TEACHING KIDS ABOUT MONEY

Kids learn about money by watching adults. So the first step in teaching kids about money is to identify your own attitudes and practices.

Here are 3 questions to ask yourself:

1.Do you feel comfortable talking about money?
Many of us grew up in households where money wasn't discussed. Others grew up in households where money was a flash point. Both experiences can lead us to shut down when the topic of money comes up. How comfortable are you in discussing money matters?

2.What do you think about money?
Is money the root of all evil? Is it all about having too much, or not enough money? As you define your values concerning money, you might want to consider whether—in your life— money is an end in itself or a tool for achieving other goals.

3.How do you treat money?
Kids can be sensitive to "do what I say and not what I do," and their perception about money matters is no different. Do you "preach" saving but "practice" spending? Do you talk about sharing with the less fortunate, but never do so?

Once you know your own attitudes about money, then think about your own money skills.
Do you regularly engage in these 7 Smarter Money Practices?

1. **Budgeting**: allocating your available funds for both immediate and future expenses.

2. **Tracking**: reviewing your actual expenditures against your budget, monthly.

3. **Saving**: for emergencies, for large expenditures, for retirement.

4. **Investing**: putting aside money that takes advantage of appreciation.

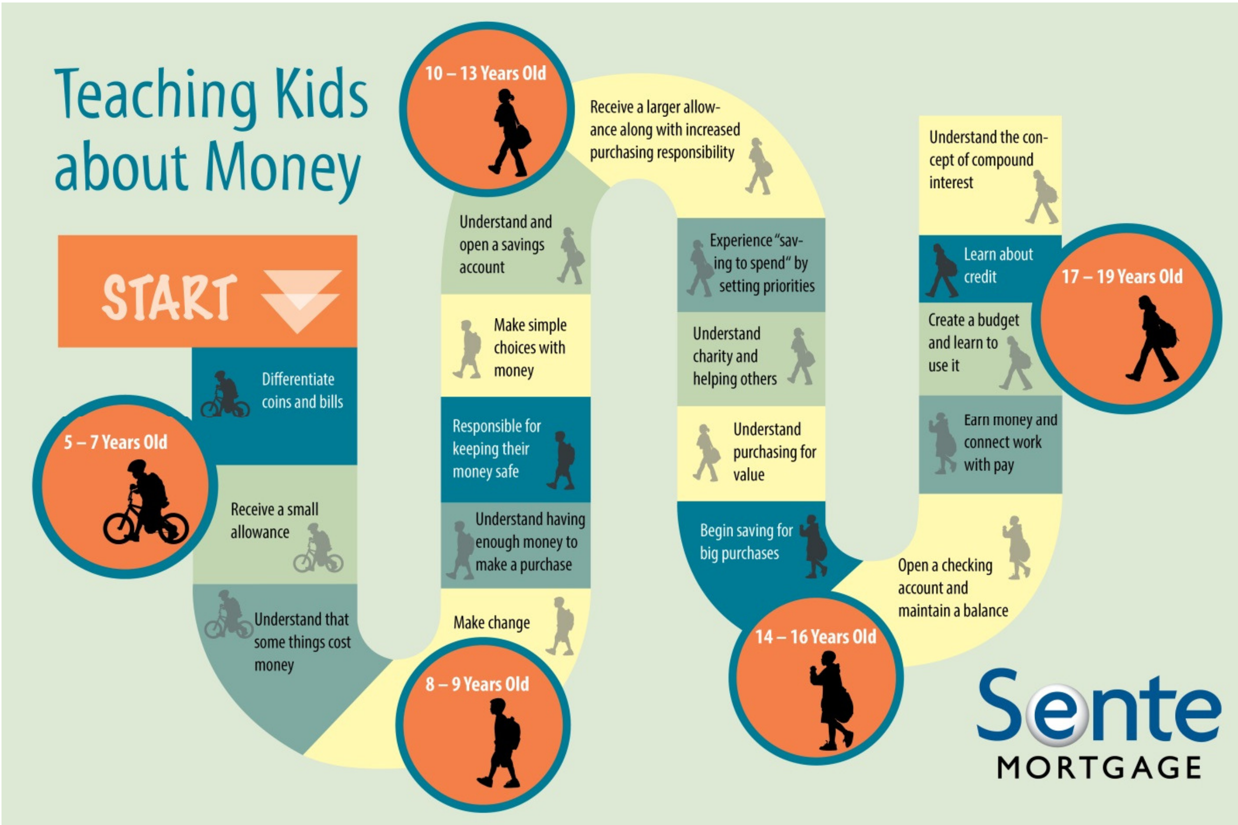
5. **Borrowing**: using credit wisely so it is there when you need it.

