The Parents League

OF NEW YORK

Review 2016

Essential Articles on Parenting and Education

Financial Education, at Home and at School

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Effective money management contributes to a lifetime of financial security. That's why it is such a critical topic, one that young people not only need to know about, but want to know about. The Charles Schwab 2011 Teens & Money Survey Findings show that 86 percent of teens surveyed would rather learn about money management in school before making mistakes in the real world. And 75 percent say that learning about money management is one of their top priorities.

Yet, by objective standards, American teenagers are notoriously financially illiterate. According to the Jump$tart Coalition for Personal Financial Literacy, high school seniors could answer only 48.3 percent of questions correctly on a recent financial test. So, how do we give our children the basic knowledge of budgeting, saving, investing, credit, insurance and taxes they need to be able to take care of themselves as adults?

Teaching a Life Skill

Financial education may be critical, but it's hard to do right. And where can it be delivered most effectively—at home or at school? In academia, financial education tends to fall under life skills. This is a tricky area, with a line that tends to move back and forth between what schools should be responsible for, and what parents should take care of at home. As with other life skills, the family and the school each has a role. While these roles exist, so do significant challenges.

This article first appeared in the 2016 Edition of *The Parents League Review*.

Let's look first at the role of the family. Not surprisingly, some major barriers exist to teaching about money in the home. For starters, money isn't always a comfortable topic for families of any income level. As you have probably heard, most parents would rather talk to their children about sex than about money. Also, adults do not always manage their money completely logically and, what's more, they do not want to have to explain themselves.

Then there's another problem: You can't teach what you don't know. Some of us feel uncomfortable talking to our children about money because we question our own mastery of the subject. Further, women—who tend to be the primary caregivers of children—score lower than men in the area of financial confidence, and that contributes to the difficulty of teaching about money in the home.

With schools, there is the issue of how to fit financial education into an academic program. Classes in subjects that might be considered life skills—health, for instance—are mandated by some states. And while nutrition and sexual education seem like subjects that should be dealt with at home, they are, in fact, taught grade after grade in many schools. Increasingly, financial education, whether in the form of personal finance or economics, is being required in some states, but the challenge of slotting one more subject into an already packed school day remains.

> Money management is a critical topic that young people want to know about.

Beginning at Home

At home, one simple way to overcome barriers is to maintain a natural, open and ongoing dialogue with your child about money and financial information. You can start by getting to the heart of the matter when money-related questions are being asked. For example, a common question like “Are we rich?” could have any number of meanings, or seek any number of answers. Your child could be insecure about money, or trying to compare himself with his friends, or reacting to some kind of pressure arising from social media. In order to give the right answer, you have to know what the question is, and that frequently involves a conversation.

Money does not exist in a vacuum; by sharing your knowledge and information about the world, you can help your child grasp the big picture around money and finance. Read together newspaper articles about the economy and the markets. Go through some of your investment reports and statements—explain the financial terminology, and discuss why you have invested in certain assets. Talk about the relationship between financial goals and career aspirations. In a similar vein, talk about how money can be linked to values, for example, with a conversation about the kind of impact you want to have on the world with both career choice and charitable giving.

> Share your knowledge about the world; help your child grasp the big picture.

Experiential Learning

One of the challenges of teaching kids to handle money is that they do not have the same financial opportunities or needs as adults. But there are ways you can offer your children real-life financial opportunities to learn by doing. For the younger crowd, you can work with allowance. Children can set savings goals and map out their spending and savings, allocating their allowance carefully over weeks and months. Older kids can get jobs and paid internships, and likewise budget their income.

An effective parent-child activity can involve researching and analyzing stocks or mutual funds, then investing small amounts of money and following the investment over time. Having this kind of "skin in the game" engages young people, and helps them build the confidence in and awareness of investing that will make it more likely they will save effectively for retirement.

Off to College: What Do They Need to Know?

College is for many the first step into an independent adult life. For some students, being in college will involve very independent financial management, including earning spending money and managing college debt. Some students may receive full funding, including tuition, room, board and spending money, from family members. Others may be somewhere in the middle. But almost all college students will need to manage spending cash flow.

