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Start young – before it's too late

Financial literacy should be taught early so that its rewards can be reaped for the rest of an individual's life, reports **SHEENA TAN**

Working with young people: *Financial education specialists (from left) Mr Korris, Prof Koh and Prof Mitchell sharing their experience at a recent Citi-SMU (Singapore Management University) symposium on financial literacy for young adults*

TELLING someone that "it's never too late to start financial planning" may not be the wisest piece of advice.

Start managing your finances at 50 and it could be too late, said financial education specialists during a recent Citi-SMU (Singapore Management University) symposium on financial literacy for young adults.

For those in their 50s, while picking up basic financial literacy skills will be useful for retirement planning, eventually "you can't teach old dogs new tricks", said Olivia Mitchell, an American economist from the Wharton School at the University of Pennsylvania.

Prof Mitchell has conducted research on pensions and social security, and has a decade of experience in financial literacy and education. She has also done research on financial knowledge among those aged 55 to 65 in the US. She presented her research findings on the impact of financial education during the symposium, held on July 4.

Financial literacy – the ability to understand and process economic information – should be taught from a young age, Prof Mitchell said.

This is ideal because the rewards can then be reaped for the rest of an individual's life, she explained.

Prof Mitchell started her Bank of Mom to keep track of the money that her daughters were given or earned themselves.

This instilled discipline from a young age. As they went though the process of budgeting, they stopped asking for things, she said.

That financial education leads to better financial knowledge and behaviour is scientifically proven by Prof Mitchell and SMU's Benedict Koh and Jawaharlal Nehru University economist Rashmi Barua.

Although financial education is often provided, it is rarely formally evaluated, said Prof Mitchell.

Researchers thus investigated the impact of an SMU financial planning and advisory course on students' financial knowledge and behaviour.

Stripping away the effect of other factors such as motivation and family background, the study compared the change in financial knowledge and behaviour between students who had taken the course, and those who could not get in.

In comparison, those who did the course showed an 11 per cent increase in broader financial knowledge and a 16 per cent increase in financial planning skills.

"Prior to this, we knew that people with a lot of financial knowledge also had good financial habits, but we didn't know what was the cause," said Prof Mitchell.

This study clearly identifies the causal effect of training.

Prof Mitchell added that there are plans to continue the study a few years later to test for further behavioural changes.

Despite the benefits of financial education, there is no formalised financial literacy curriculum in schools, said Prof Koh, who is associate dean of SMU's business school and principal investigator of the Citi-SMU programme.

To have to greatest impact, financial education should begin before an individual starts work, Prof Koh said.

Once children receive pocket money, basic financial concepts such as needs and wants can be taught, so that they learn to plan ahead and prioritise, he said.

Parents are crucial in educating their children about finances, especially as behavioural patterns develop from young.

Basic concepts such as compounding are woven into the education system, and a few schools conduct optional financial literacy enrichment classes, he said.

But overall, school curriculum time is focused on academic subjects with limited or no exposure to money management skills.

In addition, parents shield children from financial worries and decisions at home so that they can concentrate on school work, he noted.

As finance matters are seldom discussed in homes and schools, financial literacy is low among youths, Prof Koh said, adding that they seek information only when they need it.

"The group that will learn and pursue financial literacy is very small," he said, adding that there is a lot of inertia.

Unlike the West which has a system of social security, financial literacy is more important here as the individual is responsible for his own accounts, said Prof Koh.

He called for deliberate policy intervention to improve financial literacy among young adults. Schools and universities can offer a financial literacy elective, Prof Koh suggested.

An example is the Institute of Technical Education (ITE), a partner of the Citi-SMU financial literacy programme. ITE students take financial literacy lessons and also attend a three-day financial literacy course under the Citi-SMU programme.

Also at the symposium, Steve Korris, quality and training director from UK charity My Bnk, talked about reaching out to disadvantaged youths. My Bnk delivers financial and enterprise education to youths aged 11 to 25.

Besides reaching out to youths in schools, Mr Korris said, youths at large – including the disadvantaged – can be reached through various avenues from local authorities to boxing clubs, or any organisation that they feel part of.

In some cases, financial literacy programmes can be mandatory for youths, such as for those under local authority care, he said.

"We speak to organisations and get their youth workers or personal advisers or whoever has that direct connection to young people to sell them the benefits of the programme to get them to turn up," said Mr Korris.

If programmes are optional, accreditation or even pizzas incentivise youths to come, he said.

There is no "one golden ticket" when working with young people, Mr Korris said.

But many small things add up to a big result. A two-hour workshop will not change behaviour.

It comes down to work at every stage of the process, from branding to worksheets to engaging different groups of youths.

"Every little thing you do, it might just make that little difference," he said.

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