



THE IMPORTANCE OF FINANCIAL LITERACY

To plan for a sustainable retirement strategy, one must understand the importance of financial literacy.

According to the U.S. Strategy for Literacy 2020, “financial literacy describes the skills, knowledge, and tools that equip people to make individual financial decisions and actions to obtain goals.” That is, it is understanding financial concepts in order for an individual or business to have financial stability. For businesses, financial literacy is necessary to run a successful business. For individuals, it can be used to plan for and manage a financial strategy for retirement. Below are a few concepts regarding financial literacy.

Budgeting

Budgeting is an important concept for financial well-being and probably one of the most basic planning tools in financial literacy. It helps a person or business owner make sound financial decisions, especially when purchasing big-ticket items and saving for rainy days. It also provides the knowledge and understanding of income from work and the expenses of everyday living. Technology has made it easier for an individual to create and maintain a budget through apps, calculators, and websites. There also are theories and strategies to help with budgeting and how to incorporate budgeting for retirement planning. Examples are the Actual Expense (single and dual budget) Method and [Modern Retirement Theory by Branning and Hud.](#)

Saving

Saving is another important concept in financial literacy and may be the toughest to do. Based on a [Transamerica study released in September 2020](#), “only 17% of Americans believe they have enough money for their retirement.” Savings can be held in bank accounts, investment accounts, and employer-sponsored accounts such as 401(k)s. Savings are for different purposes depending on age. It can be saving for a large purchase, paying off debt, or retirement planning. A good rule of thumb is to have at least three to six months of living expenses as an emergency fund. Ultimately, the goal is growth, which can then be turned into distributions used during retirement. This is important, as a [financial literacy study conducted by the National Foundation for Credit Counseling \(NFCC\) in 2020](#) shows that 44% of individuals are not confident that they are saving enough money for retirement.

Spending/Debt

The requirements for spending and debt involve the balance between fun and the future. Buy the luxury vehicles and/or homes, the designer clothes, and the weeklong vacations, or save more. Obtaining debt may be a spontaneous decision, such as a last-minute getaway, or thought-out, such as the purchase of a starter home. However, a debt is an expense that needs to be repaid. It is wise for clients to be cautious and understand the interest attached to each debt obtained. A study by [Northwestern Mutual shows that among Americans who carry debt](#), 33% of their monthly income goes toward debt payments, exclusive of mortgages. This large debt leads to the inability to save for retirement and the future.

Personal Financial Management

Here is where the rubber meets the road. Financial literacy gives people the knowledge to make smart decisions with money. Here are a few items to consider when helping clients plan for a successful financial future:

- Create a budget.
- Have an emergency fund.
- Pay off debt.
- Use different retirement savings tools, such as employer-sponsored plans, IRAs (Roth or traditional).
- Consider legacy planning.

So why is financial literacy important? Simple answer: to be financially prepared for today, tomorrow, and whatever surprises life brings.

As [The Official Sponsor of Retirement](#), we understand the importance of educational resources for your clients. Be sure to check out the resources available for sharing below.

Additional Resources and Links

[Financial Terms Guide](#)

[Income and Expense Worksheet](#)

[Retirement Lifestyle Worksheet](#)

[U.S. National Strategy Financial Literacy 2020](#)

For more information about retirement planning,
please contact our Retirement Strategies Group at
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2 of 2

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