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Solving the Challenge of Financial Literacy

Bill Millar

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Credit bureaus like Experian talk about it. Universities like Harvard provide free online guidance. Politicians introduce legislation to mandate its teaching to kids in grades K-12. But the challenge remains. The question becomes, what more can society and more importantly, the financial planning industry, do to promote and instill financial literacy?

Teach good habits
"Teaching teens early leads them to make smart money moves as adults," says Dawn Santoriello, CFP® and president of DS Financial Strategies in King of Prussia, PA. "When I was a young teen my mom taught me how to use a checking account and I still use my checkbook register to balance my account even in the digital age."

Santoriello advises her clients that as parents, there are many things they can do to help promote greater financial literacy. For example, emphasize that a credit card is not a free pass to spend uncontrollably. Further explain that such a tool should only be used to the extent it can be paid off by the end of the month. Extreme emergencies are the only exception, and even there, a plan needs to be developed to eliminate the debt as soon as possible.

"Learning how to use credit cards is very important for adults but especially for young adults and teenagers as they will be highly targeted when they go to college," says Santoriello. Another good tip, "teach your kids good habits like saving 20% of every check they receive.

Avoid easy credit
Founder and CEO Jeff McDermott, CFP® of Create Wealth Financial Planning, LLC in Saint Johns, FL says that as important as financial literacy is for soon-to-retirees, it is just as critical if not more for today's younger generations.

As financial advisors, "we understand the compounding effect of both good and bad decisions," says McDermott. "Starting to save in your 20's vs. your 30's or 40's can be the difference in hundreds of dollars of monthly cashflow required to meet your goals."

Instead, says McDermott, "too many young adults find themselves getting into debt, then digging their way out, instead of getting a head start on investing. Building the habit of living within your means and saving 15% or more of your pay is much easier earlier in life before you find yourself supporting a family, paying a mortgage, and experiencing other expenses that creep into your budget."

Savings and investments are indeed vital to financial planning. But as Alynne Zielinski CFP®, CDFA® of Marcum Wealth maintains, an especially important element of financial literacy is helping young and old better understand the responsible use of debt. As Zielinski explains, debt is so freely available and so tempting that it leads individuals to live beyond their capacity to save.

“Understand that we are a debt-based society,” says Zielinski. “Financial markets take advantage of our willingness to take on debt by freely lending money to qualified borrowers forcing our decisions to be made not by what we can afford but whether our income can support our debt. This is the antithesis of long-term financial freedom which includes saving, investing, and avoiding debt. Achieving financial literacy means you’re making sound financial decisions and that includes in relation to debt.”

Finding the opportunities
Brian Cochran, CFP®, CKA®, is a financial planner for Albuquerque, NM-based John Moore Associates. According to Cochran, “financial literacy is essential for the next generation of Americans to capitalize on the opportunities of the modern economy. Our country has never had more wealth or opportunity.”

But at the same time, “today’s personal finance landscape is more complex and demanding,” says Cochran. “Young people leaving school and entering the workforce today have higher essential costs such as housing, healthcare, education, childcare and transportation. They meanwhile face more options for investing, more loan products to bury them in debt, and many community needs that require their charitable donations.”

Learning to balance these competing interests requires sound principles and an understanding of money basics far greater than previous generations. As Cochran explains, the public school system doesn’t seem interested nor is it today equipped to teach financial principles. It may be up to the financial services industry to fill the gap.

“In my opinion financial literacy is just as important as high-quality education,” says Cochran. “When teens and young adults get a quality financial education, knowing how to manage their finances before they become older adults and truly need financial skills, they will be better prepared when the time comes for them to manage their finances.”

“When teens understand proper money management skills, they retain those skills and use them throughout their lives,” he continued. “Early financial literacy teaches young teenagers how to have a good relationship with money. As my mother would say quoting the bible: ‘Train up a child in the way to go and when they are older, they will not depart from it.’”

Three keys to financial literacy
Cochran suggests that in particular, teens, young adults and others need to be given instruction in three key areas:

• Banking practices / processes
• Savings and investing strategies
• Interest rates and credit usage

“I have seen things falling apart for those who have no, or very little financial education,” says Cochran. “It has a systemic effect on all matters concerning an individual’s life from where they live, to how they make other life decisions. And by becoming more financially literate, teens and young adults are able to form sound financial habits leading them to an even greater financial consciousness.”

So that’s how a handful of advisors address financial literacy. Care to share your ideas or concerns? Email us at editoral@advisorsmagazine.com.