

Money Doesn't Grow on Trees... Teaching Kids about Money



Don't count on school programs to teach your kids about the value of money. It's up to parents to do what they do best: teach...teach your children sound money habits when they're young and the likelihood is that they'll avoid "money traps" as they grow older. How, what and when you teach your kids about money are personal decisions determined by your values and experience. It is our hope that some of the suggestions that follow will make your job just a bit easier!

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Valued Clients

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It's never too early to start teaching children about money. Otherwise, until they start earning a living, it's easy for kids to think that money, indeed, does "grow on trees"!

- Even young children can understand the concept of money**...exchanging a sum of money for something they want.
- Consider giving children an allowance beginning in elementary school**, teaching them how to split their "earnings" into three piggy banks or glass jars: savings, spending and sharing.
- Teach them how to allocate money**, such as 20% for savings, 10% for giving and the balance for spending.
- Show your kids how to reach a savings goal**...how saving X amount of their allowance each month will add up to the amount needed to buy a toy or new video game in a certain number of months.

Set a Good Example

Be a good role model! While not a guarantee, children who grow up seeing you do the right things financially are more likely to follow your example as they mature.

- When planning a trip to the store**, get your kids involved in preparing a shopping list and/or spending budget. Help them understand how a list/budget helps to avoid the pitfall of impulse buying.
- When shopping with your children**, teach them about pricing, brand names, sales, comparison shopping and how to evaluate what is the "best deal."
- Involve your kids in the family budget**. Show them the monthly bills for car payments, utilities, mortgage, insurance, credit cards. Explain the portion of your budget allocated for savings. Teach them first hand about your family's cost of living and the process of making and sticking to a budget.
- Have an age-appropriate discussion about needs versus wants** with your kids. When it comes to purchasing decisions, ask your children why they need the item...or if it's simply something they want.

Teach the Power of Interest

Children need to learn about "good" interest, such as interest paid by savings accounts, and the "bad" interest that accumulates when credit card bills are not paid in full and on time.

- Take your child to the bank or credit union and open a savings account.** Let them calculate how much interest ("free" money!) the account will earn over time.
- Require that your kids save a certain percentage of their allowance and birthday money.** Review monthly statements with them, pointing out how interest has increased the value of their account.
- When children meet their savings goals, consider matching their savings...**for example, at the end of each month, you'll reward their savings with \$1 for each \$10 they've saved.
- Show your kids your credit card bills and explain how important it is to pay them on time.** Illustrate for them the "bad" interest that would be charged if the balance isn't paid in full when due. Most of all, teach your children the wise use of credit. Help them to understand that credit card debt is the equivalent of financial handcuffs.

Don't wait until your kids are leaving for college to introduce them to the basics of financial life. Give them the latitude to make mistakes and learn from them.

- ❑ **At an appropriate age, make your children responsible for sticking to a budget.** Give them an allowance sufficient to pay for their clothing and entertainment needs. If they overspend, don't bail them out!
- ❑ **At some point in high school, open a checking account for your children, funding it with their allowance.** Teach them the basics about how to make deposits and write checks and how to balance the monthly statement. They may have the opportunity to learn first hand about the stupidity of paying overdraft charges!
- ❑ **Teach financial discipline.** Kids need boundaries. They need to learn that you can't have everything you want when you want it. Setting and sticking to spending limits helps them to learn this important lesson.
- ❑ **If your kids want a "big ticket" item,** such as a nice car, help them realize that "money doesn't grow on trees" by requiring that they contribute at least a portion of the purchase price, perhaps through an after-school or summer job.
- ❑ **Introduce your children to credit cards at an age you feel is appropriate and in a way consistent with your beliefs concerning the use of credit.** It's generally recommended that kids gain some experience with credit cards before graduating from high school. Consider beginning with a secured credit card (a secured card has been referred to as a "credit card with training wheels," by requiring a cash collateral deposit that becomes the credit line for that account). If they use the secured card judiciously, you can consider moving on to a regular, unsecured credit card. Make certain they understand that use of credit is a privilege and not a right.
- ❑ **Introduce high schoolers to investing, using real money.** Start with money market accounts. From there, introduce them to fixed interest investments, such as savings bonds and CDs and then move onto the stock market via mutual funds. Check out the stock market games available on the Internet. They can be a fun, educational way to introduce teens to the stock market. Some families even set up investment clubs for their teenagers to teach them investment basics.

An Allowance

Some parents feel strongly that an allowance is the best way to teach children financial responsibility and other parents feel just the opposite. If you decide to give your kids an allowance, the suggestions that follow may provide you with some "food for thought."

