Financial Education for Kids: Creating a Path to Financial Fluency

Teaching kids about financial concepts and prudent decision-making can help them become financially proficient adults and deserves a spot alongside early learning basics. These tips can help build a foundation for financial fluency.

TALK ABOUT MONEY

Begin discussions about money and saving when kids are young, and advance these conversations to budgeting and tracking expenses as they grow. By talking about the ways in which you save money and set limits, you can serve as a role model for their future financial choices.

- **Preschool:** Kids can start comprehending basic money concepts, such as buying and selling as young as 3 years old. And as kids develop their ability to wait for something they want—like a new toy or special activity—they're learning about delayed gratification, a core skill to help them save money in the future.
- **Elementary School:** Start including kids in discussions about budgeting and financial priorities. Go over your household's monthly bills, and show kids how your family manages money and separates needs and wants.
- **Middle/High School:** Help middle and high schoolers track their spending and set their own budgets, skills that will serve them well as the things they want become more expensive.

MAKE FINANCIAL EDUCATION PART OF DAILY ACTIVITIES

Kids learn through play and observation. Use activities like trips to the grocery store or decisions such as buying something used instead of new to help show kids how much things cost and demonstrate that spending money on one thing means you chose not to spend it somewhere else.

- **Preschool:** Begin teaching about money by tracing coins, coloring pictures of different currencies or playing matching games. Set up a pretend store or restaurant where you exchange play money for goods or services. When shopping at actual stores, explain that you're using money you've earned to buy things your family needs.
- **Elementary School:** Junior or regular editions of games like Monopoly, Pay Day or the Game of Life can help kids practice applying financial skills like budgeting. Involve them in your shopping process, showing them how to look for items on sale and compare prices for different products. Emphasize that saving small amounts can make a difference over time.
- **Middle/High School:** Kids this age can take an active role in helping to develop a shopping list and seeing how much of that list they can purchase with a set budget.

ENABLE AND ENCOURAGE SAVING

Along with teaching kids the basics about saving, help them make it a reality.

- **Preschool:** Start preschoolers off with a piggy bank where they can keep money received as birthday or holiday gifts.
- **Elementary School:** Talk to kids about setting financial goals, how they want to use their money—whether from gifts or an allowance—and how much they need to accumulate to reach their goals. Consider creating a savings chart so they can visually track their progress.
- **Middle/High School:** Help kids open their own savings accounts and see the value of earning interest. If they begin to work part time, encourage them to put a set amount of money aside regularly. Discuss the benefits of planning for the long term and consider introducing the concept of investing through vehicles like educational savings and retirement accounts.

ADVISE ACQUIRING DEBT RESPONSIBLY

It's also important to teach kids how to manage expenses and debt.

- **Elementary School:** At this age, kids can understand the basic concept: Borrowed money can offer flexibility for expensive purchases, but it needs to be repaid, often with interest or fees.
- **Middle School:** Middle schoolers can learn by example if they ask for your help buying something they can't afford on their own. Develop a repayment plan and discuss whether it includes reasonable interest or consequences if they can't make the payments.
- **High School:** Discuss with teenagers how various types of debt, such as credit cards, car loans and "pay over time" plans, can impact their finances—both positively, by helping them make major purchases and build a positive credit history, and negatively, by reducing their disposable income and lowering their credit score if not used responsibly.

Explain that every debt payment needs to be planned for when budgeting the month's expenses and make sure they understand how interest will affect their monthly payments. Even loans that might not carry interest at first, like some payment plans or promotional offers, will usually charge interest if balances aren't paid by the end of the agreed term. Missed loan payments are also usually charged a late fee.

Beyond simply gaining an understanding of money, learning how to prioritize their spending and make informed financial choices can help kids build their confidence—and their wealth—and grow into financially fluent adults.

THE POWER OF COMPOUNDING

The sooner kids begin saving, the more money they have the potential to accumulate through the power of compound interest.

Teach them this simple way to estimate how long it will take to double their money: Divide 72 by the interest rate received on savings or investments. For example, money in a savings account yielding 4 percent interest will double in 18 years.

72 ÷ 4 = 18 years for savings to double

Be sure to explain, though, that the Rule of 72 also works for debt that charges compound interest, such as credit cards. An unpaid balance on a credit card charging 18 percent interest will double in four years.

72 ÷ 18 = 4 years for unpaid balance to double

TIP:

USE THESE FREE RESOURCES

***Thinking Money for Kids* provides free information for parents and educators to help teach elementary and middle school kids about saving, spending, sharing and budgeting: *https://tm4k.ala.org*.**

***Jump$tart Coalition* is a nonprofit organization that strives to advance financial literacy and contains a database of curated financial education resources: *www.jumpstart.org*.**

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