

FINANCIAL LITERACY UNDERSTANDING FROM AN EARLY AGE: BUILDING A FOUNDATION OF FINANCIAL SKILLS FOR THE FUTURE

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Abstract: Financial literacy is a fundamental skill that is crucial for a healthy and sustainable economic life. However, an understanding of financial management is often not formally taught at the early stages of education. Therefore, early financial literacy understanding becomes key to building a solid foundation of financial skills for the younger generation. This article aims to explore the importance of financial literacy from an early age and how its implementation can prepare individuals to face future financial challenges. The main issue addressed in this article is the lack of understanding and teaching of financial literacy from an early age within the formal education system. The approach taken in this article involves reviewing literature and research conducted by previous scholars. Through an integrated and comprehensive educational approach, financial literacy can enhance students' awareness and ability to manage personal finances, understand basic economic concepts, and make sound financial decisions. In conclusion, early financial literacy education not only provides short-term benefits, but also contributes to the long-term economic well-being of individuals and society.

Keywords: Financial literacy, early education, financial skills, personal financial management.

Introduction

Amidst rapid economic changes and the complexity of the global financial system, financial literacy has become a crucial skill for every individual. Financial literacy is not just about knowledge of money management but also encompasses the ability to plan, manage, and wisely utilize financial resources. Without a good understanding of finance, one can easily fall into financial difficulties, such as accumulating debt, uncontrolled spending, and poor retirement planning. According to the National Financial Literacy and Inclusion Survey, which measures the knowledge, skills, and beliefs that influence attitudes and behaviors to improve decision-making and financial management to achieve well-being, the financial literacy rate is still very low, standing at 38.03% (OJK, 2019). Gunawan (2019), a lecturer at the Faculty of Economics and Business UMSU, shows that the level of financial literacy is low. This reflects that even though the respondents are lecturers in the Faculty of Economics and Business UMSU, who possess adequate knowledge of financial management and a good understanding of economics, they are still categorized as not being able to manage their finances effectively. Therefore, early financial literacy education is an important foundation to equip the younger generation with the skills they need to manage their financial lives in the future.

Financial literacy education provided from an early age has a significant impact on the development of healthy financial habits. At a young age, individuals begin to form mindsets

and attitudes toward money, saving, and spending. If children are taught the importance of saving, budgeting, and understanding the value of money from an early age, they will be more likely to avoid common financial mistakes later in life (Nur & Bakir, 2021) (Yushita, 2017). Financial literacy is closely related to an individual's well-being. Knowledge of finance and the skills to manage personal finances are essential in daily life. If these habits are continued into adulthood, they can prevent financial crises and help individuals make more prudent financial decisions in the future.

A person with good financial literacy is more likely to make sound financial decisions. They are more capable of evaluating various financial products, such as insurance, investments, and loans, and recognizing the risks involved. Furthermore, financial literacy helps individuals with long-term planning, such as retirement planning or education savings. In the long run, they are better prepared to face financial challenges, including economic crises, inflation, or major life changes such as marriage or childbirth. Thus, the development of financial literacy starting from a young age can help individuals achieve financial stability and well-being throughout their lives.

The role of parents and schools is crucial in the development of children's financial literacy. Parents are the first examples children see in financial management, and they can serve as primary educators in teaching basic financial skills. Teaching children to save, distinguish between wants and needs, and giving them responsibility for their pocket money are simple but effective steps. On the other hand, schools also play an important role in integrating financial literacy material into their curricula. By providing more formal knowledge of financial concepts, schools can broaden students' understanding of finance and equip them with practical skills that can be used in daily life. Yulial (2020) in his research states that the results of the test show that financial literacy activities can enhance the intelligence of elementary school students.

Literature Review

Definition and Scope of Financial Literacy

Financial literacy is a broad concept that encompasses an individual's ability to understand and manage various financial aspects in their daily life. According to Lusardi and Mitchell (2014), financial literacy can be defined as the ability to understand basic economic and financial concepts, as well as the ability to make informed decisions regarding personal financial management. This literacy is not limited to an understanding of financial products but also includes the capacity to plan long-term finances, manage debt, and avoid risky decisions that could jeopardize one's financial stability.

Financial literacy can simply be understood as the ability to comprehend financial concepts and use that knowledge to make wise financial decisions. Miller (2020) states that financial literacy is an individual's ability to recognize and understand the financial information needed to make sound financial decisions. This includes the ability to manage money, understand financial risks, and adapt to changes in the market and financial products.

