

RAISING A MONEY SMART KID

Picture it: Your 28-year-old daughter stops by with a “proposal” for you. She reveals she is two months behind on her rent, has maxed out her credit cards and is behind on the minimum payments, and also can’t make the payment on the car loan you co-signed for her. Her plan is to “move back home so I can save up and pay off these bills – or you could lend me the money to catch up.”

No parent wants to see their child in this situation, but many parents avoid taking the steps that would teach their children money management skills and responsibility. By avoiding discussing money with your children, you may be setting them up to fail when it’s time for them to be financially independent.

Are You Modeling Smart Money Behavior?

Many parents wish they learned more about money management from their parents growing up but are not confident in their own abilities to teach their children. Raising a money smart kid can seem challenging, but it is possible. Money management skills can be taught two ways:

- Explicit messages – what you actually tell your children and have them do.
- Role modeling – what you actually do.

There should be harmony between what you tell your children to do and what you do. If you tell them to save, but they see you spending every penny, they won’t necessarily learn that saving is important. This workshop discusses the explicit messages you can give to your children, but consider also examining your own habits. Are you handling your income and expenses the way you hope your kids will? Are you living within your means? Saving regularly? Using credit wisely? If your answer is “no,” don’t despair. This is a great opportunity to take control of your finances. Think about how you want your kids to handle their financial future, and try to apply those goals to your own life. If you need help, check with your financial institution. They may have experts who can help you sort out your personal finances.

Kids and Money

Children do not earn and spend money to the same extent adults do, but they still deal with receiving and using money at an early age.

There are several possible sources of income for children, including:

- From an allowance
- From doing chores/extra work
- From a formal part-time job
- From monetary gifts on holidays and birthdays
- From receiving money just because they asked for it

Likewise, there are several things that kids may spend their money on, including:

- Candy and snacks
- Toys
- Clothing
- Movies and entertainment
- Video games and equipment
- Music

What are your children spending their money on now? Where are they getting it? Would you like to make any changes?

Why budget?

Does it even matter where kids are getting their money and what they spend it on? Why not just give them money whenever they ask? Why not just let them spend the money on candy and toys that will be discarded in a few days? It is not like they need to make sure that they have enough money to pay the rent or their car loan. True, it is not the end of the world if you give them a few more dollars or they don’t have enough money to get the game they really want because they already spent their allowance, but teaching them budgeting skills when they are young will help them to better manage their money when it really counts – when they have a set salary and need to pay important bills.

Teaching good money management habits involves three essential principles:

- Income is limited. You only receive a certain amount of money each month.

- Spending should be controlled based on the money that is available to be spent and the necessities that need to be purchased. Credit should not be used when money runs out.
- Part of earnings should be saved for future goals – not all of it should be spent right away.

Learning these three principles will help your children to avoid situations like the one described on the first page.

Income

Giving an allowance

Giving an allowance is a great tool to use in teaching your children the value of a dollar and the importance of prudent spending. If you always buy them what they ask for, there is no need for them to be concerned about money. They will just ask you to buy something whenever they want it, because the money in their eyes is unlimited. However, if they realize that the amount of money that they receive is finite, they will learn to appreciate that money more and think more carefully about what the money should be spent on.

Determining the specifics

A common challenge for parents in establishing an allowance plan is determining the appropriate amount. Of course, you will want to consider what you can actually afford to give, and what your child will be responsible for paying for with his or her allowance (discussed more below). Some people choose a fraction or multiple of the child's age or grade in school - for example, \$5 week when the child is five, \$6 a week when the child is 6, etc. Asking what other parents with children of similar ages give can also help you determine an appropriate amount.

If you are clear on your expectations for earning allowance – and how it's spent – it will be much easier for your kids to develop the habits you want them to have. Before you institute your allowance plan, consider how you want the money to be handled.

- Should the money be connected to expected behavior?
- Should part of the allowance be saved? Shared?
- How much should be available for spending?
- How much of the decision should be left to the child?
- How often will the allowance be given?
- When will raises be given?

- What portion of their own expenses do you want them to cover with it?

It is especially important to consider the last question. Your children are probably not going to pay for their own medical insurance or toilet paper, but it defeats the purpose of an allowance if you buy them everything they ask for. In general, the older the child, the more he or she will be able to pay on his or her own. Can a 5-year-old budget and pay for his or her clothing, dining out, movies, music, hair products, and video games? Probably not. Can a 16-year-old? Most likely. If your children are younger, you may want to start with one or two categories. For example, your children must buy candy with their own allowance, but you will pay for everything else. Be clear with your children about what they must pay for themselves. You can use the sample allowance plan on page 7 to help you.

Tying an allowance to chores

One question that many parents face regarding allowances is whether the allowance should be tied to chores. Some parents feel that their children should do chores just because they are part of the family – that it is teaching them a value. Others feel that paying children for chores teaches children how the world works. You do not receive your paycheck for free, you receive it because you worked. For some families, a combination approach makes the most sense. The children get paid for doing some chores (“work for pay” chores), but other chores (“citizen of the household” chores) are not tied to money at all.

Even if you choose to tie at least part of the allowance to completing chores, consider having a base allowance that the children receive regardless of whether or not they do chores. Not giving children money when they do nothing can be seen as a way to encourage them to do chores, but it does not teach them budgeting skills. Children cannot learn to create a budget and stick with it unless they have consistent income, no matter how small. (It helps to pay them consistently as well, such as every Friday at 4:00 PM.)

