

## **Financial Illiteracy**

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## **Introduction**

The fabric of society is woven very tightly and each strand of its identity holds unique issues that show its wear. Arguably the most influential strand, personal finances, hold immense weight over people's lives. It ranges so widely between the poverty stricken and the ultra-wealthy, yet personal finance and the economy hold power over all. The economic environment affects everyone differently and a person's financial stance has growing importance. Between spending and saving, the weight of spending crushes potential opportunities for positive change. The socio-economic status of Americans has a deep rooted history and is the common source of a divide between the different classes of wealth. For centuries the poverty stricken have faced low standards of living and endured generational discomfort. People with low status face higher rates of both mental and physical health decline. They also face insufficient education curriculum that doesn't prepare them to handle finances. These shortcomings change their daily lives and ability to thrive. With so many people struggling to coexist within the financial world, financial procarities pose a negative risk to health. The financial insecurities that threaten America's poverty population pose negative implications on physical and mental health, making it nearly impossible for individuals to climb the fiscal ladder and break the cycle of generational financial discomfort.

## **Economy in the US**

The economy is defined in the Cambridge English Dictionary as, "the system of trade and industry by which the wealth of a country is made and used" (Cambridge). Yet, the definition lacks the key factors that are embedded in that system: people. The economy is a complex system that changes throughout time, depending on historical events and socio-political trends.

Economics revolves around people, and the economy influences the majority of an individual's lifestyle conditions. During the past couple of years, Americans fell victim to the harsh financial conditions brought upon by COVID-19. More specifically, people in low socioeconomic standing had an abrupt and severe reaction to record high unemployment rates and inflation. Direct effects on household income make it more of a struggle for people to get by with just their paycheck. “The U.S. Census Bureau’s Household Pulse Survey in July 2020 showed that more than 60 percent of low-income households with children experienced an income shock due to COVID-19, resulting in food insecurity and difficulty paying bills” (Bruce). It becomes hard to survive without a steady paycheck coming in to support common household costs. Some were able to up for instances of uncertainty by creating savings accounts with amounts that would cover living costs for a specified period of time if they were to lose their source of income, but the ones facing poverty didn’t and struggled immensely. The low-income households were deeply impacted with the onset of unemployment and crippling debt. With everything shutting down, companies had to lay off employees and stop paying wages to counter customer loss. Curfews and stay at home orders made it hard to seek any sources of work that could help pay the bills. While some costs decreased as a result of staying home frequently, the at home bills rose due to increased usage. Savings easily vanished and left them with debt and bills needing to be paid. About two-thirds of the people reporting serious financial problems came from households earning below \$30,000 due to unemployment (Findling). Their paycheck was a significant part of survival and helped them get by. They lacked the luxury of having safety nets to protect them from further financial hardships. It made it impossible to live without the direct intervention and aid of the government. The lower socio-economic class struggle time after time with money management and the past couple years had made it even more difficult. Government

intervention and aid has slowly helped relieve those in need, but even now with the light beginning to emerge at the other end of the tunnel, people are still left with the burden and side effects. People still worry about living paycheck to paycheck and find the amount of debt built up to be crippling.

## Poverty

The cost of living has always played a significant role in the survival and overall ability for low socioeconomic individuals to get by. In today's world, inflation and consumer overspending are pushing the lower class further down the ladder. According to the U.S. Census Bureau, about 40 million Americans are living in poverty and the average poverty rate rose to 11.4% (USCB). Before the start of COVID-19, the poverty rate was gradually decreasing for the last five years. Now, people face a higher risk of finding themselves within a lower socioeconomic class from the adverse effects of unemployment and financial pressures. The fluctuation of poverty greatly depends on the economic success within the country. During periods of economic recession, like the housing crisis scene in 2008, the poverty rate begins to increase. This rate will continue to rise with a harsh economic environment until the situation settles, allowing people from poverty to regain composure and become more stable financially. Poverty in America has immensely changed people stuck in low socioeconomic status. The recent economic conditions and current events, including COVID-19 and Russian sanctions, have caused a major increase in inflation. The U.S. Bureau of Labor Statistics published the inflation rates over the course of about 40 years. The February, 2022 inflation rate stood at 7.9% which increased by almost 6% from the beginning of 2020 (USBLS). This is the highest inflation rate Americans have seen since the late 1980's. This Consumer Price Index takes into