Individuals with high financial literacy tend to have better skills in managing personal finances, minimizing financial risks, and seizing profitable investment opportunities. Xiao (2016) argues that financial literacy is the knowledge, skills, and beliefs necessary to make smart and responsible financial decisions. This not only includes understanding the theory but also the ability to apply that knowledge in daily life and manage financial risks. Financial skills

related to financial literacy include analytical abilities, evaluation, and decision-making. Financially literate individuals can process complex financial information, compare various financial product options, and make decisions that align with long-term financial goals. Therefore, financial literacy is not just knowledge, but also an essential life skill for achieving financial well-being.

Early Financial Literacy

Early financial literacy is crucial because it provides children with a strong foundation for managing their finances in the future. With an understanding of basic concepts such as saving, budgeting, and distinguishing between needs and wants, children can develop healthy financial habits from an early age. A good financial education helps them make wise financial decisions, avoid debt traps, and plan for the future more effectively. (Samhudi & Pardani, 2023) in their research found that there is a significant impact of financial literacy on consumer behavior. Early financial literacy protects them from potential financial mistakes that could have negative consequences later in life, while also equipping them with skills to face increasingly complex economic challenges. According to OJK, here are some reasons why early financial literacy is important:

1. Shaping Good Financial Behavior Early On

Instilling good financial management habits from an early age by introducing basic concepts like saving, budgeting, and investing will help individuals make wise financial decisions in the future. (Lusardi, 2019) A child who is trained to understand financial concepts early is likely to be more prudent in managing their finances, avoiding debt, and planning for the future more thoroughly. Therefore, financial literacy education at a young age not only strengthens the foundation of financial skills but also has a positive impact on future financial stability.

2. Development of Human Resources Quality

Financial literacy contributes to more inclusive economic development because financially literate individuals can participate more effectively in the economic system. (Dhara Kartika1, n.d, 2022) Financial literacy has a positive impact on the financial performance of SMEs. This is due to the fact that financial literacy includes knowledge of managing finances effectively. The higher the level of financial literacy, the better the ability of SMEs to optimize their financial performance. Therefore, integrating financial literacy into human resource development processes is crucial to equip future generations with the skills needed to face increasingly complex economic challenges.

3. Basic Concepts of Financial Literacy That Should Be Taught from an Early Age

It is important to teach basic financial literacy concepts to children and teenagers gradually, starting with simple ideas and progressing to more complex ones. According to Nababan (2023), several basic concepts that should be introduced include: 1) Basic Knowledge Related to Personal Finance, 2) Savings and Borrowing, 3) Insurance, 4) Investment.

4. Basic Knowledge Related to Personal Finance

Teaching children how to manage a budget is a crucial first step. They need to learn how to divide their allowance or income into various spending categories, such as daily needs, savings, and entertainment. By practicing simple budgeting, children can learn to prioritize their spending and avoid unnecessary expenditures.

5. Savings and Borrowing

Teaching children about savings and borrowing from an early age is an important step in building healthy financial habits. Saving teaches children to set aside some of their money for future needs, giving them an understanding of the importance of financial planning and prioritizing long-term needs. (Rudi Setiawan, 2020) The higher the financial literacy gained by students, the more likely they are to be interested in saving. Introducing the concept of borrowing can help children understand how debt works, as well as the risks and obligations involved, even in simple forms such as borrowing money from parents to buy something and repaying it later. By introducing both of these concepts, children not only learn about money management but also about discipline and responsibility in making wise financial decisions.

6. Insurance

Introducing the concept of insurance to children from an early age can help them understand the importance of financial protection in life. Children can be taught how insurance works to protect families from unexpected risks, such as accidents or illnesses. For example, parents can explain how health insurance helps cover medical costs, or how life insurance protects the family if something happens to the primary breadwinner. (Lin et al., 2017) People with high financial literacy are more likely to purchase life insurance. By understanding the basic concept of insurance, children will learn the importance of financial planning that involves protection against various risks, preparing them to be individuals who are better equipped to face financial challenges in the future.

7. Investment

Teaching children about investment from an early age can provide valuable insights into how money can grow over time. Children can be introduced to basic investment concepts in simple ways, such as saving in a bank account with interest or even through educational games that teach them how to manage and invest money to achieve specific goals. Citra (2019) states that financial literacy has a significant impact on investment decisions in the people of Bandung City. Teaching children about investment is not only about saving but also about teaching them how to let their money work to generate profits in the future.

