Three Questions Answered

E. Thomas Garman, Updated March 2005

1. "What Should a Good Financial Literacy Program Accomplish"
2. "What Can People Do to Get Ahead Financially?"
3. "What are Good Personal Financial Behaviors that Lead to Financial Success?"

1"What Should a Good Financial Literacy Program Accomplish?"

A good financial literacy program should help people practice good financial behaviors that over time result in positive changes in their financial lives. The changes include increases in assets, decreases in liabilities, increases in net worth, decreases in financial distress, increases in financial well-being, being on track for a financially successful retirement, and being prepared to legally transfer assets to beneficiaries.

"What Can People Do to Get Ahead Financially?"

People can get ahead financially only by sacrificing some current spending to save and invest and by practicing good financial behaviors. On your side working for you, instead of against you, will be compound interest earnings on savings accounts and retirement funds (instead of rising credit card balances) and the favorable effects of inflation on rising stock market prices and growing home equity (instead of price rises on a home not yet purchased).

"What are Good Personal Financial Behaviors that Lead to Financial Success?"

There are many good personal financial behaviors that are important in achieving financial success. A fundamental truth is that one must spend less than one earns, thus sacrificing some income to invest for a future lifestyle. Some additional (but not all) good financial behaviors are: Establish financial goals and realistic plans to achieve them; join a credit union; save regularly; maintain an emergency saving fund; take advantage of opportunities to tax-shelter some income through one's employer; use a budget to control spending; budget for irregular expenses; save for a down payment on a home using a Roth IRA account; buy a home to take advantage of income tax deductions and eventual rises in one's home equity; pay credit card charges in full every month; pay bills off fast; maintain an excellent credit reputation; calculate personal debt limits and adhere to them; evaluate and compare services, comparison shop for expensive purchases, installment credit, mortgage loans, insurance, and investments; carefully make risk-management assessments of what types and amounts of insurance are appropriate; save as much as possible every year for retirement by investing in mutual funds through tax-sheltered retirement accounts; always save within an employer-sponsored retirement plan at least the amount required to obtain the largest matching contribution; leave your retirement money where it belongs during your working life—in your retirement accounts; prepare and update as needed a will, advance directive documents and beneficiary and ownership designations.