



Financial Literacy 101

The term 'financial literacy' may not have you on the edge of your seat, but it's actually an incredibly interesting and important subject to explore, especially when trying to think ahead about what you want your life to be like in the future. It's very important to Kiva U and Citi that people who need and use financial services have a good grasp on these concepts. Building a solid foundation of smart money management skills can set you up for a lifetime of financial security.

What Is Financial Literacy?

Financial literacy is the ability to understand money: how it works, how to manage it, and how to use it to accomplish the things you want. Developing financial literacy gives people the knowledge and skills needed to make informed decisions about managing their money. This includes understanding how to make and earn money, how to save and spend it, invest it, and even donate it in the way that works for you.

The Jump\$tart Coalition, which sets the national education standards for financial literacy, asserts that all young people should have a good understanding of the following:

- Finding, understanding, and using financial information and services.
- Identifying personal financial goals and determining a path to achieve them.
- Cultivating the ability to earn money and the discipline to save it while meeting financial obligations.
- Creating and growing a "nest egg" to ensure financial stability.

Taking the discussion further:

- 1) Now that you know what financial literacy is, do you think it is important? Why or why not?
- 2) What decisions have you made this week that had to do with money?
- 3) Where does your money come from (allowance, a job, etc.)?
- 4) When you get or earn money, are you more likely to spend it, save it, or share it (as in donate or loan it to someone else)?
- 5) How do you make decisions about what to do with your money?

Setting Financial Goals

Good financial management takes planning. Most people would like to spend more, save more, and share more of their money, but if they aren't smart about it, striking the right balance can be difficult.

The best way to manage each of these is to set short-, medium-, and long-term financial goals. Short-term goals are goals that can be achieved in as little as a day or as much as a month. They are goals we can check progress on in the immediate future. Some examples of short-term goals might be paying off some debt, buying a new pair of jeans, or opening a savings account. As short-term goals are accomplished, they are leading us to achieve our medium-term goals. Some examples of medium-term goals could be saving for college or a car, or planning a trip to South America. These could take a few months or a few years to save for. Short- and medium-term goals set a strong foundation for us to achieve our long-term goals, which help us achieve financial security and success over a lifetime. Long-term goals might include planning for retirement, and saving money to support a family and pay for children to go to college.

Taking the Discussion Further:

- 1) Can you think of a few examples of each type of goal?
- 2) What is a financial goal that you could achieve in a month? A year? A lifetime?
- 3) What are some of your financial goals?

Take a few moments to think about what sort of financial future you want for yourself. What will your life be like? Do you plan to have a family? Where do you want to live? Can you set some financial goals for yourself to help achieve a healthy and secure financial future?

What Is Financial Responsibility?

Financial responsibility means making and acting on decisions that allow you to live within your means. To be responsible and to have a healthy and secure financial foundation, you have to be smart about how much you spend, save, and share.

Let's think about some real examples for a moment. Each day, we are faced with choices to purchase things that would be nice to have. These can be as simple a

purchase as a drink from a coffee shop or as big a purchase as a computer. What are some of the factors we consider to make these types of decisions?

- 1) Is this something I need or something I want?
- 2) Do I have enough money for this purchase, and if not, how will I get or earn the money needed for it?
- 3) Is it worth the time and effort it will take to get or earn the money it costs?
- 4) What are the consequences of making this purchase (both the positive and negative) in the short-, medium-, and long-term?

If you don't have enough money for something, what are your options? It is important to think through the consequences of financial decisions. In the short-term, purchasing one thing may mean you have to forego purchasing other things until you're able to earn money again. Still, if something has great positive benefits over the long-term, it may be worth sacrificing other purchases in the short-term. Can you think of something you could buy today that would be a good short-term purchase, but maybe not a good long-term purchase?

Spending, Sharing, & Saving

We have three main options when managing our money: spending, saving, or sharing it. Spending too much is one of the biggest challenges in financial management. It is very important to be careful about the amount that you spend and what you spend it on, while ensuring you are able to save and share your money in a healthy way. When spending money, in addition to all the factors we consider about what we can afford and what we actually need, another aspect of financial responsibility is making sure that we are making well-informed decisions about the items or services we are paying for. It is important to read all the information about a product or service carefully, evaluate claims made in advertisements, know how to find additional information and reviews, and understand what the policy is for products or services that are not what they were advertised to be. As a consumer you have rights, and also a responsibility to consume goods that are produced in an ethical way.

Saving money can be difficult. With so many things that would be nice to own right now, putting money aside for the future is tough. Saving money is crucial though, for emergencies and long-term financial planning. A good approach to get started is to set a goal of how much you would like to save each week and then track your spending and saving to be sure you are meeting that target.

Another thing some people might want to do with their money is to share it. If there is a cause, issue, or group that you are passionate about supporting, there are many ways to do so, but the most common way is by giving or lending money. One of the most important things to think critically about as you decide how to share your money with others is how much of your money actually goes to achieving what you would like to achieve and how sustainable the impact is, meaning how long will the change brought about by the money you are providing last and how far can the value of each dollar go.

Review & Discussion Questions

- 1) What does it mean to be financially literate?
- 2) Financial literacy and financial responsibility are closely related. Can you explain the difference between them?
- 3) What are some examples of short-, medium-, and long-term goals?
- 4) What is the difference between a 'need' and a 'want'?
- 5) What are the three main options for what to do with your money?
- 6) Why is saving money important?
- 7) What are some things to consider when deciding if and how to share your money

Loaning money through organizations like Kiva is a new approach to ending poverty without donating your money outright. Instead, you lend your money to those in poverty to help them improve their businesses and use their skills to lift themselves out of poverty. The money is almost always repaid to the lender, who can then choose to lend that same amount to someone else, or withdraw it and put it back in their own bank account to save or spend.

Recommended Further Reading & Supplemental Materials:

- www.360financialliteracy.org,
- www.pbs.org/your-life-your-money
- <http://www.citi.com/citi/financialeducation/curriculum/teens.htm>
- Kiva U Needs vs. Wants Activity
- Kiva U Financial Goal Setting Tool