

Karen Rancourt is referenced in this article.

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Boosting Kids' Financial IQ

Gerstein Fisher & Associates and others in the private and public sectors want to make sure kids learn how to manage money properly

By [David Bogoslaw](#), reporter for *BusinessWeek's* Investing channel.

There's nothing like the worst [financial crisis](#) in 70 years to inject a note of urgency into the idea of developing responsible money habits at an early age.

The renewed push for financial literacy is gaining momentum, but the effort to introduce a curriculum for kids as early as first grade goes back 10 years or more. In 2008, the President's Advisory Council on Financial Literacy recommended more education for students of all ages, and created the National Financial Literacy Challenge, a voluntary competition that allows high school students to test their knowledge.

The concerns go to the nation's top financial officials. Federal Reserve Chairman Ben Bernanke has placed a heavy emphasis on financial literacy, having addressed the topic in recent speeches. Even Federal Deposit Insurance Corp. Chairman Sheila Bair has written two books for kids about the importance of saving money toward short- and long-term goals.

Wealthy Families Targeted

On July 15, Gerstein Fisher & Associates, a financial advisory firm in New York, hosted a workshop on raising financially responsible children for clients and their children ages 16 to 23. This is especially important in wealthier families, where kids are more apt to grow up expecting their needs to be taken care of without being as aware as they should about how money is managed.

After some mingling, the children met in one room, seated in a wide arc of tiered rows, while their parents met in an adjoining seminar room. The kids asked about how 401(k) plans work, paying off student loans, investing savings in mutual funds, and where to find startup capital to launch a business. They got a succinct, interactive lesson from Gregg Fisher, the firm's president and chief investment officer, about basic skills, from budgeting to paying off credit-card balances in full when the bill comes.

Parents talked with **Karen Rancourt**, a researcher and educator on this topic, about how to avoid knee-jerk reactions to their kids' financial missteps and choose alternate responses to a range of real-life situations.

A Growing Challenge

After 45 minutes of dialogue, the sliding wall between the two rooms was pushed aside and the two groups exchanged summaries of what they had learned and discussed how they could improve communication about money issues. Breaking down the walls that stand in the way of honest communication between parents and children about money, which is often fraught with emotional tangles, is a key step in improving financial literacy among young adults.

Encouraging more responsible attitudes and conduct around the handling of money in young adults has become a bigger challenge in recent years amid the proliferation of credit cards and declining experience with purchases using hard currency. Of more than 2,000 first-year college students surveyed at the University of Arizona in a recent study, 72% said they had engaged in some form of risky financial behavior such as maxing out a credit card or taking out a payday loan in the six months preceding the survey.

Colin Kerr, who attended the Gerstein Fisher workshop with his mother, Ellen, says he liked Fisher's suggestion about using a computer program like Quicken to stick to a monthly budget. That's something that Wachovia Bank exhorts him to do whenever he goes into overdraft in his checking account. "I don't really know how much I spend," says the younger Kerr, who will be a sophomore at Virginia Tech this fall. "I swipe my card in the ATM and check my balance every once in a while."

Parental Influence Is Huge

If Kerr is typical of his peers, it's not for lack of experience with earning his own income. He's been caddying on golf courses since eighth grade to earn spending money because he says he feels guilty asking his parents for cash. "I've bought everything from my Xbox to my [cell] phone." Kerr relies on summer earnings to fund his "dry period" during the academic year, while his parents foot the bill for tuition, books, and housing.

Studies show that parents generally have the most influence on kids when it comes to learning about managing money. But it's less what parents say than what they do, says **Rancourt**. "When a child hears a parent on the phone talking [disapprovingly] about neighbors driving a 10-year-old car, there's a lot of processing [in children's heads] going on around those statements," she says.

Teaching young children of low- and moderate-income families is just as important as more advantaged kids, since parents in all income brackets put money into their kids' hands, says Susan Beacham, a former private banker who started Money Savvy Generation with her husband, Michael, 10 years ago. "As soon as a child has currency, you have to teach them what to do with it or else their impulse is going to be to spend it," she says.

Piggy Bank with a Twist

A child's attitude toward a relationship with money is pretty much set by age 13, says **Rancourt**. That understanding has driven Money Savvy Generation and the Jump\$tart Coalition for Personal Financial Literacy to develop personal finance curricula for elementary school-age children. Financial education isn't new, though. The first such course was created by Catherine E. Beecher, older sister of Harriet Beecher Stowe, in 1842 and lay the foundation for what came to be called home economics, according to Leslie Linfield, executive director of the Institute for Financial Literacy in Portland, Maine.