Since college often provides the first experience of managing money, it is a great idea to get good practices established before the student leaves home. Because most high school students depend on their families for money and supervision of how it is spent, they have little opportunity for experiential learning in financial management. The overarching foundation to build before college is how to be intentional with money—setting spending and saving goals, planning spending, and keeping track of what is being spent. This involves a strong understanding of needs vs. wants, so that spending can be prioritized and planned.

> To be intentional with money involves an understanding of needs vs. wants.

College may also be a good time to start a young person off with his or her own credit card account, both for ease of use, so the bill can be tracked, and to begin to build a credit history. But while a credit card is a great way to begin to build a credit history, it can lead young people to get in over their heads with debt. Because of the power of compounding, a small amount of debt can turn into a lot of debt in a very short amount of time. Additional fees incurred if the bill is not paid on time or if the credit limit is surpassed can be added onto a balance to accumulate even more interest.

So before having independent access to a credit card, young people need to understand its terms, including payment due dates and associated fees. They also need to understand compound interest, and how quickly credit card debt can grow when only the minimum balance is paid each month. Additionally, in order to manage credit effectively, young people need to understand credit history, credit reports, and credit scores. This early financial management is building a base for the ability to borrow for substantial future needs like cars and homes, so it needs to be handled with care. Students need to track their credit history, and stay abreast of their credit scores, which means they need to know what these tools are, and how to find them.

Students who accrue educational debt while in college need to understand the terms of the loans during and after college, their responsibilities regarding payment during the life of the loan, and their obligation to communicate with the lender. Some student loans accumulate interest while the student is still in school; a strategy can be developed to repay that interest in real time. In addition, students must understand that their responsibility for debt repayment begins as soon as they finish college. They need to be aware of their monthly payments of interest and principal, including amounts and repayment period, so they can plan their repayment—and career paths—accordingly. They also need to keep the lender informed of any address changes; not receiving a loan statement is never a valid excuse to miss a payment.

How Schools Can Help

Given the abysmal state of financial literacy in this country, and the difficulties some families face teaching their children about money, schools can certainly play an effective role in the area of financial education. However, mention this idea to any school's academic dean, and the first question you might get is, "What class do we take out to add this in?" In this time of overloaded academic days and increasing pressure for college admittance, the option of removing academic classes will likely be pretty unpopular. But the role schools can play can be as simple as weaving financial education into pre-existing curriculum. Financial learning can also be accomplished through engaging and creative extracurricular activities.

The first step in efficiently and effectively managing financial education within a curriculum is to create a conceptual framework, identifying concepts that need to be taught, and when and where that learning can happen. Compound interest is a great example. Compounding is an extremely difficult concept to grasp, but it is critical because it relates to debt accumulation, as well as to saving and investing. Compounding as a mathematical equation can be inserted and applied throughout math classes at every level.

Similarly, budgeting can serve as a framework for four-function math learning. The concept of taxation can be tackled when students are learning percentages and decimals. Insurance is a great context in which to teach probability. Because finance has a mathematical base, it can be invoked when teaching mathematical concepts at every level. While this is an à la carte approach, it serves the purpose of teaching students important financial concepts.

A bigger-picture, more holistic approach to financial education is also critical and possible. As much of what drives history is economic, macroeconomic concepts can and are taught in history classes. Some schools offer short courses looking at recent financial crises that provide both an opportunity to teach about historical turning points, as well as economics and finance. Afterschool or club time provides an opportunity for in-depth financial learning. Extracurricular activities from investing, microfinance, and entrepreneurship clubs, to afterschool personal finance classes, are opportunities to educate around different aspects of financial understanding.

A Fixable Problem

In this country, financial understanding is an important life skill that is lacking for so many. As a result, debt accumulation and inadequate savings plague our society. If we are to overcome these problems, it is vital that we adopt strategies to incorporate financial learning into both family life and academic settings. Families and schools must work together to teach our children the concepts and skills they need to become financially secure adults.

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