PROFESSIONAL FINANCIAL
Purposeful Wealth Management

Wealth Planning Report

Here's How to Address the Financial Literacy Problem

The percentage of American adults with strong financial literacy—the ability to understand financial, investment, and insurance-related concepts and apply them—has fallen to historically low levels.

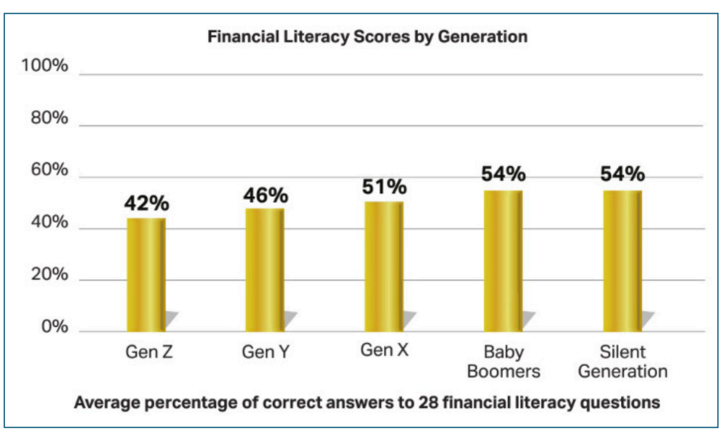
One example: Just 34 percent of adults showed high levels of financial literacy in 2018—down from 42 percent nine years earlier—based on a financial literacy test offered by the FINRA Investor Education Foundation.

Findings such as this are prompting more families to push for greater financial literacy among children and younger Americans to help reverse recent trends. And indeed, if you have children or grandchildren, there's likely a lot you can do to instill financial smarts in your heirs so they are above average.

Concepts to cover

The "right" financial literacy knowledge will differ depending on someone's age, academic, and maturity level. That said, you probably want to address specific financial concepts—not just values-focused lessons such as the importance of handling money. Your list of important financial topics could look something like this:

1. Unit pricing. Trips to the grocery store are a perfect and natural way to help a young child grasp the concept of price per pound, price per ounce and the like, so he or she can see how items that might seem to cost less can actually be more expensive.



Source: TIAA Institute-GFLEC Personal Finance Index, 2022.

2. Budgeting. Setting up a basic budget can be one of the best ways for teens to wrap their arms around concepts like cash inflows and outflows, necessities versus wants, and emergency funds for the unplanned. This is where letting kids get some practical experience—a regular allowance, a small side business like mowing or baby sitting—can make a big impact.

3. Savings yields. Compare yields offered by local banks, online banks, CDs and other common vehicles for short-term savings or emergency funds. Do the math to show how much money you'd have at the end of one year based on different yields. Expand on the topic by discussing the differences in liquidity and timely access to your funds in these different account types in case a sudden need comes up.

4. Credit and borrowing. The allure of credit card spending often starts young—so it's good to show kids early in their teens how interest charges on balances and cash advances are calculated, and how much those charges mean in terms of the real cost of making credit card purchases. Discussions about credit and loans might also include the topic of credit scores—their importance and how our repayment behaviors impact them.

5. Equity ownership. Eventually you'll probably want to impart some facts about how financial markets generally work and how to tap into their growth opportunities through investing. The field is wide open here, from basics such as price per share and the pros and cons of direct ownership versus mutual funds to the nuances of capital gain taxes and dividends.

Making financial lessons stick

Regardless of the specifics, look for ways to engage teens and younger adults on your chosen topics so they want to learn and so the lessons will stick. The good news: There are lots of tools and resources you can access to make their journey to financial literacy more fun and less like a school lesson.

1. Games. Old-school board games such as Payday, Life, Monopoly and others involve taking on debt that must be paid back, deciding whether to purchase insurance (and dealing with the financial consequences if you don't), choosing whether to go to college or start working right away, and other key financial decisions most of us face in life—in a fun, safe way.

Likewise, there are online and console games that involve the same types of decision-making. One popular example is Animal Crossing, which requires players to navigate the intricacies of mortgages, earning money, managing savings and budgeting, and the risks and reward of investing in turnips via the "stalk market."

There is evidence that "gamifying" financial learning for teenagers pays dividends. A 2022 study that looked at the impact of game-based interventions in teaching economics relative to the impact of traditional abstract teaching methods showed that learning outcomes are better with game-based interventions when the relevant measure is practical economic knowledge.

2. Allowances and side jobs. Having to actually work for dollars to spend can help younger kids and teens realize that money is a limited resource—and prompt them to start paying attention how to better save and spend it. Bonus: Require them to contribute some of the money they earn to nonessential items they want. Having to pay for, say, 25 percent or 50 percent of a video game can help kids better appreciate the true cost of various goods and help them think about developing a savings and budgeting plan for prioritizing their spending.

3. Tech tools. Increasingly, parents and kids can access kid-friendly debit cards that can be monitored in real time. Money is added to a child's account, and the associated app can help track balances and set up savings plans, budgets and even charitable giving goals. Parents maintain control over the account and can limit spending as well as get notified about every purchase made on the card—helping facilitate meaningful conversations about money. Some of these resources also offer child-friendly investment platforms that show users how to size up risks and how compounding over time can boost wealth. Some examples include Greenlight, FamZoo and GoHenry.

Getting help

Despite all that you can possibly do to boost your child's financial literacy, you might want to enlist some help. Some good news is that more schools are adding financial literacy to their curriculums, thereby providing another avenue for financial learning.

And of course, financial professionals you trust and work with can be great resources for introducing and explaining basic financial and investment concepts to younger generations—and potentially setting them on a long-term path to making smarter decisions about their wealth in the years to come.

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Paul founded Professional Financial Strategies, Inc. in 1993 as one of the first fiduciary planning firms that specializes in retirement and wealth management for affluent and aspiring families. Paul is a personal chief financial officer acting in best interest of clients. He brings together a proven process and a network of specialists for making informed decisions for systematic strategies, secure income, mitigating taxes, protecting assets, and preserving wealth for family and purposeful causes.

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