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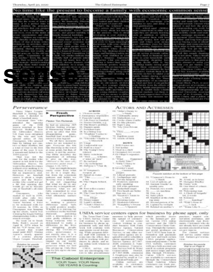

No time like the present to become a family with economic common sense

By Grant Black, Ph.D.

We are living in unprecedented times. While this may feel like the worst of times to many, it is a perfect time to teach children the principles and practices that can prepare them to live comfortable, secure lives, even in the midst of severe uncertainties and challenges. Children are experiencing – directly or indirectly – the effects of stay-at-home orders, limitations on activities, shortages of goods, restrictions on shopping, sharing devices, reduced income, lost wealth, and the list goes on. As the old saying goes, "Experience is the best teacher." Seize the opportunity, then, to teach your children strategic decision-making and help them build sound financial behaviors even in the worst of times.

Why does this matter? It is no secret that economic and financial illiteracy is a problem in America. Individuals lack an essential understanding of how our economy works, practical skills for making good personal choices and managing their own money, and how their private decisions influence not only themselves but society as a whole. This illiteracy comes at a high price. Financial illiteracy correlates to a wide range of negative outcomes and behaviors that adversely affect people's lives. For instance, the financially illiterate face lower incomes, less saving, higher borrowing rates, increased mortgage delinquency and foreclosure, lower credit scores, and greater inability to handle financial hardships.

Unfortunately, too few parents train their children to understand crucial economic and financial skills. This can be changed. Most people learn financial skills at home, according to a financial literacy survey by the National Foundation for Credit. Yet, studies indicate that virtually half of parents admit they do not know how to effectively discuss finances with their children. As a result, one in four parents never or almost never talks to their children about finances. Change that.

Take Warren Buffet's advice. Start teaching your kids about money as soon as possible, even as early as preschool. Research finds that young children are able to grasp basic financial concepts between the ages of 3 and 4 and that by age 7 children will have developed concepts connected to future financial behaviors. According to a 2018 survey by T. Rowe Price of parents and young adults, only 4% of parents started discussing financial concepts with their children before the age of 5, while 30% waited until their children were at least 15 years old.

What's the solution? Take Nike's advice and "just do it." Don't worry about not having all the answers. This is about developing in your children a common sense approach to life, including finances. Use the current crisis to begin meaningful discussions with your children about tradeoffs, taking them into account when deciding what to buy, thinking about the future, and building a safety net. Include your children in your family's finances. Importantly, practice what you preach. Showing is better than telling. Demonstrate positive financial behaviors, like saving regularly, being a smart shopper, creating and using a budget, using credit responsibly, and investing for the future.

Be imaginative. Make this learning fun. This doesn't need to be an old-school, sit-down lecture. For younger children, use creative play to teach basic money skills and behaviors. Have young children visualize, count, and use money in different ways. Create a store at home and pretend to shop. Make a family-movie-night snack shop where they choose the goodies, set the prices, and work as the salespeople. Establish simple incentives to encourage your children to save and delay instant gratification.

For school-aged children, make connections to other concepts they are already learning, such as addition or subtraction. Acquaint them with how you earn money, how you get paid, and where your money goes. Introduce ways for them to earn money. Empower them to be responsible for managing

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their own money. Research and set up saving accounts online. Involve them in financial decisions in your household, such as managing shopping lists, helping decide what to buy, or setting family saving goals. Have them comparison shop online and recommend the best alternative. Include them in discussions on how to adjust your family budget during a period of uncertainty like this. Share the importance of an emergency fund and how it can protect your family from the effects of job loss, health emergencies, or losses in wealth from volatile financial markets. Let them research and suggest ideas of how your family can increase savings.

For older children, set up a special investment account with minimal funds to help them learn about strategic long-term saving and trade-offs between risks and rewards. Discuss what interest is and how the power of compounding can work for you or against you. Show them your monthly credit card statements, mortgage payments, or car payment. Have them establish short- and long-term goals, such as buying a car or attending college, and create practical action steps to help them reach their goals. You get the idea. The possibilities are endless.

If all this sounds daunting, you're not alone. Take a breath. You can do it. You must do it. The good news is that great resources abound to assist you. To help you get started, Lindenwood University's Economic Education Center has a list of free resources available at www.econed.center. Opportunity is knocking, so open the door and make a lasting impact on your children.

Grant Black, Ph.D., is associate professor of economics in the Plaster School of Business and Entrepreneurship at Lindenwood University, associate director of its Economic Education Center, and a fellow in the Hammond Institute for Free Enterprise.