

# Financial Literacy

Financial literacy is the understanding of key financial concepts and skills. Someone's level of financial literacy is a strong indicator of how financially successful they will be in the future. Financial literacy for college students is especially important.

College students face unique economic challenges. They are at an age where adopting basic financial skills and knowledge can profoundly affect their entire adulthood.

Luckily, technology has made financial information more accessible than ever before.

In this article, you will learn the basic components of financial literacy, why financial literacy is especially important for college students and how students can increase their financial knowledge.

## **What is Financial Literacy?**

Financial literacy refers to the understanding of basic financial skills and concepts.

It is not just about knowing the information, but about successfully implementing it into your own life.

When people have financial literacy, they have the knowledge and confidence to make informed financial decisions. It allows people to

responsibly manage their money, borrow and save, and plan and invest for the future.

Financial literacy is more important than ever before.

As technology grows and society changes, finances become even more complicated. As a result, it is essential that college students leave school with solid financial knowledge.

Unfortunately, financial literacy rates are decreasing and Americans' financial habits show it.

Savings rates are decreasing while debt is increasing, and wages are remaining stagnant.

College students who prioritize financial literacy will be able to overcome these challenges and live comfortably in the future.

## **The Components of Financial Literacy**

Congress set up the Financial Literacy and Education Commission under the Fair and Accurate Credit Transactions Act of 2003.

Recognizing the importance of financial literacy, Congress tasked the Commission with creating policy initiatives to help Americans make informed financial decisions.

The Commission sought to accomplish this by creating a national financial education website, [MyMoney.gov](http://MyMoney.gov). Through the Commission's website, they established five primary financial literacy principles.

### **Earn**

One critical component of financial literacy is the ability to earn money. However, even more than that, it is about the understanding of what happens to the money you make, including:

- The amount you take home on your paycheck
- The benefits your employer offers
- The amount you pay in taxes and where that money goes

It is especially important that young people learn this principle of financial literacy early before they join the workforce. Since many students will take on their first part-time job during high school, parents can turn to that job as a learning tool for their teen.

### **Protect**

Another fundamental principle of financial literacy is the ability to protect yourself from financial loss. It's crucial that college students learn early on the importance of having an emergency fund. Insurance is also a major component of protecting your finances, as is learning to guard against identity theft.

### **Spend**

The ability to spend wisely is perhaps the most important one to learn at a young age.

Many young people get their first part-time job in high school or college but then have no financial responsibilities. As a result, they can spend their money on fun.

While that is fine at a young age, it does not necessarily create the spending habits that will help them later on.

This financial literacy principle primarily revolves around the ability to budget spending in advance and track where your money is going. It also includes the ability to live within your means and make educated buying decisions.

## **Borrow**

There is never a better time to learn about the financial literacy principle of borrowing than as a young person. Well over half of students borrow money to get through college, and the class of 2019 graduated with about [\\$29,000](#) in student loan debt.

This important component of financial literacy revolves around understanding [how to get a loan](#) and, more importantly, how to pay it back afterward.

It starts with learning about credit scores and credit reports, which are some of the most important determining factors when it comes to applying for credit.

Once someone has built up the financial history to qualify for loans and credit, it is critical that they understand their loan terms, such as APR. Finally, you must be able to track your debt and make debt payments on time each month.

## **The Importance of Financial Literacy for College Students**

Understanding basic financial skills and concepts is critical for a successful financial future.

Everything we have to do as adults — earning money, budgeting, paying off debt, saving — all relies on financial literacy. However, some of the most important markers of financial wellness are moving in the wrong direction:

- The wage gap is widening between high-income and low-income earners, those with a college degree and those without, etc.
- Savings rates are decreasing. Only about half of Americans have an emergency fund, and nearly 40% do not have money in the bank to cover a [\\$400](#) emergency.
- Most Americans do not know how much they need to save for retirement, and fewer than [60%](#) are saving for retirement at all.
- About half of those with student loan debt regret their decision to borrow as much as they did.
- The average U.S. household holds more than [\\$7,000](#) of credit card debt and more than \$27,000 of auto loan debt.

As financial literacy becomes increasingly important, data shows that it is actually decreasing.

A National Financial Capability Study by the Financial Industry Regulatory Authority (FINRA) found that just [34%](#) of Americans could answer four of five basic financial literacy questions. This rate was a decrease of 8% from just a decade earlier.

