


TEACHING KIDS ABOUT INTEREST



At Sente, we like to share tips and techniques to help your whole family create a sound financial future. For the younger members of the family, and the topic of interest can be complex. You may already be giving your children an allowance to start teaching them the importance of saving (and spending) wisely. But teaching children how interest can add to their wealth or leave them drowning in debt can be harder for parents to articulate.

Below are a few exercises to help your children understand interest from a young age.

- 1. Reward savings.** One of the best ways to teach your children how interest can impact their wealth is to reward savings. Have your child set a predetermined percentage aside from his or her allowance each week that will be considered "savings." For example, if a child earns \$10 per week, have him or her save 10 percent, or \$1 a week. Explain that you will add a quarter (or nickel or dime) in interest to their savings each month for every dollar that they save. At the end of the month, help them count the total savings, plus interest earned. The more money they save, the more interest they earn.
- 2. Make a loan pay off.** To help children understand that borrowing money is never free, ask your child for a small loan, and commit to paying it back with interest in a few days' time. The amount that you "borrow" should be relative to what your child has saved. For example, if your child has saved \$20 dollars, you might ask to borrow \$5. Keep the money for a couple of days. Thank your child for lending you the money, and pay it back with 10% interest. If you borrowed \$5, you'll pay back \$5.50. Explain to your child that the 50 cents is what it cost for you to rent or borrow the money.
- 3. Here's a cost to borrow money.** If you're like a lot of parents, it probably feels like the 'Bank of Mom & Dad' is always open for business. You've probably experienced the frustration of kids blowing through their allowance, and then begging for money to go to the movies with their friends, or to get that new video game at the store. We think these situations are a great time to teach your children about the cost of borrowing money. Offer to loan the child the money, but explain the terms ahead of time. For example, you might say "You want me to give you the money to take you and a friend to the movies, and it will cost \$20. You get \$20 dollars a week in allowance, so let's do a 4 week payment plan. For the next 4 weeks, I will give you \$15 dollars until the debt has been paid back." Once the child understands that concept of paying a loan back, try adding interest to the mix. Charge a dollar for every week the debt is not paid in full.