If you require chores to be completed to receive part of the allowance, try creating a chore chart that shows what work needs to be done. The chart can show the chores your children are expected to do without getting paid, chores they are expected to do to receive their regular allowance, and bonus chores that they are not expected to do, but can do

if they want to earn extra money (if you would like to give them the opportunity to do so). Bonus chores typically consist of tasks you would pay an outsider to do, such as mowing the lawn or baby-sitting.

Dealing with gifts

An allowance is usually the most consistent source of income, but it is not the only one. It is common for children to receive money for holidays or birthdays. It is easy to see a gift as “free” money and spend it hastily, but try to get your children to be thoughtful about what they will spend the money on. Do they really want to spend it all on candy or the latest “it” toy? Maybe it would make sense to save some of that money for regular expenses, like school supplies or clothing, and put some aside in savings.

Another option for giving a gift, besides writing a check or giving a toy, is to purchase bonds. You can consider doing this yourself or asking relatives to do this when they give gifts to your children. Children do not always appreciate bonds when they first receive them, but when they get the money from the bonds at maturity – long after the toys have been discarded – they will realize the benefits of saving and investing.

Getting a part-time job

For teens, getting a part-time can be a great way to learn that responsibility is needed to earn money. They will have to show up on-time and do their job, or they risk being fired. Plus, if they have a part-time job, it can reduce the burden on you – you do not necessarily need to provide an allowance anymore. Having a part-time job can also help your children to spend more carefully. They will probably think more about whether or not to buy a \$100 pair of shoes if they realize that they would need to work 12 hours in order to earn the money to pay for them. Does that mean that getting a part-time job is right for everyone? No. For teens that already have a lot of responsibilities and activities, a part-time job may be too much of a burden. Both you and your teen can discuss if he or she actually has time for a part-time job.

Shopping and Spending

Setting a Spending Plan

Once an allowance is set, the budgeting work is not done – it still needs to be determined how the money will be spent. As discussed above, you

should let your children know what you will pay for yourself, and what they must pay for with their allowance. Then it is up to them to determine where the money will be spent. Of course, you can help guide them. For example, if they want to spend their whole allowance on junk food and video games, it is a good idea to point out that they should put aside some of their money for clothing (assuming that is on the list of items they must buy for themselves). Help them write their own spending plan, so they have a constant reminder during the month of where their money should go. You can use the included worksheets on pages 8 (for younger children) and 9 (for older children). Encourage your children to keep their actual spending as close as possible to their plan. If needed, remind them of the basic rule of budgeting – expenses should never be more than your income.

Learning from mistakes

While it is a good idea to provide encouragement and advice to your children, it is also helpful to let them make their own mistakes and not forbid them to do anything that is foolish. If they insist on spending all of their allowance on candy, let them. People learn from making mistakes. When their friends want to go to the movies, but they have no money because their allowance is gone, they will see the importance of controlling spending. It is better for your children to make financial mistakes now than when they have a car loan and rent or a mortgage to pay.

An essential part of letting people learn from mistakes is to not bail them out. If your children beg for additional money because they spent their allowance, don't give it to them. Bailing out your kids teaches them that their actions have no consequences, and they can spend what they want, because they can always get money somewhere. If they retain the same spending habits when they are adults, they may still turn to you for money – or to credit cards or personal loans. With the high interest rates that some creditors charge, having credit card debt could cost your children thousands of dollars. To emphasize this point, if a child's allowance runs out and you feel like you must give him or her money for an important expense, consider not just simply giving the money, with no strings attached, but loaning it instead – and charge interest. This will certainly let your child know that borrowing costs money. Don't forget about the loan. If you do, he or she will not learn

the importance of paying credit back.

Dealing with shopping challenges

Helping your children have good shopping habits may sound easy on paper, but when you actually go shopping it can be a challenge. Children often see an item and want it right away. However, you can make shopping trips easier by following a few tips:

- **Implement the “Buy One Thing Rule”.** Offer your children the opportunity to choose one item (within the price range you set) when you go shopping. This keeps them occupied and teaches them to comparison shop and select among many wants. It also conveys the message that “We can’t have everything, so we should choose to spend wisely on the best item.” However, when deciding on which shopping trips to implement this rule, remember the allowance plan. Avoid offering to buy items you told your children they would need to buy with their allowance.
- **Be okay with saying no.** At some point your children will probably want something that you know you should not buy for them. Saying no will not scar your children for life – nor will not having something they want. It is tough to not feel guilty about not being able to give your children everything, but it definitely does them more harm than good to get everything their heart desires. Use this as an opportunity to discuss the difference between wants and needs. Express your own desire to have things you can’t afford or choose not to purchase (maybe while window-shopping or in the mall). This lets your kids know you make sacrifices as well, and while their wants are normal, they cannot all be gratified.
- **Encourage waiting.** What if your child has some allowance money, and wants to buy an item you know will be discarded in a few days? Many children impulsively purchase an item, only to not use it or regret the purchase later. Encourage your child to wait a day and think about if he or she really wants the item. Say you will come back to the store if he or she does. In many cases, the item will probably be forgotten about. However, if your child insists on making the purchase, let him or her. As mentioned above, people learn from making mistakes.

Teaching by example

Children learn by example. Think about what messages you are sending your children with your spending habits. Do your children see you

make frivolous purchases? Do they see you put everything on your credit card? Try to save for your purchases, instead