The Role of Parents in Forming Children's Financial Literacy from an Early Age

Fahmi Sidiq1\*, Riza Andrian Ibrahim2, Dede Irman Pirdaus3

*1Master of sains, Faculty of Pharmacy, university Sultan Zainal Abidin, Kampung Gong Badak, 21300, Terengganu*

*2Doctoral of Mathematics Study Program, Faculty of Mathematics and Natural Sciences, Universitas Padjadjaran, Sumedang 45363, Indonesia*

*3Faculty of computer science, University of informatics and business, Bandung, Indonesia*

*\*Corresponding author email: fahmisidiq78@gmail.com*

Abstract

This research illustrates the importance of introducing the concept of income and expenditure at an early age by presenting simple, relevant examples. The introduction of income, such as a weekly allowance from parents, helps children understand the meaning of effort in earning money, develops financial decision-making skills, and builds discipline. Positive impacts include a better understanding of financial concepts and growing financial independence, despite potential wasteful habits and dependence on parents. On the other hand, the introduction of expenses, such as buying snacks or toys, helps children learn to choose between different options, understand the value of money, and be responsible for their spending. It also strengthens financial decision-making skills and awareness of financial priorities, although it can lead to wasteful habits and lack of awareness about saving for the future. In conclusion, early financial literacy education has a key role in shaping children's understanding of finance, financial values, and wise financial management practices, which will help them face future financial challenges and build a more stable financial foundation, while creating a strong foundation for healthy financial understanding within the family.

*Keywords:*  Financial Literacy, Strategy, Introduction to Savings, Money Management, Impact of Literacy.

1. Introduction

Teaching financial planning from an early age is not about how much money you have, but how to use that money properly. Every child must learn that money is not just earned, but to obtain it there must be effort first, such as working which requires thought, energy and time. Children will more easily understand the value of money if they also understand the efforts their parents have to make, this can also prevent wasteful habits in children(Koposko, 2014; Overton, 2008; Brounen et al., 2016). By inviting children to manage and allocate money, such as pocket money, they can learn management skills that can also be useful in many other aspects of life.

Management and allocation skills can be useful in teaching the importance of identifying priorities with limited financial resources. Even if parents don't teach their children about finances, they will look for ways to manage their money. However, without proper guidance, implementation will be difficult and cause serious financial losses. Of course parents want their children to live with dignity, independence, and avoid bad situations like this, therefore, education and parental involvement is the best way to achieve this(Agarwal et al., 2015.; Kumar et al., 2019).

Financial education can be defined as the process of imparting financial knowledge, empowering children with the tools to manage money wisely. Financial literacy, also known as financial intelligence or financial education, encompasses an individual's understanding and ability to make wise personal financial decisions. It includes knowledge, skills, and behaviors related to financial management, investing, financial planning, and the art of making wise financial decisions (Altfest, 2004; Palaci et al., 2017; Warschauer, 2002).

Neglecting to develop financial intelligence can have negative impacts, leaving individuals vulnerable to financial challenges that could disrupt their economic stability. Those who neglect financial education tend to make financial decisions impulsively, accumulate difficult-to-manage debt, and have difficulty managing their expenses. This, in turn, can result in financial stress, anxiety, and confusion when faced with financial problems that could have been avoided(Setyowati et al., 2018; Phua and McNally 2008). Additionally, the absence of financial literacy often results in inadequate financial planning for the future. Individuals may feel ill-prepared to deal with unexpected events such as medical emergencies, job loss, or retirement, potentially leading to dependence on external financial assistance or a more severe financial crisis.

Poor financial literacy can also cause tension in interpersonal relationships; when couples or family members do not have a balanced understanding of finances, financial disputes and conflicts can arise, causing tension in the relationship. Therefore, it is important not to underestimate the significance of financial literacy education (Kemp et al., 2005; Hanna and Lindamood 2010). A solid understanding of money management and making wise financial decisions are fundamental steps towards achieving financial stability and a calmer life. With a solid financial education, individuals can reduce the risk of financial challenges and establish a solid financial foundation for their future.

In this article, we will dig deeper into the concept of financial literacy and how education can shape a younger generation that is more financially savvy. This journal will also break down financial knowledge into two main aspects, namely income and expenses (Hershey et al., 2007). By increasing their understanding of how to generate income and manage expenses wisely, children and young people will be better prepared to face future financial challenges and build a strong financial foundation. In this way, we empower them not only with the tools to manage their personal finances but also with the valuable independence and confidence to manage the financial aspects of their lives.