6. **Earning**: associating the value of work with an appropriate monetary reward.

7. **Giving**: changing some little piece of the world for the better.

Being calm, matter-of-fact, and open about money is the first step in establishing healthy habits in your kids. If you don't know everything, don't worry. There are a lot of resources available. One of the best is Joline Godfrey's Raising Financially Fit Kids. She provides some great ideas on how to get started in your own life as well as that of your children. Another is www.orangekids.com, a website that teaches basic concepts in an engaging manner.

Above all, open and continue a conversation about money. There are many aspects of life a child learns from adults—learning about money should be as purposeful as any other. The suggestions below are a great way to start age appropriate activities and discussion. Once you start them, keep going—as you introduce new topics don't neglect the older ones.



5-7 Years Old

Even at this young age, kids are affected by money. They are naturally curious and will begin to ask questions about behaviors such as paying for something at a store. They also begin developing ideas around fairness—and while money is often a measure of fairness for us, it can be puzzling for them.

At this age, they need to be able to:

♦ Differentiate coins and bills.

US currency can be puzzling at first. You would think that bigger coins are worth more, but that isn't always the case. You'll want to collect a large number of coins to demonstrate proportions (5 pennies = 1 nickel, 2 nickels = 1 dime, etc.)

One way to help with this lesson is to allow them to pay for an item at the store when you shop. Choose something small, under $1, and give them coins to count out. (As much as possible, do this before getting to the register.) If the item is something that they want, even better. Once coins are mastered, move on to bills.

If you keep a "change jar" at home, you can also ask your child to empty it, count it, put the money in a zip top bag and label the amount on the front.

♦ Receive a small allowance.
There is great debate among the experts whether an allowance should be "given" or "earned." Either way, receiving a set amount of money on a regular basis (weekly is recommended) will provide a basis for many of the other money lessons to be learned.

There are some dos and don'ts about providing an allowance:

- Do use the allowance as a way of teaching about various money behaviors. For example, you can have some of the money set aside to save or to be given away. (An interesting tool is the Moonjar, which offers a 3`part savings bank for Spending, Saving, and Sharing:
  www.moonjar.com.)
- Do make rules about the use of the allowance—there are things they must do and things they can't do. For example, it may be a requirement that a certain proportion of their allowance is saved and can only be used for certain purchases.

- Do grow the allowance as they manage it well—set goals around this. If they retain savings to a certain level, for example, take them to the bank and open a savings account. When they reach a certain level in their account and maintain it for 3 months, increase their allowance.
- Do allow them to earn more. It is never too early to associate earning money with work, so in addition to the allowance, have a list of "extra chores" they can do. Make sure the chores are complete and well done for the money to be earned. Don't use the allowance to manage behavior, except for behavior related to money. For example, withholding an allowance because they acted out in school attaches money to unrelated behaviors.
- Don't forget or postpone the allowance. If your own budget is tight, make this a priority. Choose an amount you can be comfortable with. And if there is an emergency which causes you to be unable to provide the allowance at some point, don't be afraid to have an open and honest conversation about the circumstances.

♦ Understand that some things cost money.
While money education is important, there are things that are free—a hug, a smile, a helping hand. Much of what they take for granted does cost money—food, clothing, car/gas, etc. Share these experience with your child and never be afraid to articulate your priorities—what you can/can't afford and what you choose to/not to spend your money on.

Purchase a wallet or purse so that they can carry their money. When they want something, if it falls within the guidelines established, then they will have the money with them. If they don't bring their money, then postpone the purchase. (You might want to govern how much money they carry around, just in case.)

