# Learn how to teach your kids about money

Investor education

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# Give your kids a priceless gift

Perhaps one of the most valuable gifts you can give to your children is teaching them good money management skills. It's not always an easy job, and the skills can take years to instill, but the lifelong benefits can be immeasurable.

This guide offers some practical ways you can help your children develop an appreciation for the importance of sound money management, whether they are preschoolers, in college, or somewhere in-between.


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# Start early

Good money management skills are essential in today's complex society. Experts agree that an early start can pay valuable dividends in the future for you and your children.

## *You* can make the difference

The key to teaching children about finances is to begin the process when they are young. Many experts insist that a good time to introduce basic money management concepts is when your children are as young as three or four years old and have a basic understanding that money helps us get the things we want and need.

University of Illinois economist Angela Lyons found that college students who had sound money management skills had a shared childhood experience: Nearly all reported that their parents had introduced them to the habit of saving when they were young children.

Increasingly, schools are introducing money management classes as part of their curriculum. Although such programs can be helpful, many experts contend that, to be effective, money management needs to be taught at home. That means, as a parent, you are in the driver's seat.

## Prepare your children for future financial independence

Stories abound of young adults who left home to begin life on their own only to return because of financial difficulties caused by poor money management skills.

Responsible parents work hard to teach their children how to be self-reliant. And teaching your children how to manage money is a critical element of preparing them to successfully take control of their financial future.

At every age, you should focus on helping your children understand the concepts of earning, spending, saving, borrowing, and sharing.


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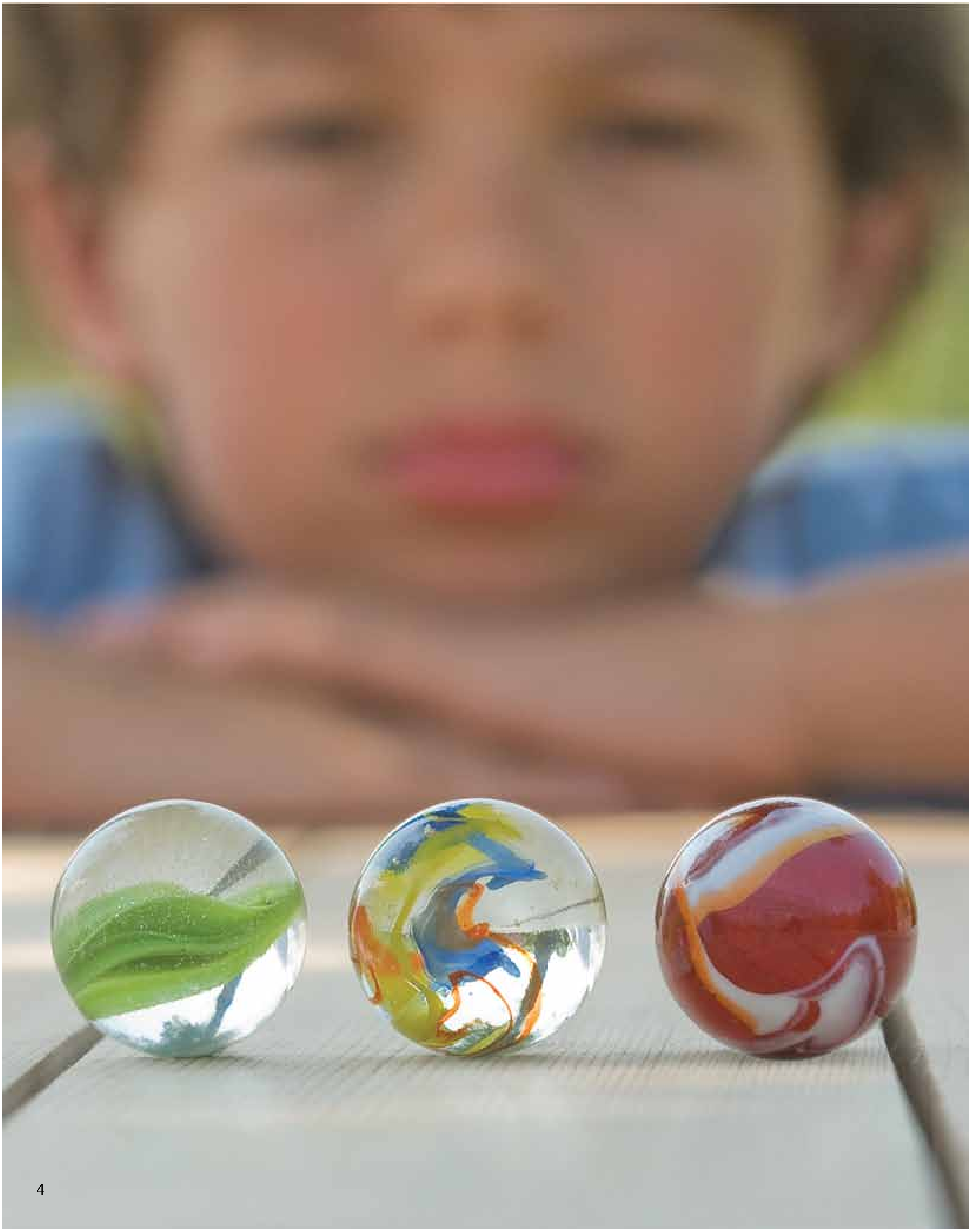


