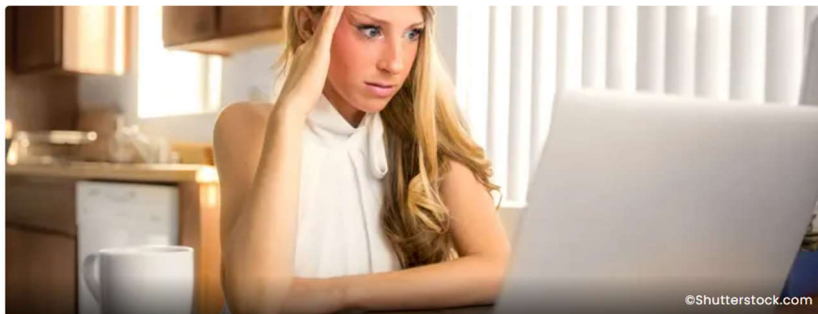


Money / Financial Planning

How You Can Avoid Losing \$1,500 a Year by Getting Smarter About Money

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Not having an in-depth understanding of money can cost you. On average, people believe they lose \$1,500 each year as a result of their financial illiteracy.

GOBankingRates asked financial experts from across the country to help people understand what financial literacy is and how the average American can avoid losing \$1,500 a year [simply by getting smarter about money](#). Here is what they had to say.

How Much Money Do People Lose Because of Financial Illiteracy?

A 2023 survey by the [National Financial Educators Council](#) found that, on average, people felt like they lost \$1,506 over the past year due to their lack of knowledge about personal finances. In 2022, respondents said they lost over \$1,800 due to the same reason. If applied across the population, this means billions of dollars are lost each year simply because people do not have sufficient financial literacy.

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Getting smarter about money, however, may be easier said than done. Traditionally, money has been a taboo subject at the dinner table and few classes in public schools are dedicated to the matter. People who want to become more knowledgeable often have to seek out their own information in order to gain the understanding they need of how money works.

What Is Financial Literacy?

According to the [Corporate Finance Institute](#), "Financial literacy is the cognitive understanding of financial components and skills such as budgeting, investing, borrowing, taxation and personal financial management."

Financial literacy can be critical throughout a person's lifetime as it often guides how we spend and save money.

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Melanie Musson, a finance expert with [Clearsurance.com](#), explained, "Financial literacy is understanding how some things cost you more money and other things make your money grow. It's understanding how you can control how your money works for you."



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Why Is Financial Literacy Important?

When asked about the importance of financial literacy, Musson said, “Financial literacy is important because it helps keep you out of financial hardships.

“Lack of financial literacy costs people in many ways,” she added. “One significant way people lose money is in interest. When you spend money you don’t have, you’re borrowing that money. The price you pay for borrowing is interest. Over time, if you make minimum payments on your credit cards, you’ll end up paying more than the value of what you bought just in interest.”

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Achim Neumann, founder of [Neumann Associates](#), said financial literacy is “important because it helps you make informed decisions with your money, ensuring a more secure financial future. A lack of knowledge can lead to costly mistakes, such as accumulating high-interest debt, making poor investment choices, or paying unnecessary fees. These mistakes can add up to significant losses each year. To avoid this, educate yourself through books, courses and workshops.”

How You Can Avoid Losing Money Due to Financial Illiteracy

Neumann, a business and finance expert, said people can avoid losing money due to financial illiteracy if they “create and stick to a budget and don’t hesitate to consult financial advisors for personalized advice. Staying informed and proactive about your finances can save you a lot of money and stress in the long run.”

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Musson said, “Make a budget with a plan to get yourself out of high-interest debt. Cut your spending so you don’t contribute to greater debt, and start paying off your current debt. Once you’re out of debilitating debt, you can use your money for good instead of to get by.

“Lack of financial literacy can keep you from preparing for the future,” she added. “If you’re maxing out your lifestyle, you’re buried by bills every month. Everything you spend money on is in the past. You’re not looking toward the future. If you want to build wealth, you must change your mindset to the future instead of the past and present.

“Start investing in retirement accounts,” the financial expert explained. “If your employer offers a matching program for a 401(k), opt in. Otherwise, an IRA or a Roth IRA are excellent options to get started preparing for your future. Once you have prioritized your retirement preparations, you can start investing in other ways to grow your wealth.”



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