How to Foster Financial Literacy from an Early Age

According to Sohilauw et al. (2023) in the Financial Services Authority (Otoritas Jasa Keuangan, 2020), several steps can be taken to foster financial literacy from an early age, as follows:

1. Knowledge of Money Concepts and Skills to Recognize Types of Money

Children should be given an understanding of money. This is important so that children can comprehend that money is not something to be played with, but rather a tool used for transactions.

2. Knowledge of the Use of Money in Daily Life and Skills to Distinguish Needs and Wants

After children understand the basic concept of money, it is important to teach them about the function and uses of money in daily life, such as for buying and selling activities. Additionally, children need to be taught the difference between needs and wants, so they can make wiser decisions when prioritizing money usage.

3. Knowledge and Skills to Save Money for Future Use

4. Children should be introduced to the concept of saving money and its benefits, by providing them with piggy banks that have shapes and designs they enjoy, and teaching them to save regularly. This habit is expected to be formed from an early age, so that when the children

grow older, they will be accustomed to managing finances and have the ability to save effectively.

5. Awareness of Sharing with Others or Friends in Need

Children should also be introduced to another function of money, which is as a means to help others who are in need. It is important to instill values of caring for others, so that children develop empathy and prevent them from becoming greedy and selfish, especially concerning money, in the future.

Method

The approach used in this article is a documentation study, conducting a literature review from journal articles of previous research as the data source (Azwar Juliandi, 2014).

Result and Discussion

The Importance of Financial Literacy from an Early Age

Financial literacy education is very important for children, not only for their future but also for navigating the increasingly complex life they face today. Based on reviews of several previous studies, understanding financial literacy is crucial for children. Financial literacy skills serve as an important foundation for children, providing them with the skills necessary to manage finances (Oktaviani et al., 2022; Rapih, 2016). Some research in developing countries has found negative impacts of low financial literacy on families or households. Individuals who do not understand financial literacy tend to have large debts and save less, as they are unable to make sound financial decisions (Lusardi and Tufano, 2015) in (Anang Rohmawan, 2024). Low financial literacy can worsen family financial stability, hinder future planning, and increase vulnerability to economic pressures.

Financial Literacy: Building the Foundation for Financial Skills

Financial literacy is closely related to financial management, where the higher a person's level of financial literacy, the better their ability to manage finances (Arsanti, 2018). Financial literacy is strongly connected to financial management, meaning that the higher a person's financial literacy, the better their financial management will be. Personal financial management is one application of financial management concepts at the individual level. Low financial literacy in children can have negative impacts on their ability to manage finances in the future. Children who are not taught the basics of financial literacy from an early age are likely to struggle in making wise financial decisions when they grow up. Without sufficient understanding of money management, saving, and investing, they may fall into bad habits such as overspending, lack of savings, or easily falling into debt. Moreover, the inability to plan finances properly can hinder a child's ability to achieve life goals, such as buying a home, continuing education, or planning for retirement. This impact can also carry over to the next generation, creating a cycle of financial instability within families. Therefore, teaching financial literacy to children from an early age is essential to prepare them for future economic challenges and to develop healthy financial habits throughout their lives. (Samhudi & Pardani, 2023) found a significant influence between the financial literacy variable and the consumer behavior variable. Consumer behavior reflects an individual's tendency to spend money excessively, often on things that are temporary or not urgent. Individuals with low financial literacy tend to

be more vulnerable to consumer behavior, as they do not have enough understanding to distinguish between needs and wants.

Research conducted by Riana (2023) shows that financial literacy significantly affects financial management. This finding aligns with research by Utami & Marpaung (2022), Gunawan et al. (2020), Putri & Lestari (2019), and Riana (2023), which also shows that financial literacy impacts financial management. Individuals with low financial literacy may struggle to plan budgets, save, or invest for the future, making them more prone to impulsive purchases that do not align with their financial capabilities. In contrast, individuals with high financial literacy tend to be more disciplined in managing finances, have well-thought-out financial plans, and are more cautious with their spending. They focus more on long-term goals, such as saving for education, buying a home, or retirement, rather than being tempted to buy unnecessary items.

Conclusion

Financial literacy education from an early age is an important long-term investment to prepare children to manage their personal finances wisely and effectively. By introducing basic concepts of budgeting, saving, investing, debt, and financial protection, children are equipped to face future economic challenges. Teaching financial literacy to children not only helps them manage their money better but also builds a stronger foundation for financial independence and smarter decision-making throughout their lives.

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