Money Savvy Generation provides a more nuanced version of the traditional piggy bank to give kids a better understanding of all the uses of money. The transparent pig is divided into four compartments with a coin slot for each, representing saving, spending, investing, and donating. "The Money Savvy Pig frames the spend impulse for kids, helping those who can't delay gratification to distract themselves from the impulse by thinking of alternatives," says Beacham. "Delayed gratification is a learned behavior. This has great implications for retirement savings."

Money Savvy's personal finance curriculum is now being taught in at least 30 states. Guidance counselor Vicky McKinlay has taught the eight-week program to second graders, once a week, since it was incorporated into Washington State's math curriculum five years ago. Kids in her classes visit a local credit union and see how an ATM machine works from the back end and how banks detect counterfeit bills. A core aim of the curriculum: to teach kids they can withdraw or spend only as much money as they have put into the bank, says McKinlay. Sounds pretty basic, but it's a lesson many adults are now relearning painfully after 20 years of easy credit.

Too Soon to Tell

The second-grade program ends with a family money press conference where kids interview their family members about what they learned on their first job and about managing money in general. "It gets them in touch with the world of work and the world of money," says McKinlay.

While independent research shows the curriculum has positively affected children's attitudes when it comes to the four choices," Beacham says. "What we don't know yet is whether we're changing behavior," since the first students to have gone through the six levels of curriculum are just now becoming seniors in high school.

The lessons stick, Beacham says, because kids are more receptive when they're learning other life skills and have years to exercise those skills.

Parents Learning, Too

Educational efforts directed at young children inevitably spill over to include adults, who tend to be more involved when their kids are in the younger grades than they are later on, says Beacham. Elementary school teachers are the first adults who need to be won over since they won't take on the curriculum unless they're comfortable with it. The pig helps. "It's such a traditional icon that's been tweaked. As soon as they see it they say, 'I get it,'" she says.

Getting kids to grasp the essentials of money management is hard as long as the concepts remain abstract.

Making the curriculum come alive is the aim of the 14 Finance Parks that [Junior Achievement](#) has built in cities around the U.S. Near the end of a 10-week program, eighth graders spend a day at one of these mini-cities, where they get to apply classroom lessons in a simulated real-life situation. Each student is given an identity and life circumstances, such as a mother of three earning \$42,000 a year, and has to balance a monthly budget. Students visit 18 storefronts to negotiate goods and services that correspond to an 18-line budget learned in class.

"We let students through the day get ahead of themselves...[which requires] recalculating," says Edward Grenier, president and chief executive president of Junior Achievement of the National Capital Area. "Everybody needs to have a balanced budget by the time they leave."

High School Investing

As an added dose of reality, students gets "an unlucky chance" thrown at them, an unexpected event such as a medical cost that wasn't budgeted for or a broken-down car, which forces them to revise their budgets.

The budgeting experience helps clarify their career goals and how much money they'll need to earn to support a certain lifestyle. "That's the 'Aha!' moment," says Grenier. "It helps eighth graders evaluate how much schooling they need to get where they want to be."

By high school, kids are ready to tackle investing. Brian Giovanini makes it a key piece of the introductory personal finance course he teaches at Neuqua Valley High School in Naperville, Ill. For the past two semesters, he's used the Web site WeSeed.com to get juniors and seniors comfortable with building and managing their own stock portfolios, without using real money. The site's interactive platforms tie investing ideas to current events and encourage students to monitor their portfolio's value. WeSeed has gotten a better student response than other sites he's used because it avoids industry jargon and makes the market easier to understand, says Giovanini.

Few State Requirements

The Web site also helps him better gauge his students' understanding of how the stock market works. It lets him see how they assess information that affects the prices at which they buy and sell stocks, and through messages they post to their classmates and group activities.

Currently, a standalone one-semester personal finance course is a high school graduation requirement in only three states, while 19 states have adopted some sort of personal financial education requirement and courses are offered on a voluntary basis in the other states, according to Laura Levine, executive director of the Jump\$tart Coalition.

But what's available even in the few states that make some knowledge of personal finance a requirement to graduate is inadequate, she says. "A one-semester required course in high school is not nearly enough, and not nearly soon enough, to impact people's behavior throughout their lives," she says. "We'd like to get it integrated into the curriculum a lot earlier. Our target audience is K through college."

Preparing for a New Reality

More than the financial crisis itself, it's all the reporting on the dramatically different financial world that today's children will inherit that has awakened parents as they weren't before to the need to teach their kids about finances to prepare them for that new reality, says Beacham. "And it's going to take more than money. It's going to take knowledge of how to manage money," she says. "[Parents are feeling] 'the sooner I start, the more successful they'll be as adults.'"