <input type="radio"/> Unsure - |
| <b>(14) If someone knows your date of birth and Social Security number they could steal your identity.</b>   | <input type="radio"/> True | <input type="radio"/> False | <input type="radio"/> Unsure - |



### Tax Knowledge

|  |                       |                       |                       |
|--|-----------------------|-----------------------|-----------------------|
| <b>(15) When someone else does your taxes for you they are responsible for any mistakes on the forms.</b>  | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
|  | True                  | False                 | Unsure                |
| <b>(16) A W2 form is an annual statement of your earnings, taxes paid, and other information necessary for completing your tax return that is provided by your employer.</b> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
|  | True                  | False                 | Unsure                |
| <b>(17) The Earned Income Tax Credit (EITC) is a tax benefit that reduces taxes owed or provides a tax refund for eligible people who are employed.</b>                      | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
|  | True                  | False                 | Unsure                |

### About You

**(18) As of today, how much money do you think you have in savings (not including any retirement savings you might have)?**

|                                       |  |
|---------------------------------------|--|
| <input type="radio"/> \$0             | <input type="radio"/> \$1001 to \$2500 |
| <input type="radio"/> \$1 to \$100    | <input type="radio"/> More than \$2501 |
| <input type="radio"/> \$101 to \$500  | <input type="radio"/> Don't Know       |
| <input type="radio"/> \$501 to \$1000 |  |

**(19) As of today, how much do you think that you have in total debt (not including any home mortgage you might have)?**

|  |  |
|--|--|
| <input type="radio"/> \$0                  | <input type="radio"/> \$15,001 to \$20,000 |
| <input type="radio"/> \$1 to \$2500        | <input type="radio"/> \$20,001 to \$30,000 |
| <input type="radio"/> \$2501 to \$5000     | <input type="radio"/> More than \$30,000   |
| <input type="radio"/> \$5001 to \$10,000   | <input type="radio"/> Don't Know           |
| <input type="radio"/> \$10,001 to \$15,000 |  |



**(21) Which best describes you?**

- White  Asian or Pacific Islander  
 Black or African American  Native American  
 Latino or Hispanic  Other

**(22) What is the highest level of education you have completed?**

- Less than high school  
 High school or equivalent (HSED/GED)  
 Some college or Associates (2 year) degree  
 4 Year college degree or more

**(23) Which best describes your housing status?**

- Own  Rent  Other

**(24) Thinking about last month, which comes closest to your total take-home income from all sources? (include job, child support, unemployment, or side jobs, after taxes and deductions are taken out)**

- Less than \$400  \$2001-\$2400  
 \$401-\$800  \$2401-\$2800  
 \$801-\$1200  \$2801-\$3200  
 \$1201-\$1600  More than \$3200  
 \$1601-\$2000  Not sure

**(25) What is your marital status?**

- Married  Single (never married)  Live with domestic partner  
 Separated  Divorced  Widowed  Other

**(26) How many adults (age 18 or older) are in your household?**

**(27) How many children (under 18) are in your household?**

**(28) What is your gender?**  Male  Female



**OPTIONAL ADDITIONAL BEHAVIORAL QUESTIONS**

| Currently, do you...  | Yes                   | No                    | Unsure                |
|---|-----------------------|-----------------------|-----------------------|
| ...Have a checking account? .....   | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| ...Have a savings account? .....  | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| ...Have a credit card? .....  | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| ...Use prepaid or stored value cards? .....   | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| ...Have a retirement savings account (e.g. 401K)? .....   | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| ...Have your savings or investment account set up to automatically put in money at least once a month? .. | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| ...Have money to pay at least three months' expenses set aside in a rainy day fund? .....                 | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| ...Find it difficult to pay any of your loans or debts? .....   | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| ...Use a written budget to plan your spending? .....  | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |

| In the last <u>3 months</u> , how often have you... | 3+ times              | 2 times               | 1 time                | Never                 |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
| ... Used a check cashing store? .....               | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| ... Taken out a pawn shop loan? .....               | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| ...Received a call from a bill collector? .....     | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| ...Paid a late fee on a bill? .....                 | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |



## Guidance on Using the AFI Financial Education Tool

### Purpose of the Assessment Tool

The ***AFI Financial Education Assessment Tool*** is designed to help your project understand and improve the financial literacy training provided to AFI participants. The tool measures the financial knowledge and attitudes of participants before and after they complete financial literacy training, allowing you to compare 'before' and 'after' scores. This comparison is useful for several purposes:

1. - *Assess the financial literacy needs of individual participants.* The 'before' score provides instructors with a measure of participants' financial knowledge (and gaps in knowledge) at the time of enrollment.
2. - *Measure the progress of participants during training.* Comparison of the 'before' and 'after' scores measures participants' progress during the period of financial literacy training.
3. - *Document the effectiveness of financial education to funders and other partners and stakeholders.* Positive change in financial literacy scores following training can be used to document the knowledge gained by participants, helping you make the case for continued support of your financial literacy education efforts.

### Rationale for Using an Assessment Tool

Before attending financial education, clients have some existing knowledge about core financial topics. After completing your financial education program, they have improved their knowledge, which may increase their financial capacity and capability. The changes in participants' financial knowledge, attitudes, and behavior make up a critical outcome of your program. To see this change, you need some way to measure participants' financial literacy both before and after the financial literacy training.

The assessment instrument provides a tool for measuring participants' financial literacy at both points in time, allowing you to document improvements. Figure 1 provides a simple example of how the instrument can be used to show increases in participants' financial literacy. In this scenario, the participant's overall score on the assessment instrument prior to training is 8, compared with a new score of 10 following training. The increase of two points in the participant's score is the increase in the participant's financial literacy that occurred during training. Additionally, the participant's score at both points in time can be broken into the responses to each specific measure to identify content areas that are strengths and weaknesses.



## Measures and Content

The first step in assessing the effectiveness of a financial education program is knowing what to measure. Prior work with the Assets for Independence (AFI) program developed a set of core competencies that identify the financial attitudes, behaviors, and information needed by adults to build more financially secure households. These core competencies cover the broad areas of financial goal development, budget management, credit management, financial services knowledge, taxation, and savings. (Please read the Core Competencies for Financial Education [Insert hyperlink to document] on the AFI the AFI Resource Center website).

The assessment instrument is designed to assess participants' financial knowledge with respect to this specific set of core competencies developed for the AFI Resource Center. The instrument includes questions that measure the participant's attitudes and knowledge related to each of the content areas used to organize the core competencies:

- Developing goals
- Managing a budget
- Credit management
- Financial Services
- Taxes
- Saving for the future

The instrument surveys participants on a subset of the specific competencies and allows you to assess general financial literacy and well-being. If your program emphasizes certain content areas or competencies not covered by the current instrument, you may modify the instrument to reflect your specific program. For example, organizations that primarily serve special populations are encouraged to add questions that reflect the specific needs of their target populations. The last section of this document provides guidance on what to consider when creating and adding questions.

While the core competencies guided the substance of the assessment questions, the development of individual measures also relied on several key principles:

- the instrument should be easy to administer;
- language should be easy to comprehend;
- the format should allow *either* paper or online distribution;
- measures should avoid topics that are unlikely to change between the pre- and post-surveys (e.g. net worth and other measures that change slowly over time); and
- questions should elicit valid responses and not suggest an intended or socially desirable answer.

The last principle in this list refers to questions where the participant might choose a response based on what the instructor might want them to say rather than their actual beliefs. For instance, an attitudinal question might ask the respondent to indicate agreement with the statement: "Overspending on credit cards is bad." The word *overspending* here provides a clue



to the participant that they should agree that it is harmful. A better way to phrase the statement is: “I try to limit credit card spending as much as possible.”

## **Implementing the Assessment Tool**

The assessment tool is intended to be used both before and after a participant completes your financial literacy training. Administering the tool before any financial literacy training measures clients’ initial levels of financial literacy. Administering the tool after financial literacy training is completed provides a second measure following program completion. The difference between a client’s score on the two measures—the ‘after’ score minus the ‘before’ score—therefore identifies the change in the client’s financial literacy over the course of the financial literacy training.

