

What is Financial Literacy? And Why Should You Care?

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The majority of Americans are illiterate.

Not in terms of basic reading — most of us can do that — but in terms of our finances.

When the FINRA Education Investor Foundation asked more than 25,000 Americans six simple questions about personal finance, 63% failed. Millennials fared the worst, with a passing rate of just 24%.

This lack of financial literacy is, understandably, having a huge impact on our country. Many of us are paying high bank fees, falling behind on our bills, drowning in debt, and failing to save for retirement. Clearly, something needs to change.

We're here to help by breaking down what financial literacy means, why it matters, and how you can improve yours. Read on to learn more.

What Is Financial Literacy?

Financial literacy is the ability to understand your money.

When you're financially literate, you have a grasp on concepts like budgeting, saving, investing, credit, debt, insurance, and interest. And, with a bit of basic knowledge, you're able to make smart financial decisions about taxes, retirement, real estate, and college.

To Jill Fopiano, CEO of O'Brien Wealth Partners LLC, financial literacy means “the ability to understand and manage important areas of your finances so that you can meet your financial goals.”

This includes financial jargon, too.

“It is as important to be an educated consumer of financial products as it is for any other major purchase,” says Fopiano.

Knowing the difference between a Roth and traditional IRA, or compound and simple interest, for example, can significantly affect your financial future.

Why Does Financial Literacy Matter?

You may think personal finance is boring or unimportant. If your whole family is “bad with money,” you may even think you're doomed to follow in their footsteps. But the truth is you can transform your life by learning basic financial concepts.

“Financial literacy is the foundation of a life where you feel secure and safe enough to do what you want,” explains Bobbi Rebell, a certified financial planner and host of the Financial Grownup and Money in the Morning podcasts.

“If you don’t have the information, you can’t create a path to your goals,” says Rebell.

For many, one of those goals is retirement. Whereas most Americans used to receive post-retirement benefits from their employers, fewer than 20% of today’s private sector jobs come with pensions. This means you’re responsible for your own future. And, this isn’t something that’s easy to do. In fact, the median amount of retirement savings for a working family is a paltry \$5,000.

In addition to affecting your future, financial illiteracy can harm you in the present, too. Take a look:

- In 2018, the average American lost \$1,230 due to a lack of knowledge about personal finance.
- A shocking 39% of millennial women do not pay their bills on time, resulting in costly late fees and interest charges.
- A dearth of general financial knowledge, according to one study, cost investors \$200 billion over the past 20 years.

“Financial literacy is really about empowerment,” says Fopiano.

“The more you know, the more able you are to make good decisions, avoid sketchy offers, and secure your own future.”

Four Steps to Increase Your Financial Literacy

Since only 17 states require high schools to teach personal finance, it’s important to take your education into your own hands. Here are four steps to help you get started.

1. Devour financial media

As Rebell says, “Becoming financially literate is easier than ever because of the incredible resources we all have access to.”

Feel free to consume information in a way that suits you best. Maybe you’d like to listen to podcasts during your commute; maybe you’d rather watch videos on your days off.

Here are some recommended resources:

- Free online courses: Financial Literacy, Personal & Family Financial Planning, Financial Planning for Young Adults (the latter are from Coursera; you can audit them for free, but if you want grades or certificates, you’ll need to pay)
- Podcasts: So Money, Financial Grownup, Money Girl
- Books: Get Money, The Automatic Millionaire, I Will Teach You to Be Rich
- Websites: The Simple Dollar, The Penny Hoarder, Two Cents

2. Take it slowly

Financial literacy is like a tall mountain: You're not going to reach the summit right away — or maybe ever. The best you can do is take it slowly, tackling one topic at a time.

While you should get a basic grip of personal finance as soon as possible, don't dive deep into every topic at once. That would be overwhelming, and could discourage you from progressing further.

“Pick an area that is particularly relevant to you — say, budgeting — and commit to mastering it over the next three months. Once you have accomplished that, move on to the next area,” says Fopiano.

3. Ask for help

You probably wouldn't try to fix your plumbing on your own. Or try to learn chemistry without a teacher. The same goes for money. Although teaching yourself is a fantastic way to get started, you may eventually need some professional assistance.

“This doesn't have to be a self-study course,” says Fopiano.

“If you are really serious about getting your financial future in order, and could benefit from a sound financial plan, seek out a certified financial planner,” she says.

If you're not ready for human help yet, turn to financial technology. Use Mint to create a budget and track spending, Charlie to monitor your finances as a whole, Credit Karma to track your credit scores, and Chime to save automatically.

4. Stay curious

The key to financial literacy is, of course, education.

If you dream of becoming financially secure, and stable, and maybe even wealthy, you should keep learning. You should continue your education by reading about personal finance, seeking professional help, and using technology that simplifies the process.

This is your money, after all, and it affects every single aspect of your life.

“Financial literacy is about knowing the right questions to ask. None of us have all the answers, but if we have the right questions we can get there,” says Rebell.