- ❑ **Don't give children an allowance until they have some understanding of money and are old enough to count.** An allowance given at a young age should be for the purpose of helping kids learn a spending/saving/sharing balance.
- ❑ **Make it clear that a certain percentage of the allowance is for savings and another percentage is for giving.**
- ❑ **There is one train of thought that says an allowance should not be tied to household responsibilities.** Kids should be expected to perform certain household chores because they are family members...not because they're paid to perform them. You may, however, want to pay children for performing bigger chores that you would otherwise pay outsiders to perform, such as raking the yard or washing the car or the windows.
- ❑ **Another approach is to develop a list of chores for your kids to complete around the house.** Pay them a base allowance whether or not they complete the chores, BUT pay a higher allowance when all chores are completed satisfactorily. Teach them the rewards of hard work!
- ❑ **What happens when your kids hit you up for a raise in their allowance?** The experts say this is a great opportunity to teach negotiating skills. Engage them in a discussion that includes questions such as when they received the last raise in their allowance, will the raise cover new expenditures, how much of the raise will they save.
- ❑ **How much allowance should kids receive?** Your answer will depend on your values, income and common sense. A recommendation: don't be swayed by what your kids' friends are getting. An answer to this question popular with many parents is to give their kids the equivalent in today's dollars of what they received at the same age. Whatever amount you decide on, consider increasing the allowance as your child's age increases, but also increase the financial responsibilities that go with the allowance. For example, an allowance received by a grade schooler may cover just incidentals, but a teen's allowance may be expected to pay for clothing purchases, entertainment, gas and auto insurance, as well as incidental purchases. Again, your objective is to teach financial responsibility, while helping your kids to understand that "money doesn't grow on trees." Finally, be certain that the amount of allowance you give is sufficient for your kids to learn to balance saving/spending/sharing.
- ❑ **How often should you pay an allowance?** The general recommendation is that younger kids should be paid every week. As they reach their teens, however, you may want to shift to twice a month or monthly, which more closely approximates the real world, where they'll need to be able to budget between paychecks.

Giving something back is an important value for children to learn at a young age.

- Even young kids can learn giving by donating toys or clothes around the holidays.**
- Teach by example...encourage your children to participate in your tithing, charitable contributions and/or community volunteer activities.**
- Let your kids choose an organization or cause that supports a cause they feel strongly about.** Teach them how to evaluate whether a charitable organization is putting its funds to good use.
- Consider matching your children's monetary charitable contributions.**

College Budget Worksheet

When you create a budget, you create a money plan. Following a budget may not be easy, but it helps you get the most from the money you have available. Once you create your budget, don't spend money on items that are not included in your money plan...unless you are willing to substitute something else for it. Finally, remember that your budget isn't set in stone - adjust your money plan if it's not working for you.

Expenses – Periodic	Per Semester Amount	Per School Year Amount
Tuition	\$ _____	\$ _____
Books	\$ _____	\$ _____
Other _____	\$ _____	\$ _____
Total Periodic Expenses	\$ _____	\$ _____

Income - Per School Year	Per School Year Amount
From Parents	\$ _____
From Savings/Investments	\$ _____
From Part-Time Work	\$ _____
From Student Loans	\$ _____
From Scholarships/Grants	\$ _____
Other _____	\$ _____
Total Per School Year Income	\$ _____
<i>minus Total Per School Year Periodic Expenses</i>	- _____
<i>equals Net Per School Year Income</i>	\$ _____
<i>divided by # of Months in School Year</i>	÷ _____
equals Net Monthly Income	\$ _____

College Budget Worksheet (continued)

Monthly Expenses

Monthly Budget

Fixed Expenses:

Room and Board (or rent and food)	\$ _____
Transportation (car payment, mass transit pass)	\$ _____
Insurance (health insurance, auto insurance)	\$ _____
Club/organization dues	\$ _____
Other: _____	\$ _____
Other: _____	\$ _____
Total Monthly Fixed Expenses	\$ _____

Variable Expenses:

School Supplies	\$ _____
Utilities (gas, electric, water)	\$ _____
Telephone/Internet/Cable	\$ _____
Fuel/Parking/Tolls	\$ _____
Auto Repair/Maintenance	\$ _____
Laundry/Dry Cleaning	\$ _____
Meals and snacks	\$ _____
Clothing	\$ _____
Personal Grooming	\$ _____
Entertainment/Recreation	\$ _____
Other: _____	\$ _____
Other: _____	\$ _____
Total Monthly Variable Expenses	\$ _____

plus Total Monthly Fixed Expenses + _____
equals Total Monthly Expenses \$ _____

Monthly Cash Flow

Net Monthly Income (from previous page)	\$ _____
minus Total Monthly Expenses	- _____
equals Net Monthly Cash Flow (+ or -)	\$ _____

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