# Different ages, different needs

Depending on their ages, children have different degrees of knowledge about money. Understanding some basic concepts you can apply as your children grow can make teaching them about money a bit less daunting.

Keep in mind that every parent has a unique outlook on how to manage money based on personal experiences, family history, and a good dose of common sense. Use this section as a general guide as you teach your children about money management. And, remember, your financial advisor is always available to answer your questions and offer additional expertise.

# The preschool years

Asked when parents should start teaching their children about money, personal-finance author Carolyn Castleberry responded, "I'll give it to you in one word—yesterday."[1]

Many experts agree that as soon as your children can count, you should introduce them to the concept of money. Between the ages of three and four, most kids begin understanding how money is used. That's when you can begin to introduce some basic concepts of money management.

Don't forget that children of preschool age base a fair percentage of their learning on observing and repeating the behavior of adults. So this is the time to be especially aware of the messages you send your children about money.

Preschoolers can understand the idea of money as long as they can see and touch it. However, some youngsters may have difficulty differentiating between various amounts and may consider coins to be more valuable than paper money.

Lest your children believe that money grows on trees, it's also important to teach them that family members must work in order to pay for food, clothes, toys, and other household items.

**PRACTICAL TIPS**

- Teach your children the difference between pennies, nickels, dimes, and quarters, explaining that each denomination is unique.
- Encourage your children to play grocery store or bank with play money. This is a very effective way to begin teaching the value of money and the concept of purchasing things we want and need.
- Give your children a small amount of money (perhaps $1) when you shop and let them make their own purchases, handing their money to the cashier and receiving change. It's a good way to help your children understand how money works.
- As your children become more familiar with the concept of making purchases and receiving change, encourage them to save any extra money for future, perhaps larger, purchases.
- Help preschoolers understand the concept of money by keeping your exercises simple and repeating them until you and your children are comfortable with the lessons being learned.
- Never forget that children learn by example, so always practice what you preach.

1 Castleberry, Carolyn, 2007. "Beyond the piggy bank: Teaching kids about money." Retrieved October 31, 2012, from http://www.education.com/magazine/article/Beyond_the_Piggy_Bank_Teaching/

# The elementary school years

By the time your children are in elementary school, they'll probably be asking for an allowance. Don't necessarily believe the argument, "All the other kids get an allowance." According to several surveys, less than half of children ages 8 to 14 receive an allowance.