8–9 Years Old

♦ **Understand having enough money to make a purchase.**

Even though they have been purchasing items, you've generally been helping them with those purchases up to this point. Now you can introduce the idea of a budget—making sure there is enough money to buy what they want.

A simple way to do this is for "their" shopping—back to school items are one example. Give them a dollar amount to spend, and then let them select what they want. Before going to the cash register, be sure that the amount of the items they want to purchase is within the budget you have set.

♦ **Make change.**

Just because all of the cash registers today calculate the change—some automatically—doesn't mean that kids shouldn't double check. Whenever your child purchases something and doesn't have the correct change, make sure he/she checks the money coming back.

This is also a great time for them to participate on the sales side. Whether it's a traditional lemonade stand, babysitting, or helping you with a garage sale, enabling them to be the change giver reinforces all of the lessons about currency.

♦ **Responsible for keeping their money safe.**

As they grow older, keeping track of their money is important. One way is the savings account you established earlier. Make regular trips to the bank to deposit savings. Share the account statements with them, and show them the interest received.

For money they choose to carry with them, they need to be responsible for it. That means keeping an eye on their money "container" whether it's a purse or wallet. It means knowing how much money they have and have spent—keeping receipts when they purchase to account for funds no longer there.

♦ **Make simple choices with money.**

This is the age where you can begin to discuss the difference between needs and wants. It may seem minor, but making sure to choose the right word when expressing a desire to spend is solid grounding for making appropriate choices as an adult. It is never about not getting something you want—it is about making sure needs are met first.

This can even be a good time to begin exploring the idea of getting more for your money—discounts, coupons, and sales. Identify something (like cereal) where two products are acceptable, and start talking about how you might make a choice based on cost.

10–13 Years Old

♦ Receive a larger allowance along with increased purchasing responsibility.

Once your child has demonstrated responsibility with a small allowance, it is time to increase the amount and give them additional purchase responsibility. With a larger allowance, you might expect them to purchase such things as:

- Snacks at the movies.
- Music and videos online.
- Special clothing ("wants").

As you increase the allowance, you'll have a discussion of what they will now be responsible for buying. This is a great time to help them set up a mini budget—how much of the allowance will be set aside for various preferred activities.

♦ Understand and open a savings account.

If you haven't opened a savings account, now is a great time to do so. The concepts being learned here are:

- Security of the money.
- Interest and compound interest.
- Money tracking.

This is also a good time to obtain an ATM card and explain how it is used. To start, pay for a single item with the card, and demonstrate how it shows up on the account statement. Make sure they understand the money has to be available for the card to be used.

♦ Experience "saving to spend" by setting priorities.

Identify a goal that you and your child can agree on—attending a concert or going to a theme park with friends.   It should be something they can afford after 2 – 4 weeks of saving—not a big ticket item. But it should also be something that they won't be able to afford from just a single week's allowance.

Then help them put aside additional money (out of their spending money, not from their saving money) for this item.   Have a physical presence for the goal—put the money in an envelope with a picture of the concert or trip on it.

Keep the envelope accessible to them. They can take the money out of it any time they want. But if there isn't enough money in the envelope when the time comes, they have made their choice—they wanted something else more.

♦ **Understand charity and helping others.**

It's difficult to watch the news or look at a newspaper without learning about those who don't have enough. There are many ways to give, and one way is through donations. Choose a cause that will engage your child—other children, animals, food for the hungry, etc. Help them find the best way to help. For example, if contributing to a food bank, is it better to provide money or food?

This is one of the areas where setting the example is important. Whenever you give, include them. If you are providing pet food for your local shelter, for example, have them purchase a couple of cans or a small bag with their own money.

♦ **Understand purchasing for value.**

Cheap isn't always the best way to go. We make choices all the time to purchase more expensive items because they have greater value.

This is something you can talk about at many levels. At the grocery store, when do you purchase a
"name brand" and when do you purchase the "store brand"? Help them to read the shelf labels which specify $$/unit. Talk about why you'll sometimes pay more.

If you are in the market for a larger item—new TV, car, appliance—involve them in some of the research. Making choices about features and costs will help them understand what is and isn't worth paying for, and specifically how to make those choices in terms of their own values.

