

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. 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.