## Some differences of opinion about allowances

There's more than one school of thought when it comes to allowances. Some parents believe that children should earn an allowance by completing household chores. This approach, many argue, reflects the real world, where wages are earned for work completed. Others contend that every family member needs to help with chores and that chores shouldn't be tied to an allowance. Still other parents don't believe in paying an allowance at all and instead give money to their children when the need arises.

## The case for allowances

Despite the fact that there are more kids who don't receive an allowance than those who do, many experts argue that an allowance is an effective way to teach practical money management skills. Allowances allow kids to practice making basic purchasing decisions. They also help kids learn to save and budget for things they want.

## How much is enough?

Like many other discussions about allowances, the question of how much to give a child is often a matter of debate. One survey showed that kids less than 12 years old receive about $5 to $9 a week. Some experts suggest the simple solution of giving $1 a week for each year in age—$8 for an eight-year-old, $10 for a ten-year-old, and so on. Before you settle on an amount, it's a good idea to take a close look at how much money your child spends in a week and what you expect the child to buy with the money he or she receives.

Regardless of the amount of money you decide to give a child, experts agree that once you have determined an amount, remain firm. Once your child understands what he or she is responsible for buying with the allowance, you should step back and let the child decide how to spend it.

Independence is an important step in learning money management. It's not unlikely that your child will overspend on more than one occasion. However, sometimes it's best to learn from experience, and allowances let kids discover the painful results of squandering their money.

When overspending occurs, the request for a loan will often follow. If you decide to grant the loan, look at it as an opportunity to teach the basics of borrowing money and paying interest on it.

Finally, be sure to pay your child's allowance on the day you and your child have agreed upon. Otherwise you're sending the message that it's acceptable to be late when meeting a financial obligation.

## It's time to open a savings account

Establishing a regular savings routine is an important part of helping your child achieve future financial success. Just a few years after entering elementary school, your child is probably ready to open a savings account, especially if he or she is already receiving an allowance.

A practical approach is to open a traditional passbook savings account at your local bank or credit union. The value of passbook savings accounts is not their interest rates, which are generally very low, but their simplicity. Many include passbooks in which deposits, withdrawals, and interest payments are recorded each time the depositor makes a transaction. This easy-to-understand record is ideal for helping younger children keep track of their savings. A word of caution: Many passbook savings accounts come with nominal fees especially on accounts with low balances.

Many banks offer special savings programs for children. A popular program called the Savings Safari is designed to encourage kids to save by making the process interesting and fun. Kids who are members of Savings Safari Clubs have the opportunity to receive special newsletters and prizes and get to do fun activities designed to help them enjoy saving, learn about money, and establish the habit of saving.

Once your child has a savings account, be careful to avoid doing the banking for him or her. Instead, on a regular basis—perhaps weekly or monthly—accompany your child to the bank and allow the child to fill out the deposit or withdrawal slip and complete the transaction with the teller. This approach gives your child a greater sense of ownership of his or her money. By conducting their own banking transactions, your children also have a chance to practice their math skills, become familiar with filling out forms, and get practical experience conducting simple business transactions.

## PRACTICAL TIPS

- If you give your child an allowance, provide it in small denominations that encourage saving. For example, if the amount of the allowance is $5, provide it as five $1 bills and require that your child place a portion in savings.
- After each trip to the bank, take a moment to review your child's bank book with him or her, reviewing each transaction. Although any interest earned will generally be meager, explain how and why it's paid—earning interest is one of the fundamental rewards of saving, and it shouldn't be overlooked.
- Most of us can depend on receiving paychecks either weekly or biweekly. Use the same approach when paying an allowance. If necessary, create a simple bookkeeping system to record when you've given your child his or her allowance.
- Help your child determine the amount of the allowance to save and explain the reason for setting aside this amount.
- Consider matching any amount that your child places in a savings account. Matching a child's savings can act as a powerful motivator for the child to continue to save.