Implementing the assessment tool to create the financial literacy scores involves four steps:

### *Step 1: Customize the tool for your program.*

The easiest way to assess this instrument’s compatibility with your current financial education is to compare the core competencies developed for the AFI Resource Center with your own curriculum’s core competencies or objectives. Through this process, you can identify areas of overlap as well as gaps. Then review the assessment tool. In general, you should ensure that the questions are appropriate to your organization’s community, participants, and programs.

If your program addresses or emphasizes different core competencies, you will need to develop questions to measure your program’s effectiveness that relate to your specific core competencies. In some cases, you may be able to slightly augment the assessment instrument developed for the AFI Resource Center. In other cases, you may want to seek out another assessment instrument that more closely aligns with your program.

For assistance in developing specific assessment questions for your program, see the final section of this document or request technical assistance from the Financial Literacy Enhancement Initiative through the AFI Resource Center (1-866-778-6037; [info@idaresources.org](mailto:info@idaresources.org)).

### *Step 2: Prepare to administer the tool.*

Planning to implement assessment requires making decisions about when and how to ask respondents to complete the assessment instrument.

- Do you want to administer it online or using paper?
- Do you want your clients to complete it before entering your program or during their first program session?
- How soon after your clients finish your program do you want them to take the follow-up assessment to measure their progress? Do you want it to be immediately after they



complete your program, one month later, three months later, or even further into the future?

Using online or paper assessment instruments are both equally valid as long as you are consistent. If you use an online tool for the 'before' survey, you should use an online tool for the 'after' survey. If you decide to administer your assessment online, you can use websites such as Survey Monkey (<http://www.surveymonkey.com/>) to create and collect the assessments. One advantage of online administration of the assessment is that the data are automatically entered into a database, with no need for subsequent entry of the data by you or your staff. If you decide to do paper administration, you can simply print out the assessment tool after making your customizations. The tool is configured to be easily read by optical scanners to facilitate the processing of large numbers of assessments. For small numbers of assessments, it should be relatively easy to manually enter the results into an Excel spreadsheet for analysis.

A second issue is when to administer the assessment instrument. Participants should initially complete the assessment instrument prior to receiving any financial literacy training. In many programs, the assessment instrument is completed at the beginning of the first class. Other programs opt to have participants complete the instrument at the time of enrollment, so that they do not need to use time during the first training session. If administered prior to the first training session, information from the pre-training assessment can be used to tailor the training to better meet the strengths and needs of the participants.

The assessment instrument should be administered again after participants complete the financial literacy training. This can be done either immediately following the completion of the program, or at a subsequent date of your choosing. The advantage of conducting assessment during the final training session is that you are likely to receive responses from nearly all participants. The disadvantage is that your clients have little time to adjust their financial behavior/situation in response to your program. Conducting follow-up assessments at a later date provides more time for participants to act on the information learned during the training, but carries the risk that participants will not respond to the survey.

No survey will obtain 100% response rates. However, you should consider the extent of non-response when choosing how to administer the assessment instrument. Take time to consider who is likely to respond. Will it be the most motivated and successful clients? How might this affect your results?

If you choose to conduct follow-up assessments at a later date, you can either deliver the survey via regular mail or via email with a link to the online assessment tool. If you intend to do an email follow-up, ensure that you conduct the initial assessment online. In order to maximize response rates, you should inform your clients at the end of the program to expect a follow-up survey, and emphasize the importance of this survey to the continuation and improvement of your program. If funding allows, multiple reminders to complete the survey/copies of the assessment tool should be sent to clients who fail to respond to the initial request to complete the follow-up assessment.



It is important to send out reminders to clients about the survey before the actual survey instrument goes out, and then follow-up with additional requests to complete the survey if a client fails to respond. Good survey administrators may request a response 3 or 4 times in order to maximize response rates. If you still have trouble getting responses after 3 or 4 reminders, another option is to offer an incentive or reward for responding. The rewards do not have to be large, so a raffle drawing or small reward may be enough to encourage participation.

