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Family Financial Education

New Strategies For Financial Education For Preschool Aged Children And Families

Financial education for preschoolers? There are many financial education programs targeted at adults and high school students, and even a few aimed at school children. Strategies are now emerging to deliver programs and curricula aimed even at very young children, age 4-5, before entering elementary school. The logic of these programs is to "start early," as well as capitalize on structured prekindergarten programs. This approach can engage parents, as well as build in basic math and counting activities, including socialization and learning through play. This brief summarizes recent research that informs financial education strategies for preschool age kids.

What is Financial Education for Preschoolers?

Providing financial education to 4-5 year old children is challenging. The education has to be well targeted based on the developmental and cognitive level of the learner as well as experiences in the world. For example, compound interest or the advantages of college savings accounts will have no meaning for a child in preschool. Children also have limited opportunities to make independent financial choices relying on parents to make purchases for them. The goal of financial education of very young children is not to teach about financial investments or planning for events far in the future. Rather, the goal is to help children to become comfortable with basic economic decision making, such as trade offs and comparing smaller versus larger quantities. Even young children can be taught about decision making by comparing alternatives, or giving up one thing for another. These concepts are core for making financial choices later in life.

In fact, a growing body of literature argues there are payoffs to early childhood education in general. Nobel Prize winning University of Chicago Economics Professor James Heckman (http://heckmanequation.org/heckman-equation) argues that educational programs need to start earlier in life, in part to develop skills in planning and self-control. These concepts are at the core of financial education, such as financial planning and making tradeoffs about present vs. future consumption. Preschool education is about teaching children the basic tools, both the mechanisms of financial transactions (e.g., the value of coins), but even more importantly why and how financial choices are made.

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What Can Young Children Learn?

University of Wisconsin-Madison researcher Karen Holden and colleagues conducted a comprehensive review[1] which found that habits children learn when they are young form the basis for their future behavior. She and colleagues also emphasized that preschool financial programs must be based on an understanding of children's cognitive development. They found "very little evidence" of programs explicitly linking to theories of cognitive development. However, the authors do, however, identify a series of key concepts that young children can learn based on developmental theories.

Numbers: At a very early age children can reason numerically, even if they cannot accurately count. They can group objects by type and judge which group of objects is bigger or smaller. However, young children may have a hard time keeping track of number and size at the same time. If one pile of coins is smaller in size, but has more value (silver dollars for example) students may misjudge the relative value compared to a larger pile of coins (pennies for example). Repeated experiences can help children overcome these misconceptions. A lesson on grouping and counting various coins by type would be an initial learning objective, followed by lessons with opportunities for preschoolers to learn about the value of an individual penny versus a dime. Then the concepts can be repeated mixing coins by type, number and total value. Like all financial education for young children, the teaching should always focus on providing experiences with concrete phenomena (e.g., physically stacking coins by size).

Time: Children have a developing understanding of the future as they grow and mature. Children first understand the difference between present and future around important life events such as their birthdays. While many young children, even beyond preschool, have trouble understanding the future research has shown that their knowledge can be improved by personalizing it. This suggests using benchmark dates that are coming up, especially special days or birthdays, as a way to help students to think about the future. Activities may include drawing and sharing what that future event looks like and then connecting actions today that might relate to that future event. This engages the student at a personal level and creates expectations. Creating daily or weekly activities on a reliable basis can help children develop a greater concept of the future. Longer term concepts can also be facilitated around planning for future occupations and understanding the tasks required for that occupation (schooling, training, etc.).

Planning: A core cognitive competency is planning and executive function. The development of executive function is recognized as one of the core areas central to development. One function of preschool is to improve the executive function of children in general, but this is an area to build on for financial education. While children may not understand the principles of saving, they can understand the action of deferring an activity or reward, especially in exchange for a greater reward later. Preschool programs can provide students with opportunities to practice delaying gratification and planning out activities that might have them do "work" in the short run and "play" later. The time periods involved may be quite short (even minutes), especially at younger ages, but can be progressively extended over time.

Markets: Preschool children have a very basic and often incomplete understanding of how goods and services are exchanged. They may observe their parents at the store, but they often do not understand the role of stores and the need to use money in order to buy goods. While they can sometimes articulate their own wants, they are less able to reason about how or why stores supply the things they want. Children engage in transactions involving exchanges of resources from a very early age. Early in life most transactions are unconditional, but preschool children engage in conditional transfers regularly (e.g., rewards for doing something). This can be the basis for greater levels of learning. Children can understand that people are willing to trade tangible items.

A mock-store environment can be a particularly useful method in an educational setting to help students understand prices, scarcity and the need to make choices. A preschool classroom can set up a store with a limited supply of "play" money and a limited supply of goods of differing prices. Money is challenging for children to understand, so ideally money in this setting is all equal in value and goods

[1]http://www.lafollette.wisc.edu/publications/workingpapers/holden2009-009.pdf

are purchased for one, two or three bills. Because students only have a number of limited bills and the store has a limited supply of goods, students will be forced to make choices. Young children are often unclear about the function of banks, but can comprehend that banks store tangible currency. The classroom, or specifically the teacher, may play the role of the bank in storing play currency to help reinforce that point.

The Role of Parents

Children learn from what they see and learn from their parents. Financial education for preschoolers may be most effective when parents are involved in the educational effort. At the same time, programs must take into account financial issues parents may face themselves, especially those of very young children. For example, while some educational programs emphasize the importance of bank accounts, some families may not have accounts or have the ability to even satisfy basic needs in the household. Preschool programs can provide take home activities for parents and children to engage in together, including reading children's books (see list below for examples) or completing worksheets. Generally, parents do not offer allowances to children at preschool ages. However, in elementary school parents may begin to establish weekly allowances. Preschool programs may provide referrals for more information for parents interested in learning more about when and how to offer allowances.