# The middle school years

As your children approach their teen years, their responsibility for managing their money will naturally increase. These are the years when your children usually start making more frequent—and more expensive—personal spending decisions. It's the time to begin encouraging your children to become wise shoppers, to save for longer-term goals, and to appreciate the value of charitable giving.

## Explain the family finances

By the time your kids are in middle school, they will probably have a basic understanding of how the family finances work. But as you help them become more responsible money managers, it's a good idea to begin including them in more in-depth family financial discussions. Of course, this doesn't mean that you need to reveal how much you earn or the details of your investments. However, allowing your children to participate in the family's financial decisions can help them understand the value of carefully considering their own purchasing decisions, the importance of their saving for long-term goals, and the value of philanthropy.

Consider involving your kids in some of the following decisions:

- Where should the family spend its vacations?
- Which charities should the family contribute to?
- How can the family save more money?
- How can the family cut expenses?

## Help your kids become wise shoppers

Every year, kids spend millions of dollars on countless items from clothes, games, and music downloads to concerts, school supplies, and electronic gadgets. Unfortunately, they don't always get their money's worth. One of the reasons is advertising.

Young shoppers often don't seem to be able to successfully sift through marketing hype. That's why, as your kids enter their teens and become mainstream consumers, it's important to help them evaluate the endless stream of marketing and advertising they will be bombarded with.

Here are some questions they should be able to answer:

- Will the product really do what the ad says?
- Is the price offered really a sale price?
- Are there alternative products available that will do a better job at a lower cost?

Remind your kids of the old adage: If something sounds too good to be true, it usually is.

Once your child has done his or her homework and found just the right item at just the right price, it's time to relax and enjoy the purchase—unless something goes wrong with the item. That's when your child will need to learn how to return it for replacement or a refund.

Explain how important it is for your child to save sales receipts for a reasonable period of time. Also, have your child accompany you when you either return an item or lodge a complaint, so your child can observe the process firsthand.

## Encourage long-term saving

Kids tend to live in the moment. However, as they approach the age when they may have their first job, it's a good idea to begin encouraging them to establish financial goals that are more far-reaching.

Whether it's buying a bicycle, sharing the cost of a summer sports camp, or getting the newest MP3 player, once your child has determined a savings objective, help him or her to set up a savings plan. In order to reach his or her goal, your child will need to set aside a specific dollar amount or percentage of his or her allowance or any earned income. As you did when your child was younger, provide a powerful incentive by offering to match the amount saved. Once again, consistency is the key to success. After you and your child have agreed on how much he or she should save and how often, insist that your child stick to the savings plan.

## Teach philanthropy

Part of educating your children about money includes teaching them that, as responsible members of society, they have an obligation to those who are less fortunate than they are.

In fact, kids can possess a surprising sense of philanthropy, and experts agree that more young children and teenagers are getting involved in charitable giving than ever before.

Even if you already have an established approach to philanthropy that includes the participation of your children, they may have their own ideas about which charities they'd like to support.

Remember that charitable giving means more than donating money. More often than not it's about giving one's time. Countless organizations, especially churches, nursing homes, libraries, and facilities that serve the needy, rely heavily on volunteers. Donating their time can be a practical way for kids to learn firsthand about philanthropy.

**PRACTICAL TIPS**

- Insist that your children save their receipts and understand the return policies for items they purchase.
- Teach your children to comparison shop. Whether it's evaluating similar products, comparing prices, or determining which merchants are the most reliable, understanding how to find the best deal is an invaluable skill.
- If your children choose to volunteer, encourage them to consider doing so during nonholiday times, when many facilities tend to receive less assistance.
- Encourage your kids to donate unwanted clothes, toys, electronic gadgets, and other items to their favorite charities.

# The high school years

As any parent with kids in high school knows, teaching money management skills is just one of the many challenges you'll face as your kids exert their independence and begin to take the final steps to adulthood. This is the time to include them in more sophisticated family financial discussions and to teach them how to begin taking greater responsibility for their finances.

