

The Power of the Purse

Teach Financial Literacy When Children are Young

By LIBBY CARTY McNAMEE

Try asking a five-year-old where money comes from and the answer will probably be, "From the money machine!"

Despite clinking coins into a piggy bank, kids rarely have a sense of what money is, how to use it, and why it even exists in the first place. Yet a basic understanding of financial matters is an important life skill, whether operating a lemonade stand on the front lawn or managing a large multi-national company.

As a parent, you are the number one influence in your kids' lives as they learn money habits. However, according to the Virginia Credit Union League, over 66 percent of children do not receive any information about personal finance from their parents.

In spite of that, 33 percent of high school seniors already use credit cards and the average college student has four of them. In fact, more young people filed for bankruptcy than graduated from college in 2004. It is no wonder, when you consider that half of all Americans live paycheck to paycheck, and 40 percent claim to live beyond their means. As a result, the U.S. has the lowest personal savings rate of any major industrialized nation.

Financially Illiterate

The Virginia Jumpstart Coalition for Personal Financial Literacy is a nonprofit organization with a goal of improving the financial literacy of Virginians. The national Jumpstart Coalition conducted a survey this past year of high school students in 37 states, including Virginia, on their knowledge of personal finance basics.

Unfortunately, the average score was a failing grade, a mere 52.4 percent. Tina Lambert, chairman of the Virginia Jumpstart board, advised, "It is never too early to start talking to your kids about money. The earlier they start to learn, the more likely they are to carry those lessons with them through school and beyond to become a smart consumer."

Learn and Earn

Receiving an allowance is often a child's first taste of financial independence. It is also a wonderful learning opportunity. Many parents allot 50 cents or one dollar for each year of age and pay it on the same day every week.

To come up with the appropriate amount, consider the parameters of its use. What you will expect your child to pay for out of the allowance? Will it include school lunches, for example? And how much of it will go into savings? What chores will be required, if any? Do you intend to pay it regardless of behavior?

A Penny Saved

Opening a bank account is positive way to introduce your child to the benefits of savings. He or she can track the steady progress as savings accumulate with the "free money" generated by compounding interest.

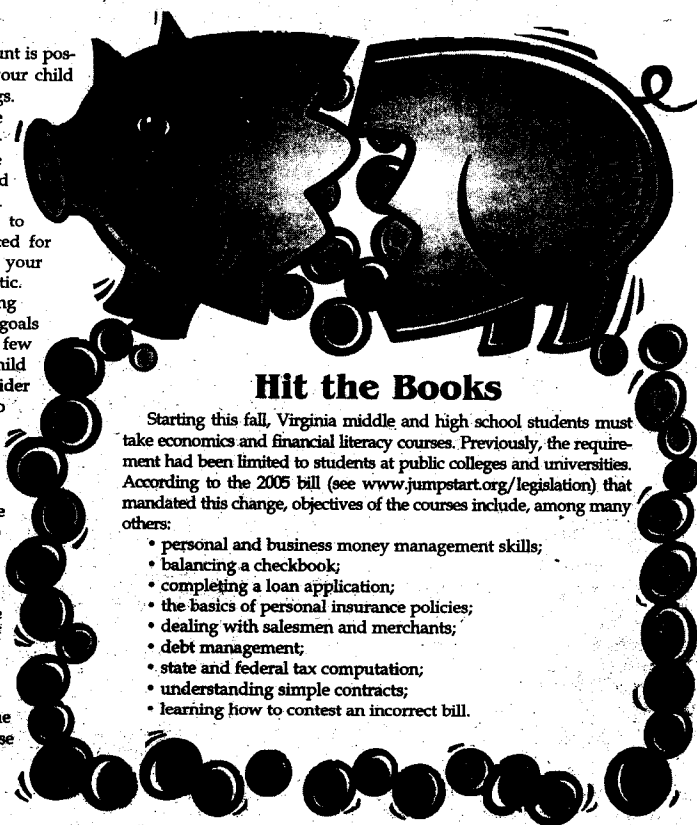
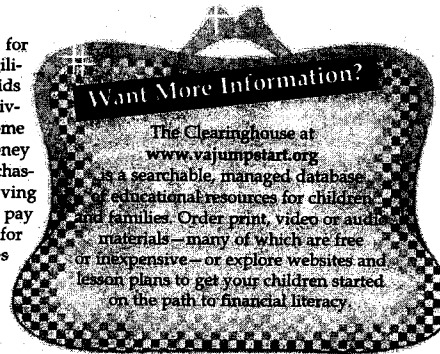
You could also offer to match the amount allotted for savings, but try to keep your own expectations realistic. Don't expect your budding titan of Wall Street to set goals that take longer than a few weeks to reach. If your child fails to reach a goal, consider it a stepping-stone to becoming a more disciplined saver.

Another option is to encourage your child to divide up allowance money. Some could go towards a long-term goal, a charity could receive a portion, and the remainder could provide immediate satisfaction. If your child only sees money going into the account and nothing ever coming back out, he or she may get frustrated and lose interest.

As your children grow, they will look to

you as an example for financial responsibility. It is crucial for kids to see their parents living within their income and managing money wisely. Smart purchasing, budgeting, saving and investing will pay off in the long term for both your finances and your children's financial future.

RPM



Hit the Books

Starting this fall, Virginia middle and high school students must take economics and financial literacy courses. Previously, the requirement had been limited to students at public colleges and universities. According to the 2005 bill (see www.jumpstart.org/legislation) that mandated this change, objectives of the courses include, among many others:

- personal and business money management skills;
- balancing a checkbook;
- completing a loan application;
- the basics of personal insurance policies;
- dealing with salesmen and merchants;
- debt management;
- state and federal tax computation;
- understanding simple contracts;
- learning how to contest an incorrect bill.