

A large, stylized version of the DiGiPort logo is centered on the page. The text "DiGiPort" is in a dark teal font. The "i" is lowercase and has a yellow dot. The "P" is uppercase and has a yellow dot. The "o" is lowercase and has a yellow dot. The "r" is lowercase and has a yellow dot. There are also two red circles of different sizes and two yellow diagonal lines with dots at the end, positioned around the text.

Financial and economic literacy

The FRAMEWORK logo consists of a blue square icon with a yellow square inside, followed by the word "FRAMEWORK" in a blue, hand-drawn, uppercase font.



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Introduction



Financial literacy skills means having the confidence, knowledge, and skills needed to make financial decisions that promote financial self-sufficiency, stability, and well-being. These skills include the ability to effectively locate, evaluate, and use information, resources, and services and to make informed decisions about financial obligations, budgeting, credit, debt, and planning for the future.



Learning outcomes



To understand the meaning of financial literacy and how it impacts our daily life.



Develop a strategy for setting financial goals to improve towards a better financial management.



Finding out about how financial institutions work, and the services they offer.



Recognise the 5 different components of financial literacy



Being aware on the importance of being financially literate individual.





What is financial literacy?

FINANCIAL LITERACY is a combination of financial awareness, knowledge, skills, attitudes and behaviours necessary to form sound monetary choices and ultimately achieve individual financial well-being.

“Sound financial literacy is at the heart of people’s financial well-being”

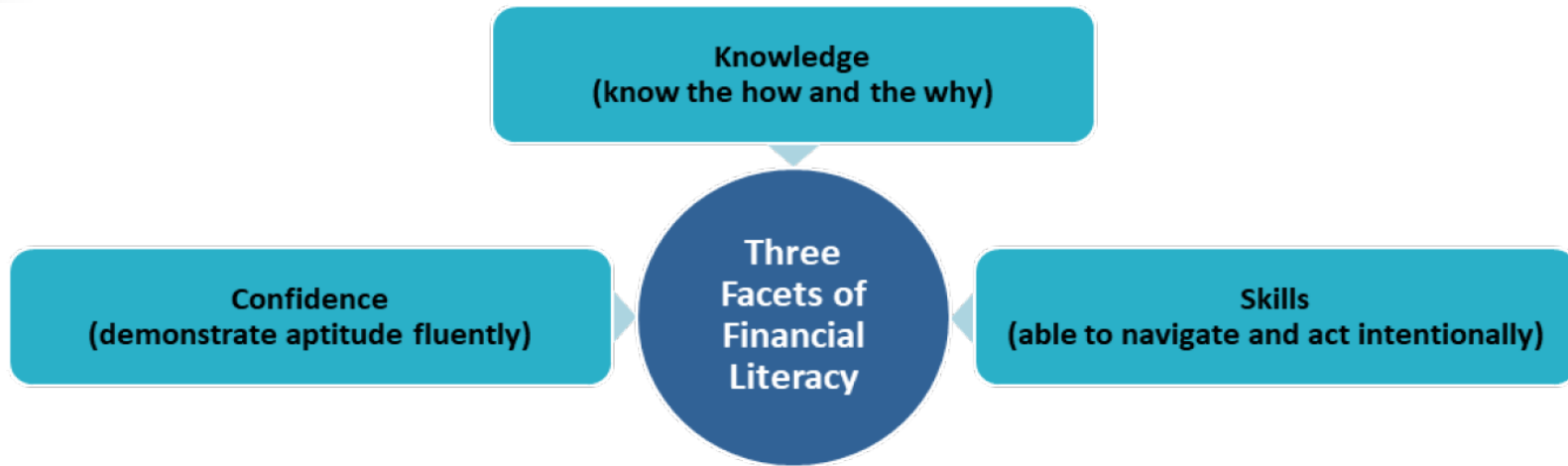
Being Financially literate means:

“We can effectively allocate our budget, evaluate it, and optimise the resources of our income and manage it well by utilising financial services that are accessible to us.”



What Does It Mean to Have Financial Literacy Skills?