The numbers are even less promising for young people. The largest decrease occurred in Americans in the 18–34 age range.

While financial literacy is important for people of all generations, it's particularly important among college students and young people for a few different reasons.

Student loan debt is increasing

Perhaps the most significant financial issue facing college students is the student debt crisis.

The total student debt has topped [\\$1.6](#) trillion, with more than 45 million individuals owing money. Of those students who graduated in 2019, roughly 70% of them took on student debt with the average student nearly \$30,000 in debt.

This trend is troubling, and it doesn't appear to be slowing down. Unless there are significant policy changes surrounding student loans and the price of college, it's likely that student debt will only continue to increase.

Retirement income is not guaranteed

It's hard to predict where the Social Security program will be when today's college students retire.

By the administration's own admission, the current reserves are only enough to fully pay for benefits through [2037](#).

At that point, reserves will run out, and the administration will only be able to make 76% of scheduled payments. While policy changes could certainly fully fund the program, plenty of people are pessimistic about whether that will happen.

As a result, young people are wise to plan to fund their own retirement.

Unfortunately, young people have fewer options for retirement planning.

Pension plans, once a popular benefit employer offered, are quickly disappearing. Instead, more people are tasked with funding their own retirement. In addition, without increasing wages, that means young people have less money to devote to other expenses.

Incomes are stagnating or falling

Despite being more educated, people graduating from college today are not making more money than their parents and grandparents were at the same age.

A recent [Pew Research Center](#) study found that wages for young workers have barely increased over the past 50 years.

Today, college-educated workers make roughly the same as college-educated people did in previous generations, when you account for inflation. However, when you look at those with a partial college education or none at all, today's young people are making less than previous generations.

Because young people are making less money, it is critical that they learn to manage it. Financial literacy is key.

If this trend continues, it could be the case that today's young people make the same as or even less than their parents and grandparents did.

## **How to Increase Financial Literacy for College Students**

Financial literacy is decreasing among young people at a time when it is more important than ever.

As a college student, now is the time to find ways to increase your knowledge of financial skills and concepts. As the parent of a college student, now is your time to help them.

Since the U.S. education system includes little in the way of personal finance education, it's up to families and individuals to shoulder the responsibility.

Take advantage of government resources

Through the Fair and Accurate Credit Transactions Act of 2003, the federal government created its Financial Literacy and Education Commission.

The purpose of this Commission is to help increase financial literacy among Americans.

The Commission provides an educational website to help people learn about basic financial concepts.

Agencies such as the Consumer Financial Protection Bureau and U.S. Securities and Exchange Commission also publish educational articles to help Americans learn about money.

Free tools and resources from banks and credit unions

Check with your bank or credit union to find out if they offer any tools or services to help you learn more.

Many companies have article libraries on their websites where they educate customers on financial topics.

They may also have budgeting tools to help you get into the practice.

**Consult financial professionals**

College might seem like an early time to seek out financial professionals, but it will only help set you up better in the future.

Some professionals help you set up and carry out long-term financial goals; while others can help you adapt your daily financial habits.

Your school might even have financial professionals available to students for a free or discounted rate.

**Take a finance course in college**

If you are a college student, you are in the perfect environment to learn.

Your school almost certainly has some finance classes available. Some may even offer classes specific to personal finances and financial literacy.

**Find online financial literacy resources for college students**

Living in the digital age, there is no shortage of online resources that can help you increase your financial literacy.

Having grown up with technology, today's college students will be more adept than anyone at finding the information they need.

Just make sure to get your information from a reputable source, since anyone can post information online.

Look to local nonprofit organizations

If you feel like you need more hands-on help and cannot afford it, look to local nonprofit organizations.

Groups such as United Way offer free financial coaching services to those facing financial hardship.

## **Conclusion**

Financial literacy is uniquely important for college students today.

They face financial burdens that previous generations have not, like rising education costs and decreasing income. Yet, data shows that financial literacy is falling overall, especially among younger people.

Federal, state, and local governments, along with other organizations, recognize the importance of financial literacy.

As a result, there is an incredible number of resources available to college students to increase that financial literacy.

Taking these steps early can help reshape their financial futures, resulting in higher incomes, lower debt, increased savings and a more financially stable future.