Why Financial Education Is Critical Right Now

Community financial institutions tend to take better care of their customers/members than the big guys, and that includes outstanding efforts in financial education.

Which is perfect, because right now, consumers have more options than ever before regarding retirement plans, mortgages and definitely credit cards. Students are handed a stack of credit card applications the minute they walk onto their college campus at 18, and it’s their first real experience separate from the bank of mom and dad. But it’s not just inexperienced whippersnappers who are confused, overwhelmed or even take advantage of. Younger boomers, Gen Xers and younger generations no longer have the luxury of the factories they worked at for 30 years paying them a pension the rest of their lives. Most workers who have the option to contribute to a 401K through their employer don’t. Plus, the choices out there are numerous and confusing.

Some struggle to pay bills on time. In fact, a recent survey by the National Foundation for Credit Counseling found that one in four Americans do not pay all of their bills on time, most notably among women ages 18-34 in which the percentage was 39%! Another 8% admit to having debts currently in collections, and the figure is rising. Paying bills late leads to late fees, higher interest rates, lower credit scores and an overall negative impact on the consumer’s financial health.

Ser Tech’s Flitter Credit Network offers consumers real FICO scores and credit education. Learn more here!

A majority of adults in the United States (61%) have carried credit card debt in the past 12 months, and nearly 38% carry over debt from month-to-month, according to the NFCC. Most have done nothing to try to obtain a lower interest rate for their credit card debt. As community banks and credit unions, you can help refinance them into better rates and come out a hero!

Additionally, many Americans are unable to achieve the asset-building dream of homeownership. Of the 79% of US adults who have tried to purchase a home, 49% have faced barriers, most commonly rising home prices, existing debt and poor credit history to name a few. You may not be able to make the loan, but you can offer the assistance to get them to where your bank or credit union educate and help them rebuild credit, so that you can grant them that loan at some point.

But even if a borrower's credit is good, what's the best option for them? A 30-year fixed or adjustable? Balloon payment – what's that? Is it wise to take a home equity loan or line of credit after they own the home? Copious options grew out of the last housing boom, and some of them also led to the last housing bust. Provide the foundational education to help borrowers keep their assets and their financial institutions safe and sound.

> ***Interested in helping your customers and members build assets? Reach out to us for more information!***

"Financial literacy is an issue with broad implications for economic health and an improvement can lead the way to a global economy that is competitive and strong," Investopedia recently wrote regarding retirement savings, pointing to the 2008 financial crisis. It warns of all the complex savings options that are out there with different interest rates, varying maturities, whether they're insured or not insured, and don't get started on Social Security! Investopedia points out that people are living longer and the old methods of determining how much savings was enough went out the window. And they're being bombarded on all sides with savings plans from big banks, small banks, credit union, insurance companies, financial planners and the like.

A few years ago, Investopedia reported, a TIAA-CREF study discovered that those with high financial literacy are better prepared for retirement and accumulate double the wealth of people who do not plan for retirement. On the other hand, those with a low level of financial literacy borrow more, generate less wealth and end up paying unnecessary late fees and others for financial products.

The good news is 29% of adults in the U.S. are saving more than they did a year ago. Millennials and younger Gen Xers are leading the way. The adults using a 401K plan increased to 37% this year, up from 32% last year. Those under 54 were most likely to have 401Ks while seniors (55+) were most likely to hold mutual funds and invest in IRAs than younger consumers.

Professors at Brown University, as reported by MyFinancialGoals.org, surveyed consumers on five basic financial questions. Only 5% of individuals aged 18 to 24 correctly answered all of the questions, and while comprehension seemed to increase with age, the biggest factor seemed to be household income. Twelve percent of people with an income of $35,000 to $49,000 correctly answered each of the five questions, while 37% of the $150,000+ income bracket received a perfect score. The conclusion: Those who are more economically successful tend to have more financial education and practice.