How financial knowledge and skills are applied will take on different forms due to individuals' different skill levels, aspirations, and life circumstances.

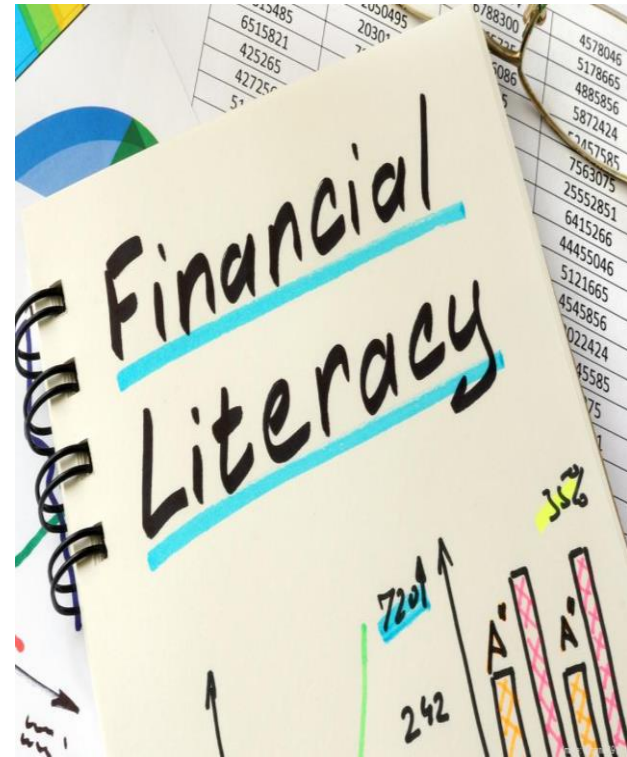


It is all about self-sufficiency !

Financial know-how accompanied by core skills—such as critical thinking, problem solving, self-awareness, and adaptability—can boost individual financial capability to improve financial well-being according to one's own terms.

While the end-result will vary by individual, the same four qualities of financial well-being can be relevant for anyone:

- Having control over day-to-day, month-to-month finances
- Having the capacity to absorb a financial shock
- Having the ability to remain on track to meet financial goals
- Having the financial freedom to make the choices that allow one to enjoy life



Why is it important?

Financial literacy has significance on the financial conditions of individuals, families, and communities.

Daily actions impact financial circumstances

Whether intentional or unintentional, our behaviors and situations can significantly affect the ability to meet our financial obligations and to achieve the financial aspirations for us and our families.

✓ Get familiar with financial jargons in daily life

Specialised financial languages/ jargons, and systems can create roadblocks for those with limited English proficiency, with lack of access to translated materials or inaccurate translations, thus learning those jargons could help us in understanding more in making day-to-day financial decisions that could affect our lifestyle



Awareness on consumer's financial decision-making

The inequality of economic education fosters an uneven playing field; not all people are ready, particularly for the numerous advanced financial tasks and decisions that face all shoppers these days.



The impact of economic stress on health and work performance

Employees who are navigating through difficult personal monetary problems are often mentally distracted from work duties; or the need to deal with pressing affairs may impact their performance at work.

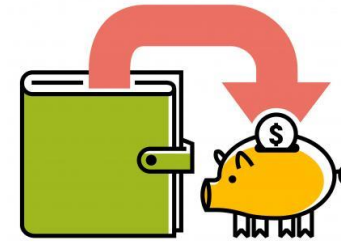
Limited access to financial education

Although it would appear logical for youth to have the ability in monitoring on their personal finances before graduating from highschool, there's no guarantee that everyone would receive a comprehensive financial education before transitioning into adulthood.

