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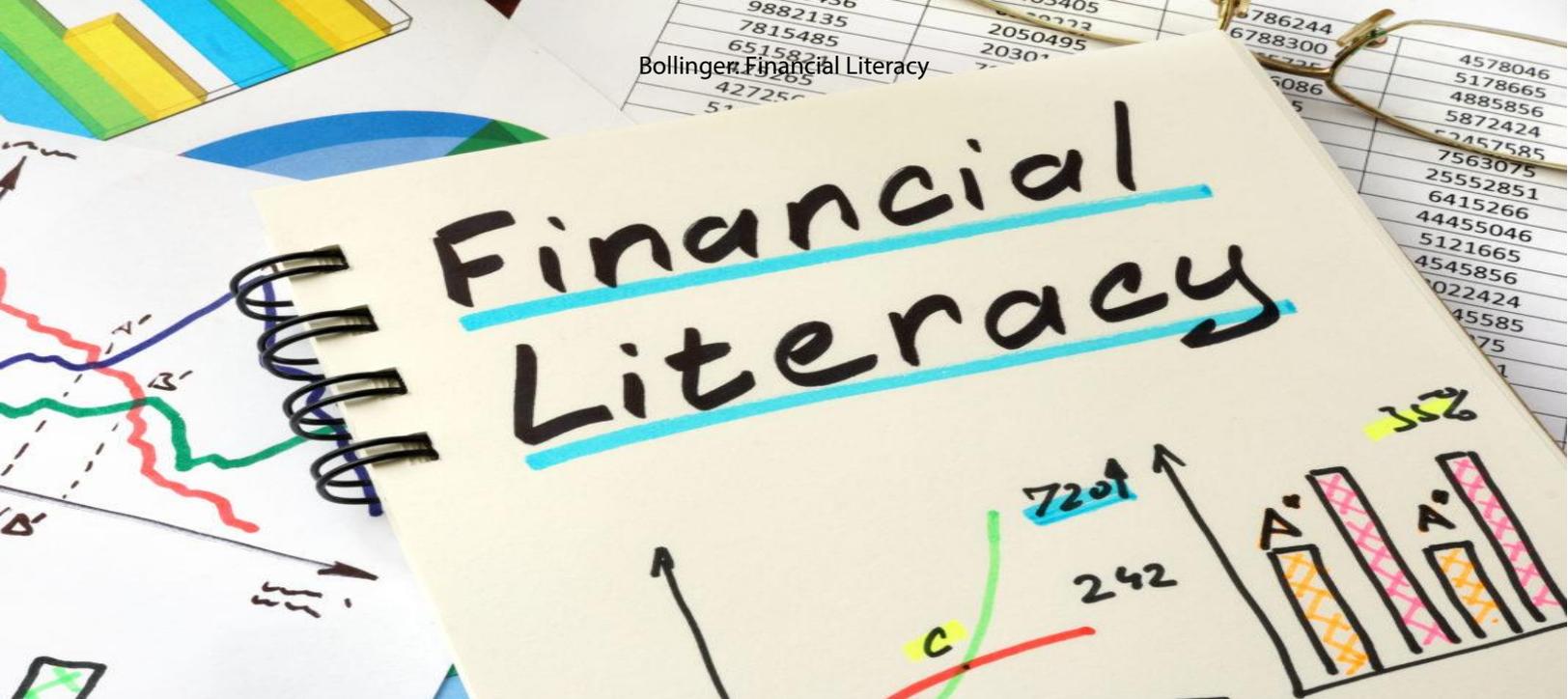
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Financial Literacy

By AJ Bollinger

“You would be surprised with how many people think credit cards are free money,” said First Colony loan officer Dan Ross. Unfortunately, this was something that Seth, a recent high school graduate, believed. One day Seth received a letter in the mail from a bank offering him a \$2000 credit card. Poor, financially illiterate Seth believed the offer was free money, so he accepted the offer and spent all \$2000. Soon he began to receive strange letters in the mail every month saying he owed the bank money, but he believed these bank statements were a scam. It was not until a few years later when Seth decided to buy a car that he realized he was several thousands of dollars in debt from his supposed “free money.”