## Take the family financial discussions to the next level

According to a 2012 poll conducted by Junior Achievement and sponsored by The Allstate Foundation, more than 85% of the teens surveyed indicated that they learned how to manage money from their parents.[2]

During your children's middle school years, you may have included your kids in family discussions about vacation planning, choosing a charity, and ways to increase the family's savings. As your kids progress through their high school years, they should become mature and savvy enough to participate in discussions that might involve the location of important documents, ways to deal with financial loss, and the assessment of future risk.

## Let them take control

If you plan to have your children contribute to the cost of their college education or purchase their own car, it's a good idea to involve them in creating a long-term savings plan, one that may include mutual funds, ETFs, bank certificates of deposit, or other investments. If necessary, your financial advisor can assist you with developing a plan to help your child reach his or her goals.

## It's time to get a job

Nothing teaches kids the value of a dollar better than having to work for it.

Jobs offer kids a sense of responsibility and independence, along with a host of practical education opportunities that will prove valuable later in life, including how to:

- Balance their job with the social and academic aspects of their lives.
- Interact with people in a variety of situations.
- Develop negotiating techniques.
- Learn new skills.

2 Junior Achievement USA, 2012. *Teens and personal finance survey.* Retrieved October 19, 2012, from http://www.ja.org/docload/2012-Teens-Personal-Finance.pdf.

After your child gets a job, it's time to decide whether you should discontinue an allowance. If necessary, you should also help your child fill out the required tax forms and understand how various taxes are levied, including those for Medicare and Social Security.

## Credit cards and checking accounts

Credit and debit cards tend to encourage spending. So it's always a good idea to be cautious about making them available to your teen. Deciding whether to allow your teenager to have a credit card can be difficult, especially if the teen is older.

A safer alternative to a traditional credit card may be a reloadable prepaid credit or debit card, which allows the cardholder to spend up to the amount that has been deposited in the account. These cards are available through many major banks. They offer the convenience and feel of traditional credit cards, with the financial safety of knowing that your child won't have debts and incur interest payments.

A traditional checking account is another option. It offers a practical way for your child to learn hands-on money management. It also prepares your child for the future, when he or she will have to pay bills on a regular basis.

### PRACTICAL TIPS

- Let your teenager do the family grocery shopping.
- Explain how credit cards work, especially the danger of incurring too much debt.
- Before your child goes for that first job interview, try role playing to provide a more realistic sense of what he or she can expect.
- If your child has a job, be careful to determine a schedule ahead of time that clarifies his or her work and study time, and other responsibilities, without jeopardizing the need for sports and entertainment that children need.
- Explain how different kinds of insurance work, especially automobile insurance.
- Before you allow your teenager to have a credit or debit card, involve him or her in occasional credit card purchases, explain how to verify charges using your monthly statements and how to guard against credit card fraud and other identity theft.

# The college years

If you thought teaching your high schooler about money management was challenging, wait until he or she goes off to college. These can be the years when your children have the most difficulty managing money. It's the time when they are out on their own, with little or no money—and a lot of spending opportunities.

## Have a plan

Don't wait until your child is moving into a dorm to decide which expenses you will cover and which he or she will. If you plan to provide money, agree on the amount and a plan for disbursing the funds. A biweekly disbursement schedule is probably better than a lump-sum payment each semester, since it ensures that your student won't be tempted to spend a large amount of money quickly.

## Encourage a budget

Stress to your child the importance of carefully listing all his or her sources of income, including any financial support you may provide and any employment earnings. The next step is to have your student identify his or her expenses, including books, school supplies, meals, entertainment, personal care, clothes, travel, and so on.

Then determine whether the expenses outweigh the income. The next section of this guide offers a more in-depth discussion of how to help your child set up a budget.

For new college students, it might take a month or so to get a clear picture of their expenses. The toughest part of the process might be sticking to your guns when your student calls to report that he or she has run out of money. That could be the time for a very useful lesson about money management. The important point to make is that your child establish a budget and sticks to it.