### Step 3: Administer the instrument and record data.

Once the planning process is completed, administering the instrument to participants before and after the financial literacy training is straightforward. The only concern is to monitor the response rate, if necessary, to ensure that responses are received from most respondents. A response rate of above 80 percent should be your target.

As completed instruments are received, the data should be recorded into some centralized database or spreadsheet that allows for the data to be easily analyzed. Most online survey tools will automatically record responses in a database for you. Paper surveys can be scanned or entered by hand into a spreadsheet such as Excel.

### Step 4: Analyze the results.

The final step is to perform analysis. Individual questions can be analyzed as follows:

- True/False/I'm not sure Questions – Assign 1 point for a correct answer and 0 points for an incorrect answer.
- Financial Attitude Questions – The number selected by the respondent should be divided by 5 (or multiplied by 0.2), with that number awarded as the points for that question. For example, if a respondent selects an answer of 3 out of 5 they would be awarded 0.6 points ( $3/5$  or  $0.2 \times 3$ ).

The overall score for each participant is calculated by adding the scores for the 17 questions. The minimum score is 1 and the maximum score is 17. The increase in financial literacy associated with participating in the program is calculated as the difference between the overall scores of the before and after surveys. A sample grading sheet is included at the end of this document as an example of how to score participant responses.

You might also be interested in how participants perform on individual questions or core competency areas. To examine participant's improvement on an individual measure, calculate the average score for participants on the before survey and compare it with the average score on the after survey for a particular question or competency area.

The answer key also identifies the competency area associated with each measure. If you would like to examine scores for the different competency areas, you should first review the Core Competencies for Financial Education [hyperlink to document] available from the AFI Resource Center website. Those documents will describe each of the competency areas



associated with the competency numbers used in the answer key. Once you are familiar with the core competency areas, you can compare before and after scores on the questions in a given competency area. For example, if you are interested in a participant's score on competency area 5—Taxes—then you simply compare the number of correct answers on questions 15, 16, and 17, which are associated with competency 5, before and after the program.

The before and after scores for any competency area can be directly compared. However, you need to exercise care if you want to compare the scores of one competency area to another competency area. Remember that some competency areas have more questions than others. Also, the questions may be more difficult for one competency area than another. As a result, we do not recommend comparing scores across competency areas without looking in detail at the measures used to construct each score.

| <b>Sample Grading Sheet</b>             |               |                |               |  |               |                |               |
|---|---------------|----------------|---------------|--|---------------|----------------|---------------|
| <b>Client Pre-Program Grading Sheet</b> |               |                |               | <b>Client Post-Program Grading Sheet</b> |               |                |               |
| Question                                | Client Answer | Correct Answer | Score         | Question                                 | Client Answer | Correct Answer | Score         |
| 1                                       | 2             | 5              | 0.4 (0.2 * 2) | 1  | 4             | 5              | 0.8 (0.4 * 2) |
| 2                                       | 3             | 5              | 0.6 (0.3 * 2) | 2  | 5             | 5              | 1.0 (0.5 * 2) |
| 3                                       | 4             | 5              | 0.8 (0.4 * 2) | 3  | 4             | 5              | 0.8 (0.4 * 2) |
| 4                                       | 2             | 5              | 0.4 (0.2 * 2) | 4  | 3             | 5              | 0.6 (0.3 * 2) |
| 5                                       | 3             | 5              | 0.6 (0.3 * 2) | 5  | 4             | 5              | 0.8 (0.4 * 2) |
| 6                                       | TRUE          | TRUE           | 1             | 6  | TRUE          | TRUE           | 1             |
| 7                                       | FALSE         | FALSE          | 1             | 7  | FALSE         | FALSE          | 1             |
| 8                                       | TRUE          | TRUE           | 1             | 8  | TRUE          | TRUE           | 1             |
| 9                                       | FALSE         | TRUE           | 0             | 9  | TRUE          | TRUE           | 1             |
| 10                                      | TRUE          | FALSE          | 0             | 10                                       | TRUE          | FALSE          | 0             |
| 11                                      | FALSE         | TRUE           | 0             | 11                                       | TRUE          | TRUE           | 1             |
| 12                                      | TRUE          | FALSE          | 0             | 12                                       | TRUE          | FALSE          | 0             |
| 13                                      | TRUE          | TRUE           | 1             | 13                                       | TRUE          | TRUE           | 1             |
| 14                                      | TRUE          | TRUE           | 1             | 14                                       | TRUE          | TRUE           | 1             |