1. Literature review

According to Manurung and Rizky (2009), financial literacy is a set of skills and knowledge that allows an individual to make decisions and be effective with all their financial resources. Meanwhile, according to the Indonesian Financial Services Authority (2014), a person's financial literacy level is divided into four types of levels, namely:

1. Well Literate, at this stage, a person has knowledge and confidence about financial service institutions and financial products and services, including features, benefits and risks, rights and obligations related to financial products and services, and has skills in using financial products and services.
2. Suff Literate, at this stage, a person has knowledge and confidence about financial service institutions and financial products and services, including features, benefits and risks, rights and obligations related to financial products and services.
3. Less Literate, at this stage, a person only has knowledge about financial service institutions, financial products and services.
4. Not Literate, at this stage, a person does not have knowledge and confidence about financial service institutions and financial products and services, and does not have the skills to use financial products and services.

Remund (2010) also believes that there are four things that are most common in financial endliteracy, namely knowledge and abilities regarding budgeting, savings, loans and investments. Financial literacy variables more broadly measure a person's abilities related to understanding money exchange rates, service features finance, financial recording, attitude in spending finances.

As for opinions regarding income, Damavanti (2011) believes that income is the receipt of salary in the form of cash or not, obtained when sales take place between traders and buyers under general conditions. Keynes's (1937) consumption theory, his book entitled The General Theory of Employment, Interest, and Money, explains that there is a relationship between income received and required consumption. If income increases, consumption increases, demand increases and vice versa.

So it can be concluded that financial literacy is key in helping individuals make the right financial decisions, manage their financial resources, and improve the quality of their financial life. A person's level of financial literacy can influence how they plan and manage their income, including how they allocate their money to various needs and investments.

1. Discussion
   1. **Financial literacy strategies for early ages**

This research will explain several financial literacy strategies that parents can apply to their children from an early age, here are several strategies that can be implemented:

* + 1. **Game-based education**

Game-based education is a very useful strategy in helping children understand financial concepts in a fun and interactive way. These games and activities are specifically designed to teach financial principles in a safe and engaging environment. One of the great advantages of game-based education is its ability to make learning fun. Children tend to be more eager to learn when they are involved in fun activities.

Additionally, games often simulate real-world financial situations, such as shopping, budgeting money, or investing. This allows children to interact with financial concepts in a real practical context. Thus, they can experience and understand these concepts better. Play-based education also increases children's engagement in learning and helps them absorb knowledge better, which is likely to be remembered in the long term. Additionally, some financial games involve social interaction, such as negotiating or trading with friends, thereby helping children develop valuable social and negotiation skills.

While playing the game, children can learn about the consequences of financial decisions without any real risk. They can take risks in a safe environment and experience the consequences without any real harm to their finances. Examples of popular financial games such as Monopoly, The Game of Life, and various online business simulation games provide practical learning experiences. Additionally, there are also board games specifically for financial literacy designed to teach concepts such as budgeting, saving, and investing.

* + 1. **Parental involvement**

Parental involvement in children's financial literacy education is a very important step in building healthy financial understanding and habits from an early age. Parents have a key role in shaping children's views about money, financial values, and financial management practices. Parental involvement can be achieved in several ways: setting a good example, discussing family finances, giving pocket money responsibly, introducing savings, being involved in financial decisions, discussing the importance of sharing, and using financial education technology. Involving parents in their children's financial literacy education is a long-term investment in their financial future, helping them build a solid understanding of how to manage money wisely and make smart financial decisions in the future.

* + 1. **Introduction of savings**

Introducing children to savings is an important first step in forming wise money management habits from an early age. Savings gives children an understanding of the importance of planning for the future and managing money wisely. By opening a personal savings account or piggy bank, kids can practice the discipline of saving and see how their money can grow over time. This is also an opportunity for parents to teach the concept of savings interest and how money can work for them. Here are some of the benefits of introducing savings:

