PROMOTING FINANCIAL LITERACY IN CHILDREN

Reference Handout

Presented by:
Gayla Randel, Family and Consumer Sciences Educator &
Program Consultant, Kansas State Department of Education

September 22, 2011

Promoting financial literacy in children is a matter of child development research and practice:

- Money itself you can see, but financial education involves abstract concepts that you can't see.
- There is a right time to introduce concepts based on development.
- The secret is starting early--involve children along the way, base their involvement on age.
- Build on concepts from one age to another.
- Parents are a vital part of education, especially as a role model.

Jean Piaget (Swiss Biologist):

"How children understand the world…cognitive development" (how it affects financial ed)

- **Birth- 18 mos/2yrs—Sensori-motor Stage**
    - Learns concept of self and can do things for themselves.
    - Learning object permanence (things are there even if you can't see them…latter affects money management…budgeting, savings, accounts)
- **2-7 yrs—Pre-operational Stage**
    - Connects language to objects (money has value)
    - Classification by single factor (money is different and money the same)
    - Only sees things from their point of view ("I don't have money")
    - Abstract concepts must be made concrete

- **7-11 yrs—Concrete Operational Stage**
  - Thinks logically about events (how to spend money)
  - Classification by multiple factors (add up different forms of money)
  - Learns conservation of number (amounts of money can look different)
- **11 yrs and older—Formal Operational Stage**
  - Thinks logically about abstract propositions (saving money can add up)
  - Can grasp the hypothetical (budgeting, save vs spend)

Main concepts:

I. Income/Allowance

Early years 2-5 yrs (concrete experiences are all they can comprehend)

A. Introduce monetary symbols (coins)
--Look at coins and point out differences.
--Note that children think the bigger coins have more value (bills have none.)

B. Promote concept that things cost money.
--Use real money to pay for things (the "give to get" idea).
--Allow children to pay for small things with money you give them.
--Promote "pay play"….set up store situations with play money.

C. Introduce the concept of a bank.
--Allow children to see you putting real money into it.
--Relate that the money you are getting from ATM or "the women in the window" is the money you put into it. *(Don't be concerned with the actual amount of money, just that you do it routinely.)*

School Age (ages 5-12 yrs)

A. Offer work for pay at home (outside of the work for family.)
B. Offer small business projects like a lemonade stand.

C. Take children to the bank to start account in their name (only take the older child to deposit their money, younger don't entirely get it.)
D. Garage sales can help instill that items have value to others as well as promote recycling and entrepreneurship.
E. Ask for family buy in (Grandparents and working—make sure payment is realistic for the work done. If they want to provide more money, then make it a gift on another date.)

<u>Teens</u> (13-17 yrs)

A. Encourage part time job, but be sure to promote that education is their job ($187.00 per day added to lifetime earnings for every day you stay in high school*).
B. Allow teens to make their own financial purchases according to family budget for things. Just give them the money allotment and allow them to make the decisions. Parents may need to stipulate the basics they are required to purchase first (such as needing gym shoes and a winter coat and then back to school clothing after that.) This can happen at a second-hand store just as easily as a retail store.
C. Introduce idea of paying taxes. Explain their paychecks and what the taxes goes for.
D. Encourage teen to be involved in an organization to promote work skills and finance related real world experiences. (e.g. saving money to attend a meeting; traveling to meetings and living on a budget)
E. Help teen see their strengths and possible occupations to explore. Participate in school career fairs and interest surveys to help with this connection. Encourage teens to look at many educational options…technical schools, 2 year degree programs, apprenticeships to get the best deal for the cost. Your school counselor will be able to help with this.

II. Savings

<u>Early years</u>

A. Start savings by using clear jar to see the coins rise. Don't "take it to deposit" when full, just get another jar. They will not "get" the savings idea if you remove the money they can see and take it to the bank.

School Age

A. Promote saving part of money earned, but also why you save and what you can achieve if you save money to afford it. This is goal setting.
B. Introduce concept of donations and the rewards associated with it.
C. Take them to the bank to start their own savings account. Ask to see the vault where the money is kept.
D. Introduce the concept that once money is spent, it's gone and ways to earn more money for other things they want.

Teens

A. Review family account balances with them, relate your goals (paying for needs first and then wants, savings and what it is being saved for).
B. Show teens your family budget and savings strategies.
C. Can talk about interest rates and earning money on their money.

III. Goal Setting/Role of Credit (Spending)

Early years

A. This really doesn't fit at this age developmentally speaking, but the best thing for your child is control of the family finances so their needs are taken care of.
B. Introduce taking care of things you own.

School Age

A. Walk the child through a small purchase like a gift for a birthday party. (Make sure you have set a reasonable limit.)
B. Discuss concept of taking care of things vs. the cost of replacing them and that means you don't have to pay for it to be repaired or replaced, freeing money for other things.
C. Relate making purchases to the idea of needs vs wants.
--Share what it costs to live in your present situation.

--Talk about the role of advertising (to get you to spend, spend, spend)

D. Avoid just "giving" child money to work off later.
E. Replace "No you can't have that" with "That is not a part of our budget because we need to spend that money on…." when items are asked for.

Teens: (Peers have a big influence on spending decisions).

A. Involve the teen in the budgeting process.
B. Allow the teen to look at making a purchase that fits their age interest (i.e. ipod, special clothing item) to learn the process of waiting.
C. Introduce the role of credit cards and loans.
   --When are credit cards good to use?
   --Talk about interest rates (paying).
D. Start looking at education after high school. Compare costs of tuition, cost of living, role of scholarships AND graduate employment rates (meaning if graduates can find jobs). Avoid making this their first interaction with spending money.

IV. Importance of Communication/Role Model

Early years

A. Doesn't really fit developmentally for the child, BUT a parent that is financially stable has a huge impact on the child's success.

School Age

A. Show children your filing system.
B. Allow children to be a part of your bill paying system (to watch you and your personal habits.
C. Answer questions they have and obtain answers from those you trust to have accurate answers like a banker or HCCI representative.

Teens

A. Start their own filing system for their papers. (i.e. loans, pay stubs, user manuals, sales receipts, education information.)
B. Answer questions (refer to "School Age" for more information).

C. Provide reliable information sources for purchases and not to believe everything on the internet.
D. Don't be afraid to ask reliable sources for information yourself. Children (esp teens) know if you are bluffing. Just be honest…and get assistance.

Main points:

- Start wherever you and your children are.
- You are a role model and their best teacher.
- Be consistent with your message.
- Saying "no" is okay but follow with an explanation to tie it to learning about financial issues.
- Ask for assistance if you need it. That's another important life lesson.

RESOURCES:

When researching this topic, I did not locate anything of this nature, so I developed it myself. All of the above is based upon my Family and Consumer Sciences background and knowledge of child development theory, parenting practices and consumer education. Please contact me if interested: Gayla Randel--CFCS, KSDE Ed. Program Consultant—Family and Consumer Sciences, 120 SE 10th, Topeka, KS 66612 grandel@ksde.org or 785-296-4912