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|                               |       |       |                 |    |       |       |      |  |
|-------------------------------|-------|-------|-----------------|----|-------|-------|------|--|
| 15                            | FALSE | FALSE | 1               | 15 | FALSE | FALSE | 1    |  |
| 16                            | TRUE  | TRUE  | 1               | 16 | TRUE  | TRUE  | 1    |  |
| 17                            | TRUE  | TRUE  | 1               | 17 | TRUE  | TRUE  | 1    |  |
|                               |       |       |                 |    |       |       |      |  |
| TOTAL:                        |       |       | 10.8            |    |       |       | 14.0 |  |
| Change in Grade Post-Program: |       |       | 3.2 (14.0-10.8) |    |       |       |      |  |

## How to Modify the Assessment Tool to Meet your Needs

If your program covers specific topics that are not covered by the assessment tool, you may add additional True/False/I'm not sure questions or scale questions, as needed, to assess clients' comprehension of these topics. Several optional questions are included following the main sections of the instrument, which can be included if desired. Staff at AFI Projects should avoid adding more than a handful of additional questions to the survey instrument. With that in mind, practitioners are strongly encouraged to review the instrument and make any adjustments that are necessary to meet the needs of their program.

Where possible, ensure that any additional questions:

- be added near existing questions with similar themes;
- be written as clearly as possible in language that is easy to understand;
- follow the format of the existing questions;
- are included in both the before and after survey instruments.

It is also possible that you may desire more detailed demographic or financial information to analyze the success of clients within various demographic groups. If so, additional questions can be added to the demographic section to capture this information. Another option is to link the assessment responses to any administrative data that you already collect. This would allow you to maximize the amount of information available on the clients, and may reduce the number of demographic questions that must be included in the instrument. To pursue this option, you should first consult with the staff member who manages your data to determine whether it is feasible to join the assessment data to your existing administrative data sources.

A final modification suggestion is that the demographic questions can be removed when the survey is administered after the financial education training. It is unlikely that the demographic information will change substantially during the course of the financial literacy training, so the demographic section can be dropped from the follow-up to save time.

## Core Competencies for Financial Education

This document describes core competencies identified to guide financial education provided through the Assets for Independence (AFI) program. Core competencies encompass the skills, knowledge, and capacity required to achieve a base level of proficiency in a particular area. For



financial education programs, they define the core elements of the curriculum that must be mastered in order to demonstrate a base level of financial literacy. They therefore also provide financial education providers with a foundation for organizing resources and developing a course curriculum.

In the financial education field, there are no clear guidelines for what substantive topics must be addressed in a general financial literacy curriculum or for what level of skills and knowledge constitute sufficient financial literacy to develop and protect assets for the long term. The core competencies presented in this document are created specifically for the AFI program and identify the core elements of financial literacy needed by AFI participants. They were developed through detailed review of existing curricula and consultation with experts.

The AFI Resource Center encourages grantees to review the core competencies and to use them as the basis for curriculum development, training materials, and assessment. However, grantees are not required to adapt their financial literacy training in response to the core competencies. Organizations that primarily serve special populations are particularly encouraged to adapt the core competencies to reflect the needs of their target populations.

The core competencies are accompanied by two additional resources available on the AFI Resource Center website [[www.idaresources.org](http://www.idaresources.org)]:

1. - *Curricular Resources for Core Competencies* - This document reviews the financial education curricula grantees most often use. For each core competency, it identifies the curricula that contain materials related to the competency. Grantees seeking to supplement their training materials for any competency may find this to be a useful reference.
2. - *Assessment Instrument* – The AFI Resource Center, in consultation with grantees and financial education experts in the field, has created an assessment instrument designed to measure the financial literacy of participants before and after training. The assessment measures directly reflect the core competencies, while the format of the instrument allows grantees to tailor the assessment tool to meet their program’s specific needs. The instrument is accompanied by a written guide to implementing assessment.