Being financially illiterate cost Seth thousands of dollars, and this problem affects countless others as well. In fact, according to Jon Lueken, executive vice president and chief investment strategist at CapWealth, 57% of Americans are financially illiterate.¹ In other words, over half of the country’s citizens completely lack important money management skills such as budgeting and saving.

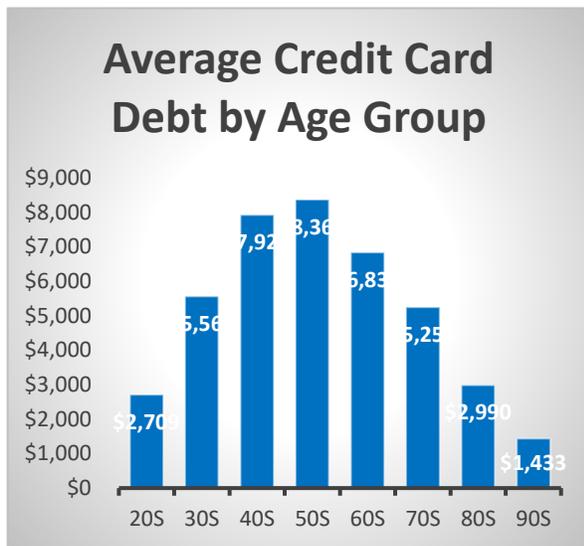
As is apparent from Seth’s story, this country-wide knowledge gap can be extremely detrimental in this current economy. If more people knew how to avoid the trappings of debt and other problems, a greater number of adults would be able to enjoy financial freedom at all ages. That’s why it is important to instruct everyone (including high school students, current college students, and even older generations) about these essential life skills.

To understand financial literacy means to understand the following three concepts: (1) the perils of financial burden, (2) the benefits of gaining financial power, and (3) the main reasons that financial literacy is so essential.

Financial Burden

Seth certainly understands now what the word *burden* means, especially in a financial sense. Everyone should understand how unpleasant a load debt places on people's shoulders, especially since the load is getting bigger. In 2017, the amount of credit card debt in the US hit an all-time high of \$1 trillion.² What's more, this astonishing quantity of debt continues to trend upwards, affecting US citizens in almost every age group.

FIGURE 1: AVERAGE CREDIT CARD DEBT BY AGE GROUP



As Figure 1 shows, the average credit card debt per person increases as age increases until the age of 60. From then on, the average credit card debt decreases.³ This graph helps demonstrate that as people mature and begin to make more money, they also begin to spend more money and accrue higher credit card debts. Higher debts lead to significant burdens.

For example, a recent study by the federal reserve states that “40% [of Americans] say they cannot cover a \$400 emergency expense, or would do so by borrowing or selling something.”⁴ In other words, nearly half of the country's citizens cannot afford a rainy-day situation without creating a

greater burden for themselves. This financial weakness could cause temporary emergencies to leave lasting, debilitating impacts on people's lives and budgets.

In addition, debt is even a leading cause in marital struggles. According to a recent study by Ramsey Solutions, “money fights are the second leading cause of divorce, [just] behind infidelity.”⁵ It's clear that financial illiteracy causes all types of burdens in a person's life; however, the opposite is also true—financial literacy can bring significant financial power to a person's life.



Financial Power

Seth learned the hard way how important it is to have knowledge about money: it changes lives and gives people financial power. Why? Because this knowledge enables people to let their money grow and work for them.

As mentioned earlier, many people do not have enough money saved up to cover a mere \$400 emergency. People have no power, only burden, when living paycheck to paycheck. Mastering the skill of saving and investing can lead to greater financial power in life and especially in retirement.

