



## Teaching Kids about Money: Why It's Not Just Fun and Games

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*"Improving basic financial education at the elementary and secondary school level is essential to providing a foundation for financial literacy that can prevent younger people from making poor financial decisions that can take years to overcome."* **Alan Greenspan, chairman of the Federal Reserve Board, 2001.**

When he was in the sixth grade, Ned S. got his first taste of the stock market. As part of a project for his math class at Germantown Friends School in Philadelphia, Ned and his classmates "invested" in corporations to see if they could make a few bucks. Ned and a partner bought shares in Aramark, Comcast, Microsoft, Wal-Mart and a once-obscure energy company that had become page-one news, Enron.

At the conclusion of their yearlong effort at portfolio management, Ned and his partner ended up with about the same amount of money they had when they started. "Some things went up and some things went down," recalls Ned, who will enter the ninth grade this fall. The pair had bought Enron right after the company declared bankruptcy in the hope that the shares would rebound. They didn't.

What lessons did Ned take away from his exercise? "Try not to buy topsy-turvy stocks; get the most even ones. Don't take a big risk and you might make some money."

That's a pretty worthwhile message for a boy to absorb at such an early age. Ned probably didn't know it, but this project marked his first formal participation in programs aimed at improving his financial literacy.

Schools, companies and nonprofit organizations around the country, including educators at Wharton, say helping children and teenagers learn the rudiments of free markets, entrepreneurship, credit, spending, saving and investing is one of the most important, yet usually neglected, components of a young person's education. Places for kids to learn about money and business abound, but typically these are not among the regular curricula at schools. Often, parents have to take the initiative and enroll their children in financial literacy programs.

Most young people "are dismally financially illiterate, I'm afraid," says Laura Levine, executive director of the Jump \$tart Coalition for Personal Financial Literacy, a Washington, D.C., advocacy group whose supporters include 140 corporations, education associations, government agencies and non-profit providers of financial education.

"I think [financial illiteracy] is an extraordinary problem for us nationally," says Dede DeRosa, an executive at Lincoln Financial Group who helped develop a Lincoln program for elementary school children called The Value of Money. "Every parent I talk to seems to feel similarly."

### Teen Allowances and Credit Cards

Jump \$tart's most recent survey to test the financial knowledge basics of some 4,100 high school seniors turned up both good and bad news. The good news was that, on average, students taking part in the 2004 survey answered 52.3% of the questions correctly, up from 50.2% on the previous test. The unhappy news was that 65.5% of students failed the exam, while only 6.1% scored a C or better. The test is designed to measure basic knowledge of spending, the role of credit, and saving and investing.

Is it asking too much to expect teenagers - preoccupied as they are with the opposite sex, music, sports, computer games and other adolescent priorities - to be proficient in rudimentary knowledge about dollars



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and cents? "I don't think so," Levine says, noting that young people are as interested in getting, spending and protecting money as any adult. Jump Start, she adds, "would like to see financial topics introduced in courses beginning in kindergarten. "

Jump Start, which advocates financial literacy courses in public schools as well as stronger educational efforts by parents in the home, says interest in teaching about money is growing. It notes that state lawmakers are ready to help in this area, and that the U.S. congress has established a new Financial Literacy and Education Commission to coordinate the education initiatives of federal agencies.

A 2004 survey conducted by Junior Achievement, the world's largest organization dedicated to teaching young people about business, economics and free enterprise, and the Allstate Foundation offers additional insights into kids aged 13 to 18 and their approach to money. The JA Interprise Poll on Personal Finance found that 67.6% of those surveyed felt that they influence the buying decisions of their households. About 35% said that they receive an allowance; of these, 58.4% said the allowance was \$20 a week or less. Older teens receive fewer allowances, since they are able to earn money on their own. The poll also found that 27.4% of 18-year-olds and 12.9% of 17-year-olds have credit cards and that 15.5% own stock. The survey found that only 48.7% of the students believe that Social Security will be around in its current form by the time they are 65.

Darrell Luzzo, senior vice president-education at JA, says the students' feelings about Social Security should serve as a wake-up call. "There's a pessimism regarding the future of their own sense of security financially," he says. "I'm hoping that propels kids to learn about financial literacy."

There is no single definition of what it means for a boy or girl to be financially literate. But generally speaking, Luzzo says, the term means that teens "should be able to be relatively effective in carrying out the day-to-day duties of being a consumer." One of JA's programs is an online course for high school students - titled "JA Personal Finance" and funded by the Goldman Sachs Foundation - that aims to help young people understand the basics of a paycheck and what the deductions mean; how to create a budget; the fundamentals of saving and investing; the role of interest rates in the economy; how to decipher a credit card statement; and the role that insurance policies - from health and property to disability and life - play in managing risk.

Courses in financial literacy may not yet be a required part of the curricula in most elementary and high schools across the country, but many other programs and publications exist to help kids learn about money.

### **The Money Savvy Pig**

Lincoln Financial's Value of Money program teaches affluent children from kindergarten through fourth grade about saving, spending, investing and donating money. The curriculum, a customized version of the Money Savvy Kids Basic Personal Finance Curriculum developed by Money Savvy Generation, incorporates values that are associated with President Abraham Lincoln. These values, such as honesty, integrity and fairness, are given as much emphasis as rudimentary money-management topics. Each pupil receives a plastic Money Savvy Pig, also developed by Money Savvy Generation, that is divided into four sections - Spend, Save, Donate and Invest. Each chamber has a slot into which the child can insert coins. The pig is translucent so that the child can watch his or her money pile up. The pig is a big hit with kids, and even some adults have clamored to get one.

At the end of the course, parents are invited to the classroom. A mock press conference featuring the financial planner is held so that parents and kids can "start a dialogue about money that will continue at home," says Laura Dambier, second vice president, producer solutions and strategic initiatives, at Lincoln Life & Annuity, and co-founder of the program with DeRosa.

Most of the eight 45-minute lessons, held once a week, are taught by the pupils' regular teacher; weeks four through eight are taught by professional financial planners from Lincoln. The program was piloted among third and fourth graders in Shaker Heights, Ohio, during the 2003-04 school year and will be expanded further in the Greater Cleveland area schools, as well as in Chicago, Phoenix and Washington, D.C. for the 2004-05 term. DeRosa, senior vice president and chief operations officer at Lincoln Life & Annuity, says the company plans to introduce the course to less affluent children and teenagers in years to come.

The lessons are already sinking in from the Lincoln effort. As one boy named Jack wrote in a letter thanking the teachers: "You taught us that Aberham [sic] Lincoln was very honest and walked all the way to a house far away just to return a penny."

### **When the Pro Leagues Don't Pan Out**

Some business and financial literacy programs are aimed at less affluent youngsters. Each summer, Wharton's four-week Leadership, Education and Development Program in Business (LEAD), which was launched in 1980, introduces 30 talented minority students about to enter their senior year in high school to the world of business. The students, who receive scholarships, live on Penn's campus, take classes taught by Wharton faculty, develop business plans, visit companies such as McNeil Laboratories, which helped found the program, and make presentations to executives. The teens also meet Wharton's dean, Patrick Harker, and other school officials.

"What we're trying to do is interest talented students of color in education and business," says Anne Greenhalgh, director of undergraduate leadership programs at Wharton and an adjunct professor of management. The students are encouraged to pursue business careers. LEAD has grown over the years and is now offered at 10 other U.S. business schools. In all, some 6,600 students have attended the program.

In Baltimore, T. Rowe Price, the mutual fund company, sponsors a financial literacy program called the New Song Investment Academy. The program is one component of a larger effort to revitalize a once-thriving African-American community known as Sandtown-Winchester through educational initiatives and job training. The name New Song Academy refers more broadly to a year-round public school effort aimed at poor kids that began nine years ago.

Sandtown-Winchester is about as far from Wall Street as one can imagine. It is a place where youngsters' knowledge of business is limited to the corner market and liquor store, says Jacqueline Hrabowski, vice president, community relations, at T. Rowe Price. Many parents do not have checking accounts and pay bills by buying money orders. The neighborhood's median annual income is about \$15,000.

Volunteers from T. Rowe Price and Rouse Company, a real estate developer, go to schools once a week and teach students in various grades the basics of how to save money, how to draw up a budget, and the differences among stocks, bonds and certificates of deposit. New Song does not develop its own courses to teach financial literacy. Its volunteers use existing materials from organizations such as Junior Achievement and the National Council on Economic Education, known as Nee-cee.

"We also get into life skills," Hrabowski says. "If you earn a certain amount of money per year, what does it cost to live? We have them look at the cost of an apartment versus a house: If you have this much income, what can you do with it?"

The volunteers emphasize the relationship between education and the likelihood of earning a higher income. Far too many kids want to be professional athletes when they grow up. "The [low] probability of their making it to that level is not what they're told about," Hrabowski says.

### **Getting on 'The Business Track'**

Most financial literacy programs, however, are aimed at youngsters who are not poor.

Wharton offers a four-week summer program called Leadership in the Business World, which introduces rising high school seniors to the fundamentals of leadership in business. LBW, which just completed its sixth year and costs \$4,950 for room, board and tuition, has a global reach. The 60 students in the class of summer 2004 hailed from 18 countries. Among other things, teams of LBW participants battle one another in a stock market competition and engage in a daylong business simulation in which companies compete with one another.

"They need to think about profits and margins, their competitive advantages, operations, how to manage costs, customer needs, how they're going to work as a team, and who's going to make decisions," says Greenhalgh.

The participants in the LEAD and LBW programs are perhaps more financially literate than other high

school students. All of the teens who apply for the programs already have a predisposition toward business, Greenhalgh explains, and some come from families with parents who have succeeded in business. But it is not as though they have nothing to learn. As one ingenious teen wrote in an evaluation of LBW: "It's interesting how profits are cut down by taxes and other costs."

Julian and Tina Krinsky operate a number of summer programs and camps across the country in subjects as diverse as tennis, golf and cooking. One, however, focuses on giving kids a taste of business. The program, called The Business Track, is held at Haverford College near Philadelphia. The Krinskys say achieving a level of business literacy at a young age can provide a real boost for kids who show an interest in making business a career - especially if their parents are not business people. They say programs like theirs offer the kind of education usually absent in public schools.

"Kids who come from families whose parents are in business have a head start on other kids," says Tina Krinsky. "They hear it around the dinner table. They watch their dad or mom in business. I don't think schools are going nearly as far as they should [to teach financial literacy]. They often get stuck with curricula and it takes a long time to react. Here, we try to be ahead of the curve on a lot of fronts."

The Business Track exposes students to entrepreneurship, accounting, marketing, stock market analysis and sports management. The students begin their day reading and discussing stories in *The Wall Street Journal*, take field trips to companies, and are taught by both professors and business practitioners.

### **Keeping Money, In addition to Making It**

At The Money Camp in Santa Barbara, Calif., the emphasis is on giving young people the skills they need to eventually become financially independent.

"What makes our program different is on the first day we talk about belief systems, what money means and how to think about money," says Elisabeth Donati, the nonprofit's executive director. "Before we talk about how you make it, build it, invest it, we talk about taboos, what money means, what financial independence looks like. We lead kids through visualizations - what it means to wake up poor and what it means to wake up knowing you have a lot of money."

Donati says it is important that children and teens realize that if they do not make a conscious choice to be financially independent, they never will be. "If you take a child who doesn't know that he or she can choose it, you can give them all the financial skills in the world but they won't choose it for themselves." She adds: "It's not how much money you make, but how much money you keep."

Donati says The Money Camp's definition of financial independence is straightforward: "When your monthly income exceeds your expenses for your chosen lifestyle, you're now financially independent." The camp stresses the importance of cash flow and encourages kids to measure wealth in time, not necessarily in amounts.

In one exercise, pupils are shown that by making purchases of certain items - what Donati calls "piddly crap" - they can end up throwing away their time as well as cash. All kids get excited about buying a new car, for example, but Donati shows them that it can be a big waste. Someone who earns \$10 an hour must work 700 hours to buy a modest \$7,000 car. In buying that car, she tells kids, "you just threw away 700 hours of your working time in the garbage." She drives the point home further by explaining how new cars lose a big chunk of their value as soon as they are driven off the dealer's lot.

Soon after starting The Money Camp three years ago, Donati and her colleagues realized that financially challenged parents are often a stumbling block to their sons and daughters achieving literacy.

Donati tells of one couple "who were like little kids. They made enough money but didn't know how to spend it or talk about it to each other. The wife said, 'Budgeting to me is like a dark hole. It makes me feel like I can't spend money, and every time we do a budget, I spend more.'" Donati explained to the woman that budgeting is simply "a tool to allow you to meet other goals, not a way to restrict spending." Another shortcoming on the part of many parents: not letting their children into their financial lives. Having recognized the literacy needs of grown-ups, The Money Camp also offers programs for them.

### **Financial Journalism and the 'Anti-Textbook'**

People who help youngsters become financially literate say that while it is necessary to provide kids with

examples they can relate to, it is not necessary to dumb down content.

Krishnan M. Anantharaman, managing editor of *The Wall Street Journal Classroom Edition*, is in charge of story selection for the 24-page tabloid, which is published monthly during the school year. He says nearly all the articles in the *Classroom Edition* are chosen from the pages of the *Journal* (one column is written by an outside contributor). While he may change the length and structure of stories to fit the paper's news hole, copy is not heavily reworked to make the subject matter easier to read or more palatable for high school students.

"I read the *Journal* every day," Anantharaman says. "After a while I know where to look for stories. They have to relate to a teenager's life in some way. I happen to think all stories in the *Journal* are educational in some form. The trick is finding ones that teenagers can really relate to."

Recent articles in the *Classroom Edition* have included a cover story, titled "Indecency on the Airwaves," about the Federal Communications Commission's attempt to regulate racy programs on TV and radio. There was also a piece about the rise in sales of all-terrain vehicles and an increase in deadly ATV accidents, a historical analysis of federal budget deficits, and a story on a corporate-reputation study headlined "A Black Eye for Big Business." All stories were accompanied by color illustrations. "We see ourselves as the anti-textbook," says Anantharaman. "Economics is so much richer than what the textbooks show."

The *Classroom Edition*, which was launched in 1991, reaches 750,000 students each month in more than 5,000 high schools. Corporations, organizations and individuals sponsor about one-third of the subscriptions. The *Classroom Edition* comes with a teacher guide to help instructors initiate discussions about the issues raised by stories.

Anantharaman agrees with others involved in financial education that parental shortcomings constitute one reason why so many youngsters are financially illiterate. "As adults, we feel a responsibility to teach them. We need to start with ourselves," he says. "There are a lot of adults who don't know about money and don't manage it well ... Kids get the wrong message based on what their parents are doing: loading up on credit cards, using zero-percent financing to [purchase] furniture or an extra recreational vehicle. "

He adds that many of his relatives live in India where until very recently credit was unavailable to all but the rich. "Now in India interest rates are down from 20% to 5%," he says, "and people can finance cars and houses and spend way beyond their means."

Ned, the young Philadelphia-area investor, is probably as good an example as any of the typical challenge facing financial literacy educators. Yes, Ned enjoyed his experience at picking stocks in middle school. Yes, he wants to own stock when he gets older; in fact, he already owns some real-life shares of Wal-Mart, which were a gift from a grandparent. And, yes, he knows the value of setting aside money for a rainy day. But, no, he no longer thinks about the market with any regularity. And, no, his friends are not interested in the market either, or much of anything else that has to do with finance, what with all the other things they can do with their time.

Says Ned: "[The stock market] was a lot of fun in the sixth grade, but then you forget about it."

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