## Content Areas

The core competencies are grouped into six broad content areas that reflect the key substantive topics addressed by the core competencies. The table below identifies and defines the six content areas. The next section presents the core competencies.

| Content Area           | Explanation of the Content Area   |
|------------------------|---|
| 1. - Developing goals  | Goal setting is critical to taking control of financial choices over a long time horizon; a key factor is setting up systems to facilitate goal attainment and overcome a focus on the present. |
| 2. Managing a budget - | Having a written budget is a critical step in taking control over and   |

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- |                            |   |
|----------------------------|---|
| 3. - Credit Management     | monitoring spending, as well as in dealing with shortfalls. Credit access, management and repair are among the most common issues lower-income households face.                   |
| 4. - Financial Services    | Access to banking services is a key part of matched savings programs; a key competency is appropriately building on that experience with other financial services.                |
| 5. - Taxes                 | Tax time remains a crucial time each year, especially for Earned Income Tax Credit (EITC) eligible households. Decisions about how to file and how to use a refund are paramount. |
| 6. Saving for the Future - | Retirement planning is not a priority for many lower-income households, but the importance of saving early and maximizing access to programs/employer benefits is important.      |
- 

### **AFI Financial Literacy Core Competencies**

The core competencies include aspects related to financial knowledge, behavior, and attitudes. The outline of core competencies presented below groups the competencies into the six content areas (1,2,3...) and then into several sub-areas (a,b,c...). The core competencies (i,ii,iii...) present specific statements of knowledge or skills that participants should acquire through participation in financial literacy training.

Grouped by content area and sub-area, the core competencies are as follows:

#### **1. - Developing financial goals**

- a. - Understanding that financial decisions have long term impact on tangible aspects of your life and lifestyle
  - i. - Explain that not saving and having high debt creates feelings of insecurity
  - ii. - Understand that working/having a stable or rising income is critical if there is no savings cushion in case of health, job or family crisis
  - iii. - Understand that not balancing one's budget now may have damaging implications for financial health in the future
- b. - Understanding thrift and the longer-term payoff to not consuming all available resources in the present, including an understanding of the role of marketing and peer influences on your demand for consumption
  - i. - Explain the impact of high debt and/or no savings on retirement; being able to retire at an age you desire; being able to support your family's goals such as travel, education or bequests; being able to buy a home or start a small business
  - ii. - Understand that many businesses are vying for your hard earned income; dollars in their pockets are not in yours; know the elements of being a critical consumer
  - iii. - Understand that keeping up with other households' spending is not a good measure of financial stability or success
- c. - Understanding financial habits and recognizing personal limitations of self-control or attention to details



- i. Understand that everyone has problems monitoring eating, exercise and spending; the key is to know what your limits are
- ii. Create systems that keep you from over spending or not meeting your goals (commitments, logs/diaries, separate accounts, etc.)
- iii. Understand that you have to be in control of your money and watch your accounts, spending and use of debt—no one else will

## 2. - **Managing a budget**

- a. - Understanding how to define and track income and expenses including simple management methods such as the “envelope method” of budgeting where all expenditures are paid for in cash out of envelopes set aside for specific purposes
  - i. - Understand what income is, how to measure income (paystubs, tax forms, receipts) and how to judge if that income is predictable or reliable
  - ii. - Understand what re-occurring expenses are, how to manage them, and if expenses are fixed or variable
  - iii. - Develop a written budget and method of tracking/monitoring expenses
- b. - Practice tracking expenses and planning for short run variations in re-occurring expenses (seasonal utility bills) as well as unexpected expenses (car repair)
  - i. - Develop a normal budget
  - ii. - Develop a crisis budget with a shortfall income or unexpected expense
- c. - Understanding the costs of options when a shortfall occurs
  - i. - Know the costs and benefits of borrowing from friends/family and credit cards
  - ii. - Know the cost and benefits of deferring expenses or using savings
  - iii. - Understand how to access public benefits such as food assistance, housing assistance, public health coverage, utility assistance, employment assistance and disability