In order to become financially literate and to enjoy a comfortable retirement, one needs to develop a basic understanding of compound interest. Simply put, compound interest is letting one's money work and grow over time. For example, a 20-year-old who invests \$100 every month for 40 years at

SOURCE 1: LEXINGTONLAW.COM

a 12% interest rate will have a little over \$1 million by the time they are 60 years old. If the investment were doubled to \$200 a month, the end total would be almost \$2.5 million. It's evident how much of a massive difference having knowledge of compound interest could make in a person's life. Albert Einstein once said, "Compound interest is the eighth wonder of the world. He who understands it, earns it . . . He who doesn't . . . pays it."⁶ Financially literate people understand it and earn it, which gives them financial power throughout their lives.

In this way, being financially literate gives people power to do what they enjoy, power that lets them purchase a home, a boat, a car, and so on, without fear. Clearly, financial skills are necessary life skills no matter what profession a person chooses.

Financial Literacy is Essential

Seth certainly understands now that financial literacy is essential because of the impact that his unfortunate experience had on his life. Dameion Lovett, overseer of the financial education program at the University of South Florida, said, "Financial literacy is important because it's pretty much one of the things that will encompass just about every aspect of a person's life."⁷ No matter a person's field of study, country of residence, or belief system, finances will be important in their lives.

The biggest reason for this is that being financially literate helps people to be financially free.

Freedom is something all people desire, whether it be freedom from struggle, stress, challenges, or something else. Financial freedom in particular is a key part of a happy and success-filled life. Travis Cook, an education specialist at Utah State University, said that with an "increased financial capability, more of us will be able to transition from surviving to thriving."⁸



That's not to say finances are the most important thing in the world; having a lot of money will not bring happiness by itself and is not the main point of financial literacy. The point is that finances affect decisions on a daily basis, and financial stability and wisdom will save people from making disastrous mistakes. It will then enable them to enjoy peace and freedom from financial burden as well as empower them to make smart financial decisions.

Conclusion

Finances impact life for the better or for the worse on a daily basis. Every day, people are making financial decisions that will either bring greater financial burden or power into their life. In order to avoid repeats of Seth's story, it is crucial that we share the knowledge necessary for financial literacy with everyone who needs it, including high schoolers (through curriculum classes or other means), fellow college students, and older adults. After all, no matter how people have started out, everyone should have a chance to be prepared and empowered for a life full of financial decisions and opportunities.

Notes:

¹ Jon Lueken, 2019. "Americans fall short in financial literacy," *The Tennessean*, USA Today Network, April 15, 2019, <https://www.tennessean.com/story/money/2019/04/15/americans-fall-short-financial-literacy/3456766002/>.

² AnnaMaria Andriotis, "America's Credit-Card Tab Hits \$1 Trillion," *The Wall Street Journal*, April 7, 2017, <https://www.wsj.com/articles/the-nations-credit-card-tab-hits-1-trillion-1491593929>.

³ Marcie Geffner, "Average Credit Card Debt by Age, State, and Income," CardRates, October 9, 2020, <https://www.cardrates.com/advice/average-credit-card-debt-by-age-state-and-income/>.

⁴ "Federal Reserve Board issues Report on the Economic Well-Being of U.S. Households," Press Releases, Federal Reserve, May 22, 2018, <https://www.federalreserve.gov/newsevents/pressreleases/other20180522a.htm>.

⁵ Elizabeth Cole, "Money Ruining Marriages in America," Ramsey Solutions, February 7, 2018, <https://www.daveramsey.com/pr/money-ruining-marriages-in-america>.

⁶ "Albert Einstein Quotable Quote," Goodreads, <https://www.goodreads.com/quotes/76863-compound-interest-is-the-eighth-wonder-of-the-world-he#:~:text=%E2%80%9CCompound%20interest%20is%20the%20eighth%20wonder%20of%20the%20world,...%20pays%20it.%E2%80%9D>.

⁷ Dameion Lovett, "7 Expert Perspectives on Why Financial Literacy is Important: Why is financial literacy important?" OppU, OppLoans, <https://www.opploans.com/oppu/articles/why-is-financial-literacy-important/>.

⁸ Travis Cook, "7 Expert Perspectives on Why Financial Literacy is Important: Why is financial literacy important?" OppU, OppLoans, <https://www.opploans.com/oppu/articles/why-is-financial-literacy-important/>.