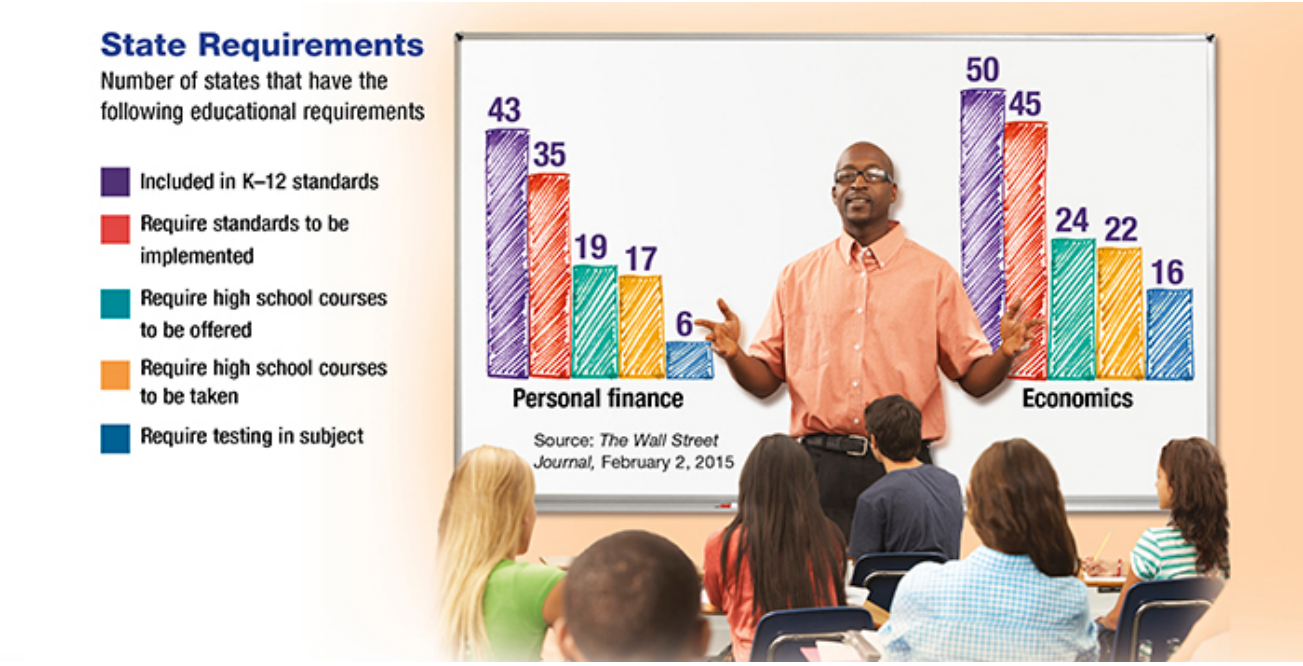
Teaching Children About Finance

More than nine out of ten parents believe it is important for students to learn about personal finance in school, and three out of four think there should be a finance requirement to graduate from high school. Even so, 72% express at least some reluctance when it comes to talking about finances at home.[1]

Certainly, learning about finance in school is important, but there are limitations. Forty-seven states include personal finance in their standards for K–12 education, and every state includes economics. However, state standards do not necessarily translate into class offerings or individual requirements (see chart).

Moreover, a new academic study of state programs suggests that financial education in school may not correlate directly with financial success. On the other hand, students who take more mathematics courses do seem to be more successful financially after they graduate. To put it simply, understanding financial concepts may not be that helpful unless you can do the math.[2]



Learning at Home

What can you do to foster financial understanding, other than encourage your kids to take more math courses? Here are a few suggestions to adapt as appropriate for your child's age and capabilities.

Start with saving. Opening a savings account not only may help your child learn to save but also can be an introduction to banking. (Some banks allow teens to access their accounts through mobile apps.) Talk about saving for goals that require a financial commitment, such as a bike, car, college, and travel. Consider matching the funds your child saves for a worthy purpose.

Practice budgeting. If your child has income from an allowance or a job, help him or her develop and follow a budget. Give older children more responsibility for paying for items such as clothing, activities, and car expenses. It's better to learn the consequences of overspending now than later in life.

Illustrate interest. Even young children can understand the idea of borrowing and returning the borrowed item. When children understand fractions and percents, it's time to explain interest. Offer real-world examples, such as an auto loan or home mortgage. Use an online calculator to illustrate a payment schedule.

Introduce investing. Your kids probably hear about the stock market, but even older teens may not understand what it is. Explain the concept of buying stock in a company, and the idea of risk and reward. There are a number of investment games available that can help simulate the real thing.

Open up. You don't want to worry your children, but research suggests that it's better to discuss money on a practical level than to keep them completely in the dark.[3] You might use a real-life situation as a teaching opportunity; for example, the decision to buy one product versus another, or your commitment to save for retirement.

Although it's important to educate your children about financial matters, don't overemphasize the importance of money. Explain that managing money is a necessary skill, but — as the saying goes — money can't buy happiness.

1) Forbes.com, June 8, 2015
2–3) *The Wall Street Journal*, February 2, 2015