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Understanding Money at a Young Age

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Sandra Siagian discovers how youth financial literacy can lead to long-term success

Financial Nutrition emphasizes the importance for young people to manage their finances.
(Reuters Photo/Enny Nuraheni)

Financial independence can often mark the start of adulthood for a young person. But with that first bank account or first debit card there often comes debt risks.

While savings might not be a priority for young people, financial experts believe building a foundation for strong financial understanding and behavior early on can help set a young person up for career success at a later age.

Melissa Donohue, founder of Financial Nutrition — an education company focusing on financial health — says it is important for young people to learn about finances early so that they can build strong financial habits.

“It is important to start saving early in one’s career, and to build a career path based on financial needs as well as interests,” explained the financial education consultant, who is based in New York.

Through her company Financial Nutrition, which has been running for a year, Donohue focuses on teaching the basics of money management to girls and young women. Running programs for middle school, high school and college students, she said it was now more important than ever for girls to learn about money.

With men still outnumbering female chief executives on boards around the world, Donohue says she believes in working with girls so they can become more financially independent women and take advantage of the increasing opportunities available to them.

“Women are overcoming barriers in every area of life, but can still lack financial empowerment,” she said.

“We teach girls and young women the basics of money management and entrepreneurship so they can lead a life of independence and success, on their own terms.

“As women gain a stronger footing in academia and in the corporate world, it is important that they have an understanding of finance, and related topics like income negotiations.”

Donohue added that it was even more important for women to understand how to manage money as they often encountered more financial responsibility with families and households, either as single parents or as the primary breadwinner.

“We believe in working with girls and young women so they have a solid foundation in financial understanding as they move into the work world, make an income, and have increasing financial responsibility,” said Donohue, who has a 14-year-old daughter.

Donohue holds a doctoral degree in education from the University of Massachusetts, Amherst, with her primary research areas on adolescent girls’ and women’s financial literacy and capability.

Some of the programs offered through Financial Nutrition range from teaching middle-school girls the basics of idea generation, business development and financial analysis, teaching college students about international leadership with a focus on business, economics and finance and seminars to college-aged women on debt and student loans, career choices and investing.

So far Financial Nutrition has only run these programs in New York and Massachusetts. But Donohue says she plans to create an online program within six months that will include downloadable materials in different languages to reach young women and adults around the world.

“I have received very positive feedback from both the students and parents,” she said of her year-old program.

“The students find the financial education and entrepreneurship engaging, and they are excited to understand money and how to start their own businesses.

“It is clear that they build confidence through these programs, as well as financial and business understanding. I think the parents also understand that these programs will help their children to succeed in life, and be better able to take care of themselves and their families financially.”

Donohue, who plans on branching out to the Asian market, has provided some quick tips and advice for young Indonesians interested in investing.

When it comes to investing most experts recommend having savings for a “financial cushion” to prepare for unexpected expenses and emergencies. Donohue says the recommended amount of savings is typically three to six months worth of your expenses.

Investing can be risky as there is no guaranteed success, Donohue says. However, there are ways to mitigate risk if one plans carefully. Diversification helps with risk as it means spreading your money across various assets so you have a greater chance of offsetting any losses.

A good consumer vehicle for diversification is mutual funds, which is a pooled investment product. Many people can buy into the fund, and with the money of all the members, the fund manager can be a variety of assets.

Donohue says there are key features to examine when looking at mutual funds including the type of assets in the fund, the fund’s risk level, it’s performance over time and the associated fees of the funds.