## Avoid credit cards

College kids are often flooded with credit card offers. While having a credit card can be useful in an emergency and can help your child build a credit history, credit cards are too often an invitation to overspend.

If your child does get a credit card, be certain that he or she understands exactly how credit works and that your child avoids charging more each month than he or she can afford to pay. Stress that misuse of credit cards can have a damaging effect on credit history.

As mentioned previously, to be on the safe side, have your child get a debit or credit card that limits spending to a predetermined amount.

### PRACTICAL TIPS

- Urge your student to save money at college by:
  - Purchasing used textbooks.
  - Using the meal plan.
  - Looking for low-cost entertainment on campus.
  - Comparing prices, looking for sales, and using coupons.
- Encourage your student to think carefully about wants versus needs.
- Suggest that your student join college clubs and organizations that provide inexpensive activities, as well as the opportunity to meet new people.

# How to set up a budget

Teaching your children how to manage a budget is one of the most practical steps you can take to help them keep track of the money they earn, the money they spend, and the money they save.

## Budgets fit nearly any age

The purpose of a budget is to help your child establish basic spending and saving guidelines and to achieve long-term goals. Whether your child is ten years old or in college, setting up a budget can be quite simple. It requires that he or she focus on three types of information.

**Income.** The money your child receives from an allowance, gifts, and employment over the course of a typical week, month, and year.

**Spending.** The things your child spends money on.

**Goals.** The money that your child sets aside for saving, spending, and donating to charity.

Budgets can span any length of time. Younger children are generally more comfortable focusing on shorter time frames such as a week. Older children should be able to handle longer periods. The point is to establish a fixed period of time that allows a child to set up a budget that is easy to live with. For example, if your child receives a weekly allowance, it may be best to set up a weekly budget.

The first step is for your child to list his or her income from whatever source for the given budget period. Next, it's necessary to list all items your child spends money on. Keep in mind that some items—for example, the cost of a magazine subscription that is paid for annually—will need to be divided by 12 for a monthly budget and 52 for a weekly budget.

The critical part of establishing a workable budget is to ensure that the amount of money your child plans to spend during a specific period of time equals the amount of money he or she has available during that time. Otherwise the budget has no value.

Once your child has accurately listed his or her income and expenses, it's time to think about setting long-term goals. Here's an example. Suppose your child has an annual income of $1,300 or $25 a week. If your child wants a new guitar that costs $275, how much does he or she have to save each week to be able to purchase the guitar in six months?

The beauty of a budget is that it provides a road map for tracking income and spending. It also lets your child reach a goal without the guesswork that can often lead to discouragement or failure.

## The power of putting it on paper

One of the best ways to ensure that your child's budget gets used is to make sure it's in writing. Here's a sample budget for a college student. Notice that savings is listed under expenses. Encourage your child to look at savings as a payment to him- or herself that the child makes on a regular basis. This will help your child avoid the pitfall of saving only what's left over at the end of a budget period.

| Budget worksheet | |
|---|---|
| **Income** | **Amount** |
| Allowance | $ |
| Gifts | $ |
| Employment | $ |
| Other | $ |
| **Total** | **$** |
| | |
| **Expenses** | **Amount** |
| Entertainment | $ |
| Toys/games | $ |
| Clothing | $ |
| Sports | $ |
| Savings | $ |
| Car expenses | $ |
| Donations to charity | $ |
| Other | $ |
| **Total** | **$** |

# What *kids* think about managing money

As a parent, you probably wonder from time to time just how well your kids understand the value of good money management skills. The survey below helps tell the story.

Results from a Charles Schwab study suggest that your kids think they are more financially savvy than they really are. Seventy-seven percent of those polled said they are knowledgeable about money management. However, the reality is a bit different.


Source: Charles Schwab, 2011. *2011 Teens & money survey findings: Insights into money attitudes, behaviors and expectations of 16 to 18-year-olds.* (Survey conducted by Koski Research.) San Francisco: Charles Schwab.