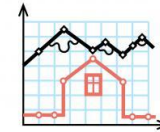


Key financial literacy concepts

- ✓ **Budget** your money. “Pay yourself first” – and then distribute the rests based on your commitments.
- ✓ **Taxation** – it's not all yours. “Understand your true earnings and how they are taxed” – identify and refer to your local tax guidelines on what need to be taxed.
- ✓ **Borrowing.** “Not all money is created equal” – differentiate on the commitments between loans and credit card.
- ✓ **Invest** to achieve **your goals**. Plan before investing. “Think about and map your goals” – what is the size of income you want to see in the future



ACCUMULATING



LONG-RANGE PLAN



BUDGET



EXCHANGE



BANK CARD



PROMOTION



PLANNING



INVESTMENT



PAY ONLINE



FINANCIAL BALANCE



CRISIS



WASTING



GROWTH OF INCOME

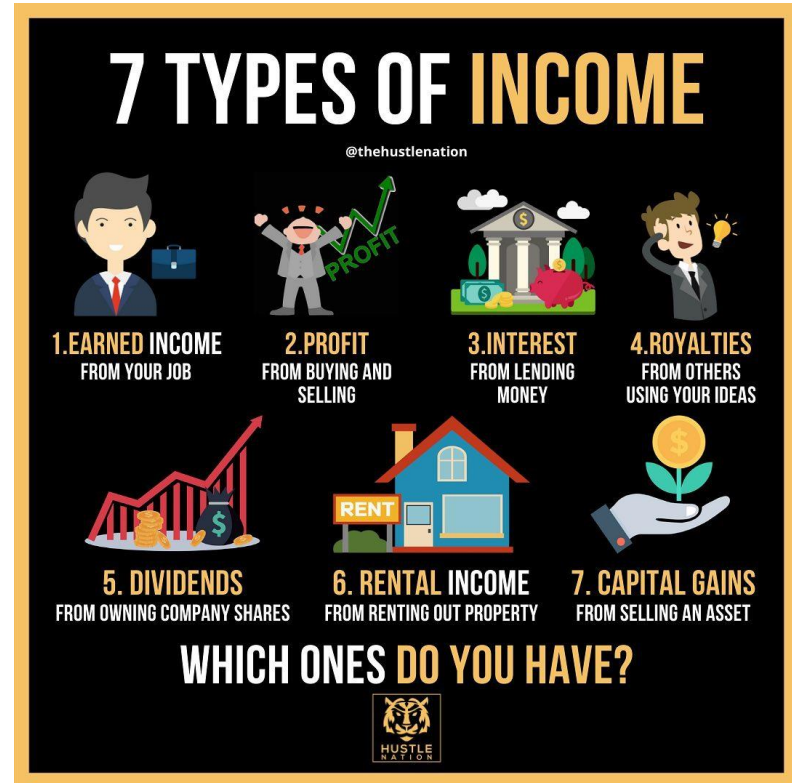


Components of Financial Literacy 1/6

1. Earning

Knowing the size of your monthly earning is the best place to start because it sets the limits that your expenses cannot exceed. Higher earnings mean bigger room for your expenses.

Earnings can be variable. While salary is usually consistent throughout each paycheck, many people also experience variable income either in addition to salary or as their primary source. Working on commission can be less predictable than salary but may have the potential for higher earnings overall.



Components of Financial Literacy 2/6

2. Saving & investing

There is an element of deferred gratification tied to the concept. Saving income for the bill due next week is not savings. The most common event that people save for is retirement. While this is a very long-term goal, you can also create smaller, shorter-term goals along the way as well.

You are saving to buy your dream vacation home, saving for that amazing vacation you've always wanted, or buying a car or a house. Regardless of the goal, savings needs to have a purpose. Hoarding money for security is typically a sign of bigger financial insecurity.



Components of Financial Literacy 3/6

3. Spending

The money that leaves your bank account. If you don't have a handle on how much money you spend, this may be the most intimidating part of your financial life. Knowing what you pay is not the same thing as living frugally. This is a common misconception. And just because you know your spending habits doesn't necessarily mean you need to change them.

Being financially literate and, quite frankly, financially responsible means knowing what your expenses are and predicting and preparing for upcoming expenses reasonably.

The best place to start is to categorize your expenses between fixed and variable. Fixed expenses are the things that stay the same month to month (mortgage, debt payments, cell phone bill, etc.), while variable expenses will vary month to month (food, entertainment, travel, etc.).