1. Introduction to savings from an early age helps children develop the habit of saving. They learn to set aside some of their money for the future, which is an invaluable financial skill.
2. Through savings, children can understand the concept of interest and how their money can grow over time. This gives them an initial understanding of investing and wealth building.
3. Savings teaches children about financial discipline. They learn to plan, save regularly, and control spending impulses that might harm their finances.
4. The introduction of savings helps children plan for their future. They can save for specific goals, such as higher education or travel, which helps them have a clearer view of what they want to achieve.
5. Having savings provides a sense of financial security. Children learn that they have financial resources that can be used in emergency situations or when they need them.
6. Children feel more independent and financially empowered when they have their own savings. They understand that they have control over their own money.
   * 1. **Assigning financial responsibility**

Providing Financial Responsibility to children is one important approach in financial literacy education. By giving financial responsibilities to children, such as giving them pocket money and teaching them to manage it, we help them understand the basic concepts of money management from an early age. It also involves them in financial decision making, which can provide valuable lessons about the consequences of each decision. Furthermore, Positive Role Models are also important in shaping children's views on money and finances. When parents or important figures in their lives demonstrate wise and responsible financial behavior, children tend to follow that example. This illustrates the important role of models in shaping children's financial values and attitudes.

* + 1. **Interdisciplinary Approach**

An Interdisciplinary Approach is to recognize that financial literacy is not just about numbers, but also involves various aspects of life. This includes linking financial literacy with social studies, mathematics, language, and life skills. With this approach, children not only understand how to count money, but also how to make smart decisions, communicate effectively, and understand the impact of finances in various life contexts.

* + 1. **Introduction to Financial Priorities**

An introduction to Financial Priorities is an important first step in helping children understand the concept of resource allocation. They learn to prioritize their spending, identify needs versus wants, and plan to achieve their financial goals. This helps them develop smart decision-making skills in managing their own money.

* 1. **Expenditures and income that can be practiced at an early age**

**Table 1:** Of Introduction to Income and Expenditures for Early Age with Examples and Impact

|  |  |  |  |
| --- | --- | --- | --- |
| **Aspect** | **Simple Example** | **Positive impact** | **Negative impact** |
| **Income** | Weekly pocket money from parents. | * Concept Understanding (Learning that money must be earned first). * Decision Making (Learning how to make financial decisions). * Financial Discipline (Understanding the importance of managing money wisely). | * Wasteful Habits (Spending money without planning). * Misunderstanding of Priorities (Not setting aside money for important goals). * Dependence (Depending on parents without any effort of one's own). |
| **Expenditure** | Buying snacks at school or toys. | * Decision Skills (Learning how to choose between options). * Comparison Skills (Understanding the value of money in relation to the goods or services purchased). * Responsibility (Learn to be responsible for the money managed). | * Wasteful Habits (Spending money on unnecessary items or food). * Lack of Awareness (Not realizing the importance of setting aside some expenses for savings or future goals). * Limited Funds (Can cause a shortage of money if not managed wisely). |

The table above illustrates the importance of introducing income and expenses at an early age as well as simple examples and their positive and negative impacts. The following is an explanation and conclusion from the table:

* **Income:** The introduction of income at an early age, such as weekly pocket money from parents, helps children understand the concept that money must be earned through effort. It also helps them learn to make financial decisions, manage money wisely, and become more disciplined. Positive impacts include understanding financial concepts, better decision making, and growing financial independence. However, negative impacts can include wasteful habits if not monitored, lack of understanding of financial priorities, and dependence on parents.
* **Spending:** Introducing spending at an early age, such as buying snacks at school or toys, helps children learn the skills of choosing between options, understanding the value of money, and being responsible with the money they manage. Positive impacts include better decision skills, awareness of financial priorities, and wiser money management. However, negative impacts can include wasteful habits, lack of awareness about setting aside money for savings or future goals, and the risk of running out of money.

1. Conclusion

The conclusion of this article is that financial literacy education from an early age has an important role in shaping children's views about money, financial values, and healthy financial management practices. Through various strategies, such as game-based education, parental involvement, introduction of savings, giving financial responsibility, positive role models, interdisciplinary approaches, and introduction of financial priorities, children can understand financial concepts better.

The importance of financial education lies in an individual's ability to make wise financial decisions, manage their financial resources, and identify priorities in their spending. Without adequate financial literacy, individuals can become vulnerable to financial problems that can disrupt their economic stability.

Apart from that, financial education also has an impact on interpersonal relationships, especially in the family context. When parents are involved in teaching children about finances, this forms a solid foundation for healthy financial understanding among family members.

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