# Useful resources

There are many resources available for teaching kids of all ages how to manage their money. Here are just a few websites you can visit for helpful tips and information.

### Jump$tart Coalition for Personal Financial Literacy

Jump$tart is a clearinghouse for kindergarten through high school personal-finance educational materials. Though primarily designed for use by educators, the **Resources** section of the site offers dozens of links to other useful websites.

**jumpstart.org**

### Institute of Consumer Financial Education

The Institute of Consumer Financial Education is a nonprofit, public education organization dedicated to helping people manage their finances. The **Children and Money** section of the site offers saving, spending, and credit information for young people and their parents.

**financial-education-icfe.org/children_and_money/index.asp**

### National Endowment for Financial Education

This private, nonprofit organization is devoted to improving the financial well-being of Americans. The website includes a six-unit personal-finance program for high school students.

**hsfpp.nefe.org/students/**

### Teen Consumer Scrapbook

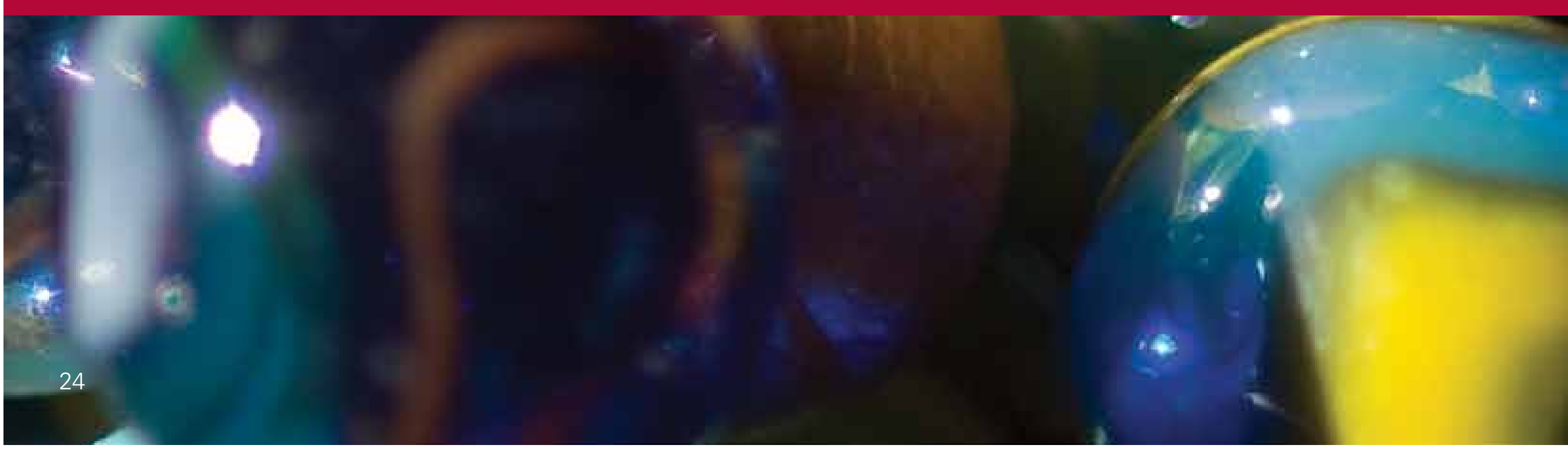
Designed by teens for teens, this website offers a broad range of information geared to help teenagers become better-informed consumers.

**atg.wa.gov/teenconsumer/**

### Savings Safari Club

Type *Savings Safari Club* in your search engine to locate banks and credit unions that offer this popular program, designed to make saving fun and interesting for kids.

Teaching your kids about money management isn't easy. Remember to enlist the help of your financial advisor whenever necessary. Your financial advisor's expertise and objectivity can be valuable assets as you work to empower your children to become wise money managers.



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