Components of Financial Literacy 4/6

4.1 Borrowing

Even if you're a diligent saver, at some point you may have to borrow money to cover a large expense like a home or car. Maybe you borrowed money as a college student and are currently dealing with student loans or credit card debt.

Borrowing isn't necessarily a bad thing—as long as you know how to compare loans and maintain a healthy credit score.

Keeping a balance on your credit card is one of the easiest ways to rack up debt but choosing the right credit card and using it responsibly can actually help you improve your credit score.



Components of Financial Literacy 5/6

4.2 What's the difference between a credit card and a loan?

There are two main types of credit: revolving credit and installment credit. Revolving credit typically comes in the form of credit cards and refers to credit that you can borrow repeatedly up to a set limit (your credit limit). Installment credit typically comes in the form of loans and refers to a set amount that you've agreed to pay back in installments – within an agreed period.

With a credit card, each time you pay off your balance, you can borrow the full amount of your credit limit again. With a personal loan, you're given a lump sum all at once, and agree to pay back the loan over a set period of time. The other big difference is that credit cards typically carry higher interest rates than personal loans.



Components of Financial Literacy 6/6

5. Protecting

Now that you've got a solid understanding of financial terms, and know where you currently stand, take the next step to protect your wealth.

It's simple to protect your wealth from foreseeable threats, like locking valuables in a safe or not leaving your cash in the seat of your car. However, it's the unforeseen threats that add complexity to wealth protection.

Protection can involve risk management from creditors, volatile markets, and lawsuits. It can also include insurance, like life insurance, to protect against the potential loss of income if you were to die prematurely.



Financial institutions

A **financial institution** is a company engaged within the business of managing money and financial transactions like deposits, loans, investments, and currency exchange.

Financial institutions comprehend a broad variety of business operations within the financial services sector including banks, trust companies, insurance companies, brokerage firms, and investment dealers.

Virtually everyone living in a developed economy has an ongoing or at least periodic need for the services of financial institutions.

Financial Institution Functions



Financial services can be defined as the products and services offered by institutions like banks of various kinds for the facilitation of various financial transactions and other related activities in the world of finance like loans, insurance, credit cards, investment opportunities and money management as well as providing information on the stock market and other issues like market trends.



Types of financial services worthy to be considered:

1. **Banking** includes handing deposits into checking and savings accounts, as well as lending money to customers. The interest the bank earns from these loans is given to the clients who have deposited money into the bank.
2. **Advisory** helps both people and organizations with a variety of tasks and guide people in the right direction when making financial decisions.
3. **Wealth Management**- helps people to save money intelligently, while receiving a profit on their investment when possible.
4. **Mutual Funds institutions** offer a type of investment that multiple parties share in. These investments are managed by an expert, not the investors themselves.
5. **Insurance** is a system that you pay into monthly or annually which acts as a safety net and covers costs of some large expenditures which are often unforeseen. There are different types of insurance: health, auto, home, renters, and life insurance, just to name a few.





How to Assess Your Financial Literacy

An easy way to assess your financial literacy is to ask yourself some questions about your own personal finances.

1. Do you know how to create a personal budget?
2. Do you have an emergency fund that covers at least three months of basic living expenses?
3. Do you have a plan for retirement?
4. If you have debt, do you have a plan to pay it off?
5. Do you know your credit score and how to improve it?

“Currently, **only 27% of Europeans between 25 and 59 years old have enrolled themselves in a pension product.”**





How to improve your financial literacy right now

If you answered no to some (or most!) of the questions above, don't worry. There are a few concrete things you can do right now to take control of your finances and improve your financial literacy.

- **Create a personal monthly budget.** Your budget is the foundation of your financial health, and it's pretty easy to get started.
- **Start an emergency fund.** Experts recommend setting aside at least three months' worth of basic living expenses in case of an unexpected financial burden like a layoff or large medical expense.
- **Make a plan for retirement.** The easiest way to start investing is with a retirement account.
- **Make a plan to get out of debt.** If you're caught in a cycle of debt, making a plan to pay it off can save you thousands of dollars in interest.
- **Determine your credit score and learn how to improve it.** Improving your credit score is another way to save money on interest.