consideration all common living expenses and illustrates the dramatic change in the economy. With these living conditions continuing to increase, low income households and families aren't able to keep up with prices. The cost of living increases, while their paychecks remain the same. These minimum wage workers are forced to cut back and try to stretch out their paychecks. The minimum wage has caused workers to struggle to afford a livable lifestyle and leaves people struggling to pay their bills.

## **POVERTY AND ITS IMPLICATIONS**

### Mental Health

Over the years, mental health has become increasingly prioritized and acknowledged by society. It became an important aspect of society and has led to different correlations within people in poverty and poor mental health. This causes people to become depressed and leads them down a negative headspace. Reports of extreme levels of emotional distress increased to 6.4% in 2019 and it strongly suggests that the workers wages are a direct cause (Masanori). People have responsibilities and bills to pay, yet aren't sufficiently paid enough to live without emotional pressure knocking on their door. They also find themselves needing to supplement the extra income needed with another job, working longer and harder just to keep afloat. Incorporating another minimum wage job can lessen the financial pressure by providing more income, yet put more strain on their mental and emotional state. This leads to a more depressive and exhausted state after already having to stress about surviving on what the state deems livable. Increasing the minimum wage would have a significant impact on mental health for people trapped in poverty and take some of the financial pressure off. Recent studies that examined the correlation between minimum wages and closely associated mental health

indicators, found that higher minimum wages are associated with improved mental health (Masanori). Appropriate minimum wages are incredibly influential in the lower-income communities and their mental health. The mental well-being of people employed in the minimum wage environment should be taken into consideration. Incremental increases should be based on what it can provide and should take the growing living expenses into consideration, like the cost of housing, food, insurance, and common consumer products. Workers would be able to go home after working and not worry as much about expenses piling up. They have expanded possibilities in the food they can buy and the overall quality of their life. Some may want to eat healthier, get better housing conditions, pay off medical bills, etc. and this is made possible with the extra money earned from a raise. But, for now people are struggling in the conditions of the economy. Having to stress over various fiscal responsibilities on a day to day basis has significant impacts on people.

People have become more open about recognizing the importance of personal struggles, which may have been seen as insignificant in earlier years. Mental side effects from financial hardship are prevalent in society and have highlighted the existence of mental health issues among poverty. Comprehensive, data driven, studies have proved the direct relationship of financial hardships and negative mental states like depression or anxiety (Sweet). Poverty is linked with a high rate of depression and other very serious mental issues. It isn't just a coincidence that areas prone to poverty conditions contain a higher rate of developing mental illnesses. The financial hardship and poverty conditions they have to deal with provoke intense emotions and anxiety. Their financial situation makes it even more difficult to seek treatment and can become detrimental to how they are able to interact with the rest of society. Taking a look at the different economic regions in New York City, the areas associated with lower income levels

have a lower rate of receiving mental health treatment. 66.5% of people suffering from mental health conditions in the Upper East Side are receiving mental care, while only 19.4% of people in the Bronx are receiving care (Mayor's Office of Community Health). This is a significant difference in the ability of low income individuals and communities to improve their mental health with professional care.

### Maslow's Hierarchy of Needs

A lot of the key factors inducing these problems revolve around the lack of basic needs that humans rely on for survival. It's in human nature to act out of survival and allows people to develop based on specific needs. Maslow's hierarchy of needs distinguishes what it takes to move upwards throughout the levels. It ranks the most basic needs as physiological and safety. The physiological level includes components like food, shelter, water, and rest. They are common struggles faced by people in low socio-economic conditions that they need to satisfy. Inflation and low income make it difficult to have a sense of security that they will always have those resources. The need for security and safety is also a common struggle considering they don't have a sense of financial safety and often times live in unsecured conditions, whether it be the neighborhood or at their jobs. It's difficult to worry about needs that surpass safety on the hierarchy, when an individual is uncertain if they'll stay alive in their current environment. These physiological needs are necessary for people to obtain both psychological and self-fulfillment needs. Due to these shortcomings, they don't have the mobility to move up the hierarchy. This would explain the reasoning as to why the low socioeconomic class tend to lack focus on belongingness and love needs, esteem needs, and self-actualization. All of the needs that they are unable to meet are important for psychological wellness and without them, people stuck in poverty will be stuck with these mental disadvantages.