## 3. - **Credit management**

- a. - Understanding that borrowing money has direct and indirect costs and that late payments and defaults are reflected in your credit record
  - i. - Be able to define credit including credit cards, lines of credit, payday loans and other types of consumer loans
  - ii. - Understand how credit cards work, the costs of revolving debt and the role of card utilization on credit reports and scores
  - iii. - Understand where and how to access a free credit report from each credit bureau annually
  - iv. - Understand how to read a credit report
- b. - Understanding that credit scores are based on credit records and that scores are used to price loans, as well as to evaluate your ability to obtain a lease, utility/phone and employment
  - i. - Understand what a credit score is and where it comes from
  - ii. - Understand how scores are used
  - iii. - Understand factors that impact scores
- c. - Understanding the role of auto, education and mortgage debt as special forms of loans



- i. - Define common forms of loans and the typical features
- ii. - Know how to compare loans and find sources of unbiased advice on loan terms and options
- iii. - Define loan types and features including APR, term (amortization period), fixed versus variable rates and points and fees
- d. - Understanding options if you can no longer repay outstanding credit
  - i. - Understand how to get credit counseling
  - ii. - Understand the costs and benefits of repayment plans and bankruptcy
  - iii. - Know rights and obligations in case of default.

#### 4. - **Financial services**

- a. - Understanding the role of various types of transactional accounts
  - i. - Explain the costs and benefits of checking accounts and the costs of overdrafts
  - ii. - Explain the costs and benefits of debit and stored value cards.
- b. - Understanding basic financial savings products
  - i. - Explain the costs and benefits of low-balance/fee accounts.
  - ii. - Describe the role of US Savings Bonds
  - iii. - Understand the special category of matched savings accounts
- c. - Understanding how and where to find unbiased, non-commission-based advice on forms of financial products
  - i. - Explain how to investigate workplace-based options including the use of payroll deduction
  - ii. - Understand the value of property, life and health insurance for protecting your financial security
  - iii. - Understand that firms and brokers that promote products may not have interests aligned with your needs for financial products and services; how to check up on an investment professional

#### 5. - **Taxes**

- a. - Understanding what documents are used to file a simple tax form and options for completing an annual tax form.
  - i. - Define W2 and other forms needed
  - ii. - Understand how and when to file federal, state and local income taxes
  - iii. - Understand what a tax refund is and how to allocate those funds appropriately for spending or savings, or even to adjust withholding to limit larger refunds
- b. - Understanding major tax deductions and credits
  - i. - Explain EITC
  - ii. - Describe the Child Tax Credit (CTC)
  - iii. - Describe mortgage interest and real estate deductions, as well as the lower value of deductions in general for taxpayers in lower income tax brackets with the standard deduction



## 6. - Saving for the future

- a. - Understanding how Social Security benefits are calculated and the role of the program for survivors, people with disabilities
  - i. - Understand the implications of entering older ages with little or no savings, including working daily until death or disability
  
- b. - Understanding what forms of savings options exist and how direct deposit can help make saving invisible (pay yourself first)
  - i. Understand options for saving for education, dependents or a special long-term goal
  - ii. Understand defined contribution and defined benefits pensions and how to determine if you might be covered by such a plan

## Resources

If you want to learn more about approaches to assessing and evaluating your financial education efforts, information can be found on the websites of the following organizations:

- Assets for Independence Program, at [www.acf.hhs.gov/assetbuilding](http://www.acf.hhs.gov/assetbuilding)
- The National Endowment for Financial Education at [www.nefe.org](http://www.nefe.org)
- FDIC (Federal Deposit Insurance Corporation) and its Money Smart Curriculum at [www.fdic.gov/consumers/consumer/moneysmart/](http://www.fdic.gov/consumers/consumer/moneysmart/)
- U.S. Financial Literacy and Education Commission at [www.mymoney.gov](http://www.mymoney.gov)