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What Is Financial Literacy and Why Does It Matter to Me?

Being financially literate can lead directly to a more secure financial future. So why aren't more Americans getting educated on money management?

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Financial literacy is a hot-button issue as memories still linger over the Great Recession and as millions of baby boomers hit retirement age, and as a legion of younger Americans battle skyrocketing student loan debt.

How important is financial literacy?

According to data from the National Financial Educator Council, "lacking" financial literacy and not having a grip on one's personal finances can lead to big problems for Americans.

Out of 1,500 U.S. adults surveyed, respondents said that, on average, they lost \$1,230 dollars in 2018 by not properly understanding basic household finance issues - that's about the monthly mortgage on a modest home. Almost 20% reported not understanding their finances cost them \$2,500, based on calculations provided by the NFEC. Altogether, a lack of financial literacy cost Americans a total of \$295 billion in 2018.

Then there's this disturbing milestone. According to Lending Tree, the collective debt of Americans crested to \$4 trillion for the very first time, and more U.S. households say gaining good credit has become a bigger problem.

The issue has become so important that in 2004, Congress passed a law citing April as "Financial Literacy Month. In the legislation, the U.S. Senate said the initiative was needed to "raise public awareness about the importance of financial education in the United States and the serious consequences that may be associated with a lack of understanding about personal finances."

Congress was on to something. Loss of financial assets, larger debt and tougher credit conditions are among the biggest threats stemming from a lack of literacy, but it's not the only one. Here's a closer look at financial literacy and what it means to you.

What Is Financial Literacy?

Financial literacy is defined as being educated about money and finance, with a special focus on an individual's personal finances. Being financially literate enables you to make smarter money management decisions that lead directly to a financially secure future, one that protects the assets built by you and your loved ones.

Categories that typically come into play with financial literacy are everyday financial issues like budgeting, spending, debt, taxes, retirement savings, college savings, mortgage management, and tax and estate planning.

Digging deeper, financial literacy can also include more esoteric themes, like investing, understanding how interest rates work, passive versus active income, and overall financial planning.

Five Ways to Become Financially Literate

Individuals can engage in financial literacy in multiple ways, as follows:

1. By Reading

Whether it's simply googling personal finance articles on TheStreet.com and reviewing them, cracking open an investment book, reading up on financial issues is one of the easiest and fastest ways to engage in financial literacy.

2. By Taking a Class

You can also benefit from taking an online or in-person financial literacy course in any one of multiple subjects, like accounting, retirement planning, or saving for college. Online financial courses are easy to find and, chances are, your local community college offers some solid financial planning courses.

3. By Listening to Podcasts and Radio Shows

Tuning in to a finance and/or investment podcast like Stacking Benjamins or just listening to Dave Ramsey every broadcast can be a good launching point to financial literacy. These shows offer real world personal financial scenarios that any Main Street American can learn from.

4. By Watching Television or Using YouTube

Video is a great way to absorb some personal finance lessons, especially on investing and participating in the stock market. Tuning into CNBC or checking out The College Investor with Robert Farrington can help you understand money and saving and investing better, and best of all, it's free.

5. By Talking to a Financial Professional

A surefire way to learn about finance is to talk to, and work with, a financial planner, a tax planner or an estate planning specialist on a personal, one-on-one basis. Getting the facts from a financial expert in person is a great learning experience. Plus, you get the valuable opportunity to ask personal financial questions that are important to you.

Five Signs You Might Need Help in Getting Financially Literate

Nobody wants to admit they're not up to speed on financial literacy, and that's understandable. But if you're going to get a better handle on your household finances, it's critical to know and recognize any "soft spots" in your financial knowledge arsenal, and work to eliminate them.

To get that job done right, focus on these potential financial literacy hot spots:

1. Do you have trouble creating and sticking to a budget?

Having the discipline to build and sustain a firm household budget is perhaps the most critical step an individual can take to shore up his or her finances. Not having one, or having one and not sticking to

it, is a sign that an individual needs to get educated about money and savings, sooner rather than later.

2. Are you in debt?

If you're in debt, especially really deep debt that threatens your financial future, that's a clear red flag you're in need of a stronger set of personal financial guidelines. Personal debt is the number one roadblock to financial security, and learning how to get out of it should be a big priority.

3. Do you have an emergency fund?

Having 3-6 months of money socked away in a rainy-day fund is a big deal. A financial cushion can help you and your family get through an illness, a severe injury, a job loss, or other calamities.

Not having one leaves you vulnerable to an unfortunate event that leaves you short of cash to cover the mortgage or rent and put groceries on the table, among other household financial needs. Get educated about emergency savings and start building those savings - do that and you're well on the way to mastering one of the basic and most important personal financial needs.

4. Do you understand compound interest?

Knowing how compound interest works and how money, left alone to build interest over time, can lead to a sturdy financial nest egg down the road. If you don't understand the importance of compound interest and you're regularly borrowing from your retirement or college savings fund, that's a financial literacy problem - one that's draining money that otherwise would be appreciating over time.

5. Do you understand the importance of insurance?

Having a good insurance policy on your home, your health, your auto, and even your investments is a "must have" financial investment.

Insurance protects your assets against events that could destroy your savings and severely weaken you financially and provides a bulwark against financial misfortune. Not having insurance leaves those assets vulnerable to loss, and is a clear sign that you're not up to speed on one of the financial matters that can mean the most to you, when you need it the most.

The Takeaway on Financial Literacy

Financial literacy is a growing and alarming problem in the U.S. According to the Financial Industry Regulatory Authority, 63% of Americans are categorized as "financially illiterate."

That's a problem Americans can't afford to carry around with them on a day-to-day basis - not when there are so many important household financial issues to address.

There is an upside.

By acknowledging the problem, U.S. financial consumers have taken the first step to be smarter and savvier about money and finance. That knowledge, gained by immersing one's self in financial education, can translate into lower debt, more savings, better credit, and a long-term financial picture that brightens every time you pick up an investment book or tune into a financial podcast.

That's the behavior that will nip financial illiteracy in the bud, and lead to a nation of smarter, and more financially secure consumers.

It's never too late - or too early - to plan and invest for the retirement you deserve. To learn more about saving for and living in retirement. Got questions about money, retirement and/or investments? We've got answers. www.Ambassadors4HOPE.com (336) 365-8075