Some preschools may also offer financial education directly to parents. Money$mart in Head Start in Wisconsin offers a series of newsletters to parents on financial topics (see http://fyi.uwex.edu/moneysmartheadstart/). Preschools might also advertise workshops at community agencies or even promote free community-based tax preparation services during federal income tax season.

Role of Savings and Bank Accounts

Because preschool age children lack an understanding of how money and banking work, and have no real earnings, most do not have formal saving accounts. However, parents can set up custodial accounts for their child and can make visiting the bank or credit union a learning event for the child. Even small deposits of collected loose change or portions of cash or checks received as gifts can become opportunities to become more familiar with how accounts work.

Finally, there is some evidence that when parents set up defined college savings funds (such as a state 529 plan) it may send a signal, even at younger ages, that college is expected and attainable. Setting up such expectations can help young children incorporate positive expectations about attending school and the value of education.[2]

Conclusions

Financial education is an emerging strategy to create more engaged consumers. Many states offer (or require) financial or economic education in the curriculum for high schools and some middle and elementary schools. While far from widespread, there are some preschool programs aimed at financial education for children at ages 4 and 5. The developmental psychology literature suggests that there may be merit to carefully designed approaches. To date there have been no short or long-term evaluations of financial education programs in terms of learning outcomes or impacts in future financial behavior. Many programs are still in development and not fully formalized. Nevertheless, community-based educators may find this to be another avenue for engagement with families on financial management topics.

Potential Financial Concepts for Preschoolers

1. Numbers; the concept of numbers:

- More vs. less
- Analysis of quantities and then values of coins

2. Time; the representation of time (not clock time) such as past, present, and future:

- Thinking about the future
- Deferring/delaying spending and saving

[2] Elliott, W., & Beverly, S. (2010). Staying on course: The effects of savings and assets on the college progress of young adults (CSD Research Brief 10-13). St. Louis, MO: Washington University, Center for Social Development.

3. Money and income; the role of "money" and income in facilitating financial transactions:

- Functions of money as store of value
- Sources of money and income

4. Markets and Exchange; exchange of goods and services among individuals within a larger community:

- Markets: prices, demand and supply
- Shortages and surpluses
- Exchange, trade and bartering
- Spending and managing available money
- Property ownership and transfer of ownership

5. Institutions; interactions with institutions facilitating exchange:

- Stores, factories and roles of businesses
- Financial institutions
- Roles/jobs of family members

6. Choice; the development of skills involving choice and decision-making:

- Scarcity and opportunity costs
- Wants and needs: perceived present and future necessity
- Delayed gratification
- Budgeting

7. Social Values; financial relationships within a society:

- Gifts
- Generosity
- Public goods

8. Behaviors; focus on financial decisions made with careful deliberation vs. habit:

- Savings
- Shopping

Resources:

1. Thrive by Five (Credit Union National Association): Teaching your preschooler about spending and saving (http://www.creditunion.coop/pre_k/index.html).
2. Money Sense for Your Children by Nevada Cooperative Extension (http://www.unce.unr.edu/programs/sites/moneysense/)
3. Money on the Bookshelf: A Family Financial Literacy Program by Nevada Cooperative Extension (http://www.unce.unr.edu/programs/sites/moneybookshelf/)
4. Grow Up Great Initiative: First Steps to Spending, Sharing and Saving. Includes an activity book, a parent guide, saving jar labels and a DVD featuring Elmo and other Sesame Street characters discussing the basics of spending, sharing and saving. http://pncgrowupgreat.com or http://sesamestreet.org

Recommended Children's Books:

- 26 letters and 99 cents by Tana Hoban
- Alexander, Who Used to Be Rich Last Sunday by Judith Viorst
- Arthur Breaks the Bank by Marc Brown
- Bunny Money (Max and Ruby) by Rosemary Wells
- How Much Is That Doggie in the Window? by lza Trapani
- Joe the Monkey Saves for a Goal, John Lanza
- Just Shopping with Mom by Mercer Mayer
- Monster Money by Grace Maccarone
- The Very Busy Spider by Eric Carle
- Wishes & Rainbows by the Boston Federal Reserve Bank http://www.bostonfed.org/education/pubs/wishes.pdf

Recommended Research Readings:

Gudmunson, C. G., & Danes, S. M. (2011). Family financial socialization: Theory and critical review. Journal of Family and Economic Issues, 32(4), 644-667.

Gummerum, M., Keller, M., Takezawa, M., & Mata, J. (2008). To give or not to give: Children's and adolescents' sharing and moral negotiations in economic decision situations. Child Development, 79(3), 562-576.

Martin, A., & Oliva, J. C. (2001). Teaching children about money: Applications of social learning and cognitive learning developmental theories. Journal of Family and Consumer Sciences, 93(2), 26-29

Otto, A. (2012). Saving in childhood and adolescence: Insights from developmental psychology. Economics of Education Review. http://csd.wustl.edu/Publications/Documents/WP12-20.pdf

Webley, P. (2005). Children's understanding of economics. In M. Barret & E. Buchanan-Barrow (Eds.), Children's Understanding of Society (pp. 43–67). New York: Psychology Press.

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The University of Wisconsin-Extension (UWEX) Cooperative Extension's mission extends the knowledge and resources of the University of Wisconsin to people where they live and work. Issue Briefs are an ongoing series of the Family Financial Education Team. This brief was drafted by J. Michael Collins, Associate Professor in Consumer Finance and Extension State Specialist, Center for Financial Security