The Cost of Financial Illiteracy

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There is a cost to financial illiteracy and this cost can be passed down to generations and society. Financial illiteracy leads to poor decision making, debts, and missed opportunity for wealth building.

1. Poor choices

Financial illiteracy leads to impulse spending, living beyond one’s means, which leads to financial problems. All of this leads to borrowing which in turn leads to debt. Such people are often vulnerable to loan sharks which leads them to a cycle of debt.

Not surprisingly, these people have no savings, therefore, are caught out when some unexpected bill arrives such as an appliance breaking down, or the car needs fixing.

2. Increased Debt and Financial Stress

Being unable to pay bills on time will lead to financial stress and mental health issues. It will also lead to relationship issues as lenders are sometimes family members who lend money, often with no interest attached may not see their money again. The borrower will sometimes use the excuse, “I did such and such for you”, in order to squirrel out of repaying the loan. This leads to resentment on the part of family members.

Smart money managers will not borrow for consumable items. “If you don’t have the money, you don’t buy it” is a good rule to live by”.

3. Missed Investment opportunities

People with no financial literacy will not invest their money and therefore miss out on the opportunities to increase their wealth. They will leave their money in a personal savings account which pays little interest which does not even cover the cost of inflation. As far as retirement goes, they have little savings to fall back on in later years.

4. Vulnerability to Scams and Fraud

Financially illiterate are unaware of the red flags which are common in scams, therefore, are vulnerable to be taken in by them.

5. Higher costs for Financial Services

A financially illiterate person will choose financial services and insurance not applicable to their needs or accept advice which is not compatible with their personal circumstances.

6. Impact on Future Generations

Parents who are not financially literate may pass on their traits and attitudes to their children, passing on their poor financial skills to the next generation. This could also mean that they are unable to contribute to their children’s education, limiting future opportunities.

7. Health and Lifestyle Consequences

Poor financial choices can also lead to poor health outcomes. It can also inhibit your ability to purchase a home, start a business, or pursue higher education.

8. Limited LIfe Choices

Lack of financial skills will inhibit your ability to enjoy a more fruitful life. If you are not living within your means then overseas travel, further education, and starting a business will all be out of reach. Certainly, people who have no savings whatsoever are not fit to be in business because if you cannot even manage your own money then the lack of financial management will mean certain failure for the business.

“Financial literacy is not an expense, it's an investment in your future.”

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