The psychological disadvantages and poor mental health pose a threat to children in those environments. They aren't fully developed mentally and the financial stress and living conditions of their families trickle down to them. One study examines the effects of struggling and financially unsound mothers on their children over time. "Results revealed that mothers who lack healthy informal safety nets and face poor psychological health are more likely to have children whose mental health is at risk" (Radey). The psychological pressures of poverty are making it harder to raise healthy individuals. This will likely lead them down a similar path as their parents and significantly impact their success. The nation thrives on the success of new generations innovating and fueling the economy. Raising a part of a generation with mental health issues would have negative impacts on future children and society as a whole. Children's health should be nurtured with a sense of security instead of stress and financial burden. Programs that develop safety nets and health care centers should oversee the protection of society's youth so that it isn't just reliant on their parent's success. Being able to get on their feet would slow down their decline and create an opportunity for them to pivot away from health decline, for once making their health a priority. Families must be able to get the financial help they need in order to better themselves and heal from the generational disparities they faced.

### Physical Health

The financial stress that people face can also materialize into physical ailments, making them prone to a decline in health. Having extensive amounts of stress affects people's bodies and may cause them to get sick and physically feel themselves burnout. Doctors can look at factors like high blood pressure and self-reported health metrics to determine different correlations of financial debt and losses. Recently, the University of Alabama published studies that compared the impact of various financial stressors on midlife Americans. It uses patient blood pressure and



surveys that are plotted within subcategories of financial circumstances. The study showed that debt experiences had the largest and most assertive interaction with physical health, with one of the most notable factors being bankruptcy (Wolfe). Patients facing circumstances like housing loss, bankruptcy, and indebtedness, had high blood pressure. The economic environment over the years of the study shows the fluctuation of health issues within the data as well. The highest points of HBS are the highest during the years during and shortly after the financial recession in 2008. These points in time hit Americans hard and had a significant impact on people's futures.

Taking a look at families in financial disparities, children's physical well being is a potential casualty. The stress and discomfort can impact immune and epigenetic pathways. This causes susceptibility to illnesses, increased inflammation, risk for cardiovascular, diabetes, and even cancer in adulthood (Chen). Life impeding medical conditions place kids at even more of a disadvantage and it makes it more difficult for them to move up the economic ladder.

Systematically, seeking help for mental health can have an adverse effect. Treatment can be extremely costly and overwhelming, ultimately leaving an individual with even more financial burden than previous. The dynamics of poverty and stress can be broken down even further with the segments of racially outweighing factors. "Future research should expand upon the work examining early life stress and health outcomes to identify racial disparities that underlie this relationship" (Chen). Race could possibly heighten the disconnect, due to an increasing number of African Americans continuously struggling to find financial security. The effect of poverty is greater than some perceive, while looking at their situation at a glance. These illnesses can be lifelong and have the potential to affect these victims of economic inequality for the rest of their lives. Society needs to understand that decisions made to help low income families will not only impact them in the short term, but will change the outlook on health overall.

## **Financial Literacy in the US Education System**

Finding available opportunities to overcome some of the financial procurities people face starts with education. People must learn the ways to properly handle their finances so they're able to help themselves through difficult times while having viable paths to prevent it. Many Americans don't have enough financial knowledge which makes working with a low income even harder. Schools need to offer more general education in the financial world so they are better prepared to take on the real world. "According to the PISA financial literacy assessment that assessed the financial literacy skills of 1486 US students and compared across partner countries, the United States ranked sixth among the fifteen participating nations" (Park). This shows how the current education system should be improved upon. Youth are not properly prepared for the circumstances they'll run into out of the classroom. Diving deeper, "The assessment also found that socio-economically disadvantaged students in the United States were more than twice as likely as advantaged students to be unable to recognize the purpose of an invoice" (Park). Children who have a socio-economic advantage, have a better understanding of finances through other sources than school, whereas the other kids are left without a proper education. Making general economics a crucial part of school curriculum enables students to have the same well-rounded education about basic financial literacy. This could potentially help them from being taken advantage of by employers and make them more capable of handling personal finances.

