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Navigating the world of financial literacy

You might often think that it is too early to learn how to manage your finances, or that it is meant for those with more money than you.

You are not alone in thinking that. In 2005, Singapore's first national financial literacy survey conducted by the MoneySENSE Financial Education Steering Committee showed that young adults aged from 18 to 29 were at greater risk of having the lowest level of financial literacy.

But what exactly is financial literacy? It is essentially the knowledge of how to manage your money, the ability to do financial planning, and having some basic know-how of investing.

In 2012, Citi Singapore and Singapore Management University (SMU) jointly launched Singapore's first structured financial literacy programme for young adults, recognising the need for young adults to learn how to take control of their finances.

In this article, *Current.ly* speaks to Mr Aurobindo Ghosh, Assistant Professor of Finance at SMU and program director of the Citi Foundation-SMU Financial Literacy Program for Young Adults, and Mr Christopher Yap Jun Hao, a Year 4 business student at SMU's Lee Kong Chian School of Business and president of the Citi Foundation-SMU Financial Literacy Club, for greater insights about financial literacy among young adults in Singapore.

Q: HOW LITERATE ARE YOUNG ADULTS IN SINGAPORE ABOUT THEIR FINANCES?
Assistant Professor Ghosh: Singaporean millennials and fresh graduates are quite financially literate, as is evident from both interactions and assessments we conducted. However, while young adults have a good grasp of knowledge about financial literacy and products, they might not be as financially savvy as they have less experience making financial decisions independently.

Mr Yap: I think most millennials probably have a very broad understanding of savings, budgeting, and investing. Technology has definitely played a part, as most of them are used to transacting online, be it for banking, investing or shopping.

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Based on personal observations, however, I think that young millennials and graduates are not quite financially savvy, as many seem to be spending more than they earn. But I think that has been changing over the past two to three years, as more of them are becoming aware of the importance of being financially savvy and have started to adopt healthier financial habits, such as using online applications to track their spending and utilising cashback when (making purchases).

Q: WHAT ARE THE BASICS OF FINANCIAL LITERACY YOUNG ADULTS NEED TO GRASP?

Assistant Professor Ghosh: Understanding needs and wants, budgeting, keeping track of expenses, saving, compounding, insurance, basic money management and investment, benefits of diversification.

Mr Yap: I would say understanding how to manage money, including the tools you can utilise to manage money, inflation and how it affects your wealth, savings and budgeting, investing, insurance and retirement planning.

I also believe that learning the basics of FinTech, such as blockchain or digital payments, is very relevant now. It is not necessary to have in-depth knowledge, but a broad overview of what it is and how it can be used would be useful.

Q: WHY IS IT IMPORTANT TO BE EQUIPPED WITH FINANCIAL LITERACY KNOWLEDGE FROM A YOUNG AGE?

Assistant Professor Ghosh: The main reason to start early is to start growing the habit of money management. Starting to manage money at a young age, for example by saving, allows one to have a longer runway. This ensures that they reach their retirement and life goals including financial independence earlier with less risk.

Mr Yap: It is important to be financially literate from a young age so that one can achieve their financial goals later on in life. Everyone has different financial goals, be it to achieve a certain net worth by age 40 or early retirement by age 55.

However, it would be hard to achieve such goals without proper money management skills. That's why starting young would allow one to adopt healthy money management habits early, and start working towards their financial goals with a longer runway, and ultimately help them to achieve financial freedom earlier.

Q: WHY IS INVESTING IMPORTANT? MOST YOUNG PEOPLE PROBABLY DON'T EARN ENOUGH TO MAKE LARGE-SUM INVESTMENTS. HOW CAN THEY GO ABOUT INVESTING

THEN?

Assistant Professor Ghosh: Young people have a long horizon, so it's always better to invest today to achieve your targets in life. Most young people might think they do not have enough money to invest, let alone invest actively. That is not completely correct as there are micro-investment schemes available.

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Fresh graduates should always save part of their salary and plan ahead**.** The younger you are, the more you should invest in stocks with sound fundamentals. A rule of thumb is that your investment portfolio should be 100 minus your age percentage in stocks, and the rest in fixed income or bonds. So at 25 years old, you should consider investing 75 per cent in stocks and 25 per cent in bonds.

Mr Yap: Investing is a way to help grow your money, as compared to putting it in a savings account.

For fresh graduates with little money, they could look at investing through regular investment plans. Many banks offer this, where one can invest as little as $100 per month in a stock, unit trust or exchange-traded fund of their choice. This was actually how I started investing when I was 17, putting in around $200 a month in a stock of my choice. Robo-advisors would also be good for young graduates who do not want to go through the trouble of researching their investments. All they have to do is answer a few questions for the robo-advisor to determine their goals and risk appetite, and they can get started.

Q: WHAT ARE FIVE IMPORTANT MONEY TIPS YOU WOULD GIVE YOUNG PEOPLE?
Assistant Professor Ghosh:

1. Decide whether something is a need or a want (which is easier said than done!).
2. Budget expenditure and keep track of your spending.
3. Have sufficient insurance coverage.
4. Do not spend more than you earn.
5. Start investing small amounts passively.

Mr Yap:

1. Do not spend more than you earn
2. Invest from an earlier age. Also, always do your research before investing.
3. Utilise digital tools to help you better plan your finances.
4. Start planning for your retirement as early as possible. Do not wait until midway through your career.
5. Protect yourself from the time you are young, by building up your savings and purchasing insurance.

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