



Financial illiteracy is an epidemic

Ben Jackson

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If you are reading this, you are probably bad with money. That's not meant to be an insult, just a statistical observation. In fact, most Americans are bad with money. The median retirement savings for all working US households is only \$5,000. Nearly half say they don't really understand taxes. The average indebted household has about \$11,000 in debt. I could go on, but you get the picture: America is terrible with personal finance.

And yet, we are the world leader in financial services, generating more wealth and allocating more capital more efficiently than almost anyone else. How can these two statements both be true?

The answer is something called financial illiteracy, and it's an epidemic in our country. Financial Illiteracy is at the root of many of America's biggest problems, from our national debt to our healthcare woes and is arguably more threatening to the safety of the nation than North Korea, hurricanes and terrorism combined. If we don't improve our knowledge of personal finance, we are in for a world of trouble.

Being financially literate means being equipped to make basic financial decisions on a day to day basis. How to make a budget, how to pay taxes, how to save for retirement, how do mortgages work, etc. These decisions are the fabric of everyday life and yet most of us know nothing about them.

Like many things, the problem begins early and in schools. Only 17 states require high schools to offer some form of personal finance course, and almost none are mandatory (only 5). Unless a student is blessed to grow up in a home with financially savvy parents, the first time he or she may encounter some of these problems may be college. One in 6 students in the U.S. fails to meet basic standards for financial literacy, according to a study done by the Organization for Economic Cooperation and Development.

This is bad news, because college likely won't help. Non-business students can skate through their otherwise strong educations without taking any courses related to money, and even many business students get by with surprisingly cursory knowledge.

Millennials are especially bad when it comes to money. We are one of the wealthiest generations in history, and we are poorly equipped for this inheritance. Ask yourself, do you know how to file taxes? Invest for retirement? Use a mortgage intelligently? Much less the bigger questions, like how to generate and maintain wealth.

The majority of rich Americans aren't rich because they were born that way — in fact 80 percent of American millionaires are first generation millionaires, according to the Cato Institute. Millionaires build wealth by small, conscious choices of saving instead of spending. The most common watch brand worn by millionaires? Seiko. Seiko watches average just a few hundred dollars, never thousands.

What's more, millionaires understand the critical concept of compound interest. Einstein called it the most powerful force in nature. It made Warren Buffett the world's richest man. And it's simple: a dollar today, saved and invested over a long period of time, is worth many more dollars tomorrow. It is on this principal that millionaires are made, but even basic personal finance requires a mastery of it that we currently lack.

We must make a diligent effort to educate ourselves in matters of personal finance. Money may not be able to buy happiness, but it can buy financial security, and I am not sure I know the difference. Money buys healthcare, education, safety and comfort — this is why financial literacy is so critical.

Furthermore, we must insist upon our schools and universities to broaden their offerings of personal finance related courses. The Honors College at the University actually offers a wonderful personal finance course, but it is on us to take this to the next level, perhaps even requiring such a class for graduation. The health of our nation may depend on it.