Practice - Create a personal monthly budget


Use for instance **“Create a Budget with Google Sheets”** class, that teaches budgeting as well as how to navigate Google Sheets. In exactly one hour, you’ll learn the way to create, format and update **your budget** to assist you reach your money goals. Whereas you won’t get a certificate for finishing this course, you may find yourself with an expert budget to help keep your finances in order.

<https://www.coursera.org/projects/create-a-budget-with-google-sheets>



Budget
[ˈbʌ-ʒət]

An estimation of revenue and expenses over a specified future period of time that is re-evaluated on a periodic basis.

 Investopedia





Practice – A simple budgeting rule

The universal appeal of the 50/30/20 rule is its simplicity. If you want to know how much of your salary you should save, or what percentage of your income should go on housing or food costs, then the 50/30/20 rule will help you. It divides all your outgoings into three simple categories.

- **50% on Needs** / 50% of your salary should be spent on essentials like rent, bills, transportation, and food. These are things that you cannot live without. They are essentials.
- **30% on Wants** / 30% should be spent on leisure activities and hobbies, such as gym memberships, holidays, or buying take out on a Friday when you're totally frazzled. All of these are things that you want but don't need to survive.
- **20% on Savings** / The final 20% of your salary should go into your savings, or to pay off any outstanding debts you have, such as credit cards or student loans.

50/30/20 BUDGET RULE FOR BEGINNERS

NEEDS

- ✓ Mortgage / Rent
- ✓ Transportation
- ✓ Utilities
- ✓ Groceries

50%

WANTS

- ✓ Restaurants
- ✓ Shopping
- ✓ Entertainment
- ✓ Travel

30%

SAVINGS

- ✓ Emergency
- ✓ Retirement
- ✓ Savings account
- ✓ Debt payments

20%



Some tips

1. **START NOW!** The earlier you start planning, the more time your money has to grow.
2. **Figure out how much money you need to retire.** A typical advice is to replace 70-90% of annual income through savings.
3. **Prioritise your financial goals.** Allocate wisely between retirement fund and emergency fund.
4. **Choose the best retirement plan.** There is no single best retirement plan, but there is likely a best retirement plan — or combination of retirement accounts — for you
5. **Select your retirement investments.** Retirement accounts provide access to a range of investments, including stocks, bonds and mutual funds. Determining the right mix of investments depends on how long you have until you need the money and how comfortable you are with risk.





Complementary courses

- EU financed course “**Interactive Scenario Gaming Solutions for Increasing Online Financial Literacy**” <https://define.fh-joanneum.at>
- “**Personal Finance 101: Everything You Need to Know**” course. By watching animated videos, users can learn basic personal finance topics such as saving for college, retirement planning and the ins and outs of credit cards. <https://www.udemy.com/course/personal-finance-101/>
- **My Financial Mountain: Understanding Your Path to a Solid Financial Foundation** — it’s only 24 minutes long and allows you to breeze through topics such as saving for the future and financial planning. <https://www.skillshare.com/classes/My-Financial-Mountain-Understanding-Your-Path-to-a-Solid-Financial-Foundation/726790876>
- “**Introduction to Managing Your Personal Finance Debts,**” This free course will teach you how to prioritize which debt to pay off first, how to organize your debts using a spreadsheet and how to negotiate interest rates with credit card companies, among other skills. <https://alison.com/course/introduction-to-managing-your-personal-finance-debts-revised>





Quizzes



1 - Financial literacy skills means (pick the right one)

- Spend my salary on retirement plan only
- **Promote my self-sufficiency now and in the future**
- Never use credit cards

2 - True or false - when applying financial literacy, we only use mathematics (False)

3 - One of the following is IT NOT a qualities of a financial savvy well-being (only 1 wrong)

- Having control over day-to-day, month-to-month finances
- Having the capacity to absorb a financial shock
- **Never care about how you spend money**

4 - True or false - Earnings includes only your salary (F)

5 - True or false - Hoarding money for security is typically a sign of bigger financial insecurity. (T)

6 - True or false - The best place to start is to categorize your expenses is o get rid of all variable expenses (F)



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