14 – 16 Years Old

♦ **Open a checking account and maintain a balance.**

He or she already has a savings account, now it is time to open a checking account. Have the banker explain the difference between the two. Move the ATM card over to the checking account.

Use the account—pay their allowance by check and have them deposit it. Show them how to check their balance. Have them transfer money (automatically) to their savings account. Make sure they balance both accounts every month.

♦ ***B*****egin saving for big purchases.**

This is when bigger purchases—a car, trips with friends, and even college—become part of their reality.
While your teen may not be able to afford these on their own, sharing the expense offers the ability to have them contribute to part of the purchase. The steps are simple:

- Identify the total cost of the item. For example, if it's a car, include tax, title, and license fees. Also alert them to ongoing expenses such as gas, insurance, and maintenance.
- Decide on the time frame of the purchase—how many months in advance?
- Divide the total cost by the number of weeks. This is the amount of money to be added to the savings account weekly.

Each month, review the savings account statement and make a note of the money that is being set aside to achieve the spending goal. The purchase doesn't get made until the goal is reached.

♦ Earn money and connect work with pay.

There are numerous opportunities for work that teenagers can find. Many are entrepreneurial—starting a lawn service, babysitting, and house cleaning are some examples. In addition to money management, indulging in this type of work enables kids to learn about how to run a business, customer service, and keeping a schedule.

Think about your own home—would it make more sense for you to pay your teen to mow, edge, and trim than do it yourself? How about cleaning—not the typical chore of unloading a dishwasher, but really being responsible for whole house cleanliness? The allowance continues for the purpose of learning about money, but additional earning opportunities that are regular and significant, allow your teen to understand how money is connected with effort.

17 – 19 Years Old

♦ Create a budget and learn to use it.

At this point, your teen is probably working part-time for some pay as well as receiving an allowance from you. They also have significantly more expenses, and many fall into predictable categories.

Rather than paying for their individual expenses yourself, as your teen "graduates" to financial understanding, have them take responsibility for payments. For example, if you pay for their insurance, include the amount as part of their allowance and have them make that payment. Creating a budget is a fundamental discipline to make sure they know where their money is going. Sit down with them and walk through the expense items that they will have regularly.

Make sure they are putting aside money for unexpected expenses. And be sure they have an amount they are continuing to save—even if it's small. Once the savings habit is built, don't let them lose it. Every month, review the budget and track actual expenditures. They should get in the habit of keeping receipts for everything they spend so they know where their money is going.

♦ **Learn about credit.**

If there isn't enough money to cover their expenses, have a conversation about how to handle that. Can they earn more? Cut back on some of what they spend? Borrowing shouldn't be an option for regular expenses, but you can also think about loaning them some money for exceptions—just be sure they pay it back, along with interest.

Once they understand that using someone else's money carries additional cost, then think about getting them a credit card. While preloaded cards are tempting, the purpose here is for them to begin to manage credit in a safe environment. Let them make some purchases on their credit card. If they don't have the cash to pay the balance, they'll see the interest charge on the following bill—and begin to understand the true cost of credit.

This has the additional benefit of beginning to build a credit history. Pull their credit report when they first apply, then once a year afterwards. (It is free at www.annualcreditreport.com.) Review the report with them and talk about how to maintain good credit.

♦ **Understand the concept of compound interest.**

They've had a savings account for a while now, and using the statements from that account, they can begin to see the value of compound interest. Showing them the long term value helps to reinforce the savings habit. Do the calculations—once place to find a calculator is Money Chimp:
http://www.moneychimp.com/calculator/compound_interest_calculator.htm.

Here are some sample numbers based on an investment of $1,000 per year earning 4% compounded monthly.

If you save for:	Your Contribution	Interest Earned	Interest per year
20 years	$20,000	$10,666.43	$533.32
30 years	$30,000	$28,000.24	$934.44
40 years	$40,000	$58,825.10	$1,470.63

So you not only earn more money in total, on an annualized basis the longer you leave your money to compound, the higher the annual amount earned. The key to achieving great results with compound interest is time. The earlier you start, the more time you give yourself.

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