AN INTRODUCTION TO

FINANCIAL LITERACY

DOLLARS & SENSE GAZETTE

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WHAT IS FINANCIAL LITERACY?

This is the ability to understand and effectively use various financial skills and concepts to make informed financial decisions. These include:

- **Budgeting**
- **Saving**
- **Investing**
- **Debt Management**

WHY IS FINANCIAL LITERACY IMPORTANT?

Financial literacy helps individuals and households make **more informed financial decisions** resulting in greater **financial security**.

COSTS OF FINANCIAL ILLITERACY

- Accumulating unsustainable debt
- Insufficient retirement savings
- Poor investment decisions
- Victims of financial scams
- Lack of emergency fund
- No education savings plan
- No life insurance

THE FOUR PILLARS OF FINANCIAL LITERACY

BUDGETING refers to the process of creating a plan for how you will **allocate your income** to **cover your expenses** and achieve your financial goals.
WHY BUDGET? Budgeting helps you **prioritise your spending**, **track your financial progress**, and **make informed decisions** about your money.

SAVINGS is the amount of money individuals have **left over** after **expenses are subtracted from earnings**.
WHY SAVE? Persons may save for various reasons including, a down payment on a house, buying a car, building up an emergency fund, etc...

INVESTING offers more opportunity for your **money to grow in value over time than savings**, however, this comes with the **risk** that your investments could lose value.
WHY INVEST? This allows you to **grow your wealth** in order to achieve your financial goals.

DEBT is the amount of money an individual **owes** another individual for **funds borrowed**. Debt is generally **repaid with interest.**
GOOD DEBT is debt that can help to **increase your total wealth** or **generate future income**. Examples of good debt include student loans, business loans, and mortgage.
BAD DEBT refers to **unsustainable amounts of money borrowed** to purchase assets that **won't go up in value or generate income**. Examples of bad debt include luxury car loans, vacation loans, and loans to purchase high-end consumer items.