Financial Literacy FAQs

Q) **What is Financial Literacy?**

A/ Financial literacy is the ability to understand and make use of a variety of financial skills, including personal financial management, budgeting, and investing. It also means comprehending certain financial principles and concepts, such as the time value of money, compound interest, managing debt, and financial planning.

Q) **Why Is Financial Literacy Important?**

A/ Financial literacy is important because it empowers you to make informed and responsible financial decisions. It helps you understand concepts like budgeting, saving, investing and debt management.

It allows you to make better decisions through problem-solving, critical thinking and having a grasp of essential facts and concepts related to basic personal finance.

Building your financial literacy helps you create a secure future, avoid financial pitfalls, and achieve your finance goals.

Q) **What are the 5 principles of Financial Literacy?**

A/ There are five principles of financial literacy:

1. Earning
2. Saving and investing
3. Borrowing and managing your debt
4. Spending and planning
5. Protecting your assets

These principles of financial literacy serve as a road map for good money management and are the establishment of a solid financial foundation. Learning about them — and putting them into practice — can improve your financial situation now and in the future.

Earn

Your income is the foundation of your personal finances. It is the basis for your lifestyle and your financial future.

Implementing the Principle

- Learn to live within your means and pay for your lifestyle without excessive debt.
- Manage your income and workplace benefits.
- Take advantage of employer matches for your 401(k) or similar retirement plans.
- Find ways to put aside portions of your income for the future.

- Set up automatic retirement plan contributions so you won’t be tempted to skip a contribution toward your retirement.

Saving and Investing

Creating a budget will help you put aside money for savings and investment. This allows you to grow your wealth and can empower you to make major financial plans such as buying a house or paying for retirement.

Implementing the Principle

- Monitor where your money is going each month.
- Cut out optional expenses for things you can live without and put the money into savings or investments such as an IRA, investment fund or annuity for retirement.
- Create separate categories or “buckets” in which you can set money aside for specific goals from holiday presents to vacations to home purchase to retirement.

Borrowing and Debt Management

Borrowing wisely will allow you to make major purchases while building your credit. This can help you pay for a home, car or a college education. But avoid excessive debt that can eat into your ability to save and invest in the future.

Implementing the Principle

- Carefully weigh major loans to determine if you can afford them — make sure you live within your means.
- Review and compare interest rates before applying for a loan.
- Keep debt to a minimum and easily manageable within your budget.
- Pay your bills on time and make more than the minimum payment.
- Monitor your credit score.

Spending and Planning

When you get your paycheck, consider following the 50-30-20 budget or the 80-20 strategy.

Following the 50-30-20 budget means putting 50% of it toward needs, 30% toward wants and the remaining 20% toward savings and investments. This is one of several personal finance strategies that can help you keep your spending on track.

With the 80-20 budget, you “pay yourself first” by setting aside 20% for savings, then using the remaining 80% for both fixed and variable expenses.

Implementing the Principle

- Shop for the best value when making purchases.

- When making a large purchase, consider whether it is a need or a want and consider whether buying it is within your means.
- Consider “paying yourself first” by making it a habit to set money for savings aside before anything else to shape and drive your budget.

Protecting

You will need to protect your financial assets: savings, investments, and your budget. This can take the form of an emergency fund and insurance.

Implementing the Principle

- Create an emergency fund — enough money to pay for three to six months of expenses.
- Determine with your spouse or partner what constitutes an emergency and only dip into the fund for those situations.
- Purchase insurance to cover risk to yourself and your belongings. Consider homeowners or renters insurance, health insurance, car insurance, disability insurance and life insurance.

Q) **How can I start Budgeting?**

A budget is a plan for spending your money each month. Creating a budget will help make sure you don’t run out of money before the month is up. You can also use it to save money to pay for long-term goals.

Begin creating your budget by making a list of your monthly expenses.

Expenses can include:

- Rent and other bills that are the same each month
- Utilities and other bills that are different each month
- Car insurance and other bills you may only pay once or twice a year
- Clothes
- Credit card bills
- Entertainment
- Food
- Gas and transportation
- School supplies
- Unplanned expenses such as home or car repairs and medical expenses

Now, figure out your income. Write down how much money you make every month. Include all forms of money, like pay checks, tips, side jobs or child support.

Finally, subtract your expenses from your total income. If the number is less than zero, you are spending more than you make. You'll need to look for places to cut back your expenses or find a way to make more money.

If you get a number greater than zero, this is money you can budget each month toward savings or some other financial goal