The education system differs throughout the country and enables too much variation in what students have as a basic understanding of a topic. The use of mandated classes and curriculum would help ensure a broad range of financial knowledge. It also eliminates the inequality presented by students who are able to receive fiscal guidance. The Journal of

Consumer Affairs published findings of research based on the implementation and effects of an in depth financial curriculum applied in high schools. “The study found that the mandates increased exposure to financial education and had the effect of increasing long-term financial behaviors related to the rate of saving and wealth accumulation of adults” (Wagner). The findings of this study demonstrate the potential of financial literacy, labeling it a crucial component of financial security in the future. The long-term effects of financial decisions have too great of an impact on society to not emphasize them in the classroom. By the time one figures out that they should’ve done something differently, whether it be saving for retirement or choosing the right loan, it is often too late to learn from their mistake. All of these opportunities to make the right decisions to set people and their families up for the rest of their life occur after schooling. For the most part people won’t find themselves involved in an educational environment that focuses on common financial issues unless they’re seeking it in higher education. People move into careers in a variety of specializations, with little to no knowledge of finances.

### **Economic Disparity**

The resources available to a person vary from one economic class to the next, creating an uneven and systematic distribution of resources. For people in poverty, they can’t afford to get healthcare, treat mental illness, or to seek private education. While people with higher wages and more stable income have more financial mobility to seek out these opportunities. Healthcare is expensive and can have high deductibles, where the patient will still be stuck paying large sums. This usually occurs with people working part-time minimum wage jobs because the companies aren’t required to offer healthcare plans with the position. They would rather have more part time workers so that they can save money on employee benefits. Companies that require higher

educated employees will often have benefits that save the employee from finding insurance and may even offer health, dental and vision. These benefits save the higher income individuals money while people in poverty are stuck spending more on their health. People in the low socioeconomic class are less capable of spending money on routine therapy and psychiatric medication. Seeking help in this area is relatively expensive and isn't affordable for everyone. Both methods of improving mental health require consistent spending and take a long period of treatment to gain improvement. Financially stable individuals have a greater opportunity to get mental treatment and better themselves. This will continue to add to the wealth gap and make it harder for society to have a better mental health overall. The educational system also displays economic disparity, with people in poverty having the inability to afford a privatized education. With the shortfalls and low standards of various public schools in low income neighborhoods, it makes it difficult to receive sufficient education. The lower class is stuck with poor educational resources, while the wealthy are able to shop around for an education they deem fit. Private education can lead to greater connections and more available resources to educate their students. Without the increased education standards, low income education systems will continue to produce children with lower standards.

## **Conclusion**

People have always found a place within the socioeconomic system that society has built. The conditions of the economy may change throughout time, yet factors of poverty and financial distress are commonly present. They are commonly influenced by the rich and powerful who neglect to acknowledge the growing financial gap. Both mental and physical health should be prioritized and reevaluated to ensure the common good of the nation. No matter the socioeconomic class, people deserve sufficient resources to have opportunities for a better life.

The increase of financial procarities creates a greater strain on health, building upon the problems people in poverty already face. The cycle that further cripples generations of low socioeconomic individuals and families must be fixed. In order to end this suffering, implementation of health and educational resources must become the cornerstone. These will create relief from some of the inequalities that are laced into the current economic system. Increasing wages would directly impact the lives of people in poverty and the financial education curriculum would establish a more long-term plan to help as well. The country has undergone a great economic shift that changed the way people live. It's the government's responsibility to fix the negative impacts that may result from these shifts. In order to regain strength, America must face economic inequality and build a more educated and fair society.

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