

StarTribune.com | MINNEAPOLIS - ST. PAUL, MINNESOTA

Forum: It's never too early to teach about money

Financial education needs to start when people are young. Sometimes, saying "no" to children -- and your reasoning for saying it -- gives a good lesson.

Gary Webb

Last update: October 14, 2007 – 4:22 PM

Most of us have read the discouraging news about American's low savings rate.

Anyway you slice or dice the numbers, it's apparent that notions of savings, living within one's means and planning for future needs are in short supply. But what's really disturbing is that a new generation may be growing up with even less financial knowledge and common sense.

Fortunately, it's not too late to teach young people about money so they'll be better savers and smarter investors in the long run. Financial habits form at an earlier age than we think. Even high school is probably too late. For consumer-product advertisers, the rule of thumb is to get customers when they're young, while they're still developing brand loyalty. The same rings true for parents and educators when it comes to finances.

I've got nothing against iPods, or nice cars, big homes, nights out on the town or any other indulgence. But all this comes at a price. And if people consistently spend more than they earn, there's a problem brewing for them and for our country.

Compared with other industrialized nations, the U.S. savings rate is one of the lowest. The Organization of Economic Cooperation and Development reported that in 2005, household net savings rates were 11.6 percent in France; 10.6 percent in Germany; 6.7 percent in Japan, and a negative 0.5 percent in the United States

It wasn't always that way. According to research conducted by A.C. Nielsen, the baby boomers' take on money was shaped by stories from their parents about the Depression and rationing during World War II.

Many boomers learned to respect and save money -- and value work over leisure and savings over debt. But not all boomer parents have taught their children those lessons. Boomers' parents had no problem saying no to their children. Yet boomer parents struggle with how to respond to their children's "need" for advanced electronics, new cars, music and clothes.

The simple truth is that sometimes saying no, with explanation, helps young people.

Learning at an early age

Research from Lewis Mandell, a professor at SUNY-Buffalo and a leading scholar on financial education, suggests that children may be more receptive to learning and changing habits between the ages of 8 and 12. Even before kindergarten, children receive financial education every day from their parents and peers as they observe transactions and buying behaviors. The problem is that the lessons learned might be so ingrained by high school that financial classes can't change long-held habits.

Mandell concludes that high school may be too late to start teaching young people about finance. About 15,000 high school students were tested on basic financial facts in five nationwide studies and the ones who took finance classes did no better than the ones who hadn't. These findings are troubling, especially when considering that some \$50 million is spent every year teaching young children about financial education.

Starting financial education in middle school may make a lot of sense. But there's no substitute for parents offering daily money lessons to their children at an early age. Don't just dole out money -- make them earn it. Here's a short course:

Teach them how to save. Have children put part of the money they earn into a savings account. Explain to them that the more money they save, the more they'll have to buy something bigger later.

Explain how credit cards work. If you're at the store and paying with a credit card, let them know that a bill will be mailed to you and if you don't pay it in full, they'll charge you more money.

Help them set financial goals. Get them thinking about the future, devise a plan, and establish a time frame. A goal may be a high-ticket item or college. Help them track their progress.

Show them how to budget their money. Help your children analyze their spending habits and question whether certain expenditures are necessary.

Let them make mistakes. Despite any comments or suggestions parents may give, the decision is ultimately the children's. The only way they'll truly learn is through their mistakes.

In addition, parents must practice what they preach. According to a recent survey by the Pew Research Center, nearly two-thirds of Americans acknowledge they don't save enough and more than a third say they often or sometimes spend more than they can afford.

It's never too late to get your own financial house in order and start a consistent program of savings and investments. And it's never too early to teach your children prudent financial habits. That can pay huge rewards later, for both the parents and their children.

