

# Financial Literacy

## What is it? Why is it important?

Money plays an integral part of our lives. There are consequences for every decision made in life; this includes your financial choices. Making good money choices requires learning how to make wise decisions and how to manage your money appropriately. This concept, known as **financial literacy**, provides awareness of how money works and how to effectively manage it.

Overwhelming evidence supports the critical need for education regarding money matters. Major **national findings** include:

- 61% of Americans live paycheck to paycheck
- 50% of Americans have less than one month's income saved
- 41% of Generation Y (ages 18-29) do not pay their bills on time each month

All elements to survive in this world involve money. Shelter, food, clothing, transportation, healthcare, and vacations all require money. Understanding these concepts can make the difference between living a life of prosperity or a life of constant financial worry. Having a place to live will be one of the biggest expenses you will have during your lifetime, yet statistics indicate that:

- 15% of U.S. home loans are consistently delinquent
- 1 child in every classroom in America is at risk of losing their homes because their families are unable to pay their mortgages
- 6 in 10 homeowners wish they understood the terms and details of their mortgages better

A survey conducted in 2008 by the national Jump \$tart Coalition of **high school and college students** revealed alarming results of students' understanding of financial literacy. High school students scored 48.3%, while college students scored 62.2%. The scores indicate that young adults lack the necessary skills to handle their personal finances effectively. The inability to handle personal finances has led many Americans to accumulate unnecessary debt.

- \$75,082 is the average debt (including housing) for those who are head of household and 55 or older
- \$15,216 is the average household credit card debt
- \$5,446 was the forecasted credit card debt per individual as of the end of 2013

In addition, the National Financial Educators' Council found that "both students and parents agree that college students are not prepared to deal with the financial challenges that lie ahead." Their research revealed that:

- \$23,186 is the average student loan debt in the United States
- 85% of college graduates plan to move back home after graduation
- 76% of college students "wish they had more help preparing their personal finances"
- 54% of college students reported that they had overdrawn their bank accounts

**In New Mexico, financial literacy courses must be offered to high school students and count as an elective credit.** Currently, students have a choice whether to take the class or not since it is not a requirement for graduation.

The financial problems encountered in New Mexico are not much different from the national findings. A 2012 study of New Mexicans' money habits (conducted by the FINRA Investor Educational Foundation) found that:

- 62.8% of New Mexicans do not have three months of emergency savings
- 40% pay the minimum monthly payment on their credit card bills
- 25% have unpaid medical bills
- 11.5% of New Mexicans do not use a checking or savings account

An abundance of information about financial literacy is available; however, many of the resources focus on selected financial components, lacking in depth and broadness. This course is unique in that it contains 18 financially relevant topics (ranging from Budgeting to Investing to Retirement) that are organized in such a way as to engage young adults to learn about different stages of life (from adolescent to late adult) along with the corresponding money issues that students might confront. The students can apply this information to their own lives, resulting in a culminating Capstone Project including unexpected life events, which will force critical decision-making about their finances.

It is recommended that the students hold onto this guide as a reference in class and for the future. The knowledge gained from this course will empower New Mexico students to understand real-world financial concepts, which should enable them to make sound financial decisions about savings, student loan debt, buying a car, paying taxes, and more. Their actions and application can help secure a happy financial future.

In conclusion, teaching Americans, particularly the youth, to save, budget, and manage money and credit effectively will reap long-term benefits. According to the Financial Literacy and Education Commission, “financially literate people are more likely to be self-supporting; to prepare for financial setbacks and emergencies; and to increase their standard of living through wise spending, saving, planning, and investing. They are also less susceptible to scams and identity theft. Financially literate citizens contribute positively to the local and national economy, improving peace of mind and national stability. Financial literacy provides security for individuals and families by promoting a higher standard of living and prosperity.”