FIDATO WEALTH®

COMPREHENSIVE FIDUCIARY ADVICE

FLASH REPORT

IT'S TIME TO ADDRESS THE FINANCIAL LITERACY PROBLEM. HERE'S HOW.

The percentage of American adults with strong financial literacy—the ability to understand various financial-related concepts and put them to use—has fallen to historically low levels in recent years.

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 kids and other young Americans to help reverse recent trends. And indeed, if you have children or grandchildren, there's likely a lot you can do to instill some financial smarts in your heirs.

CONCEPTS TO COVER

The "right" financial literacy knowledge will differ depending on people's age and maybe maturity level. That said, you probably want to address specific financial concepts—not just values-focused lessons such as the importance of saving 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 less expensive can actually be more costly over time.

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. This is where letting kids get some practical experience—an allowance, a small side business—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 see how much money you'd have at the end of one year with those various yields. Expand on the topic by discussing the differences in liquidity and access to your funds in these different account types.

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 what those charges mean in terms of the real cost of credit card purchases. Discussions about credit and loans might also include the topic of credit scores—their importance and how our behaviors impact them.

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

MAKING FINANCIAL LESSONS STICK

Regardless of the specifics, look for ways to engage kids and young 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 tap to make the journey to financial literacy more fun and less like school.

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 some 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 teaching methods showed that learning outcomes are better with game-based interventions when the relevant measure is economic knowledge.

2. Allowances and side jobs. Having to actually work for dollars can help younger kids and teens realize that money is finite—and prompt them to start paying attention to how they 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 understand the cost of various goods and help them develop a savings and budgeting plan for their spending goals.

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 better 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 potentially do to boost your kids' financial literacy, you might want to enlist some help. One bit of good news is that more schools are adding financial literacy to their curriculums, thereby providing another avenue for financial learning to sink in.

And of course, financial advisors you work with can be great resources for introducing and explaining fundamental financial and investment concepts to younger generations—and potentially setting them on a path to making smart decisions about their wealth in the decades to come.

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