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Developing financial literacy

By Bill Cirone, Santa Barbara County Superintendent of Schools

Jill Schlesinger, a syndicated columnist and a business analyst for *CBS News*, recently reminded readers that "Talking to kids about money is a great way to lay the groundwork for healthy habits."

Citing research from Cambridge University, she observed that money habits start to form by age seven. That means that parents' good and bad habits can be passed on to the next generation.

Dr. David Whitebread, co-author of the study, said habits of mind, including financial ones, "are largely determined in the first few years of life. Early experiences provided by parents, caregivers, and teachers ... can make a huge difference in promoting beneficial financial behavior."

Ms. Schlesinger suggests parents visit the website MoneyAsYouGrow.org, created under the auspices of the federal Consumer Financial Protection Bureau, for suggestions as to the kinds of conversations you should be having with your children at various ages.

For example, between the ages of three and five, the site recommends that you identify coins and their value and discuss the difference between something that is free, like playing with a friend, and an item that costs money, like an ice cream cone. You should also introduce the concept of work and the idea that you may have to wait for something you want.

When kids enter elementary school, you may choose to start paying an allowance. If you do, Ms. Schlesinger points out that most experts agree that it should not be based on household chores. Rather, it's better to choose an amount based on what you already spend on small discretionary items your child likes but doesn't need, like a toy.

Ms. Schlesinger suggests you talk about the concept of sharing money with those who are less fortunate. Like the savings habit, the concept of philanthropy and community service is best learned early.

Topics like savings and choices are also covered. Regarding savings at an early age, parents can encourage kids to save 10 percent of their allowance or any cash gifts and put it in a savings account.

Then you can explain the concept of earning interest and even consider a “matching plan” for your child's savings: You put in 25 cents for every dollar she saves.

Part of this process is helping kids understand that once you spend the money, you no longer have it. This leads to a conversation about choices. How will your child learn to allocate the money between spending, saving, and donating? MoneyAsYouGrow.org encourages you to use your daily routine to help: “When you are out shopping, point out essentials such as food and clothing, and ask your child to describe items that he may want but are optional. ... Talk about how your family decides what to buy and what to pass up.”

With teenagers and young adults, you can begin the first of many conversations about debt. As soon as kids get their first job, discuss the difference between gross pay (before taxes are taken out) and net pay (the amount you take home), and as they enter high school, you can start talking about the cost of college and about whether or how much the family plans to contribute toward education.

This is all excellent counsel from a financial pro. Ms. Schlesinger offers more than advice. She is outlining a process, from kindergarten through high school, of developing financial literacy and responsibility—one that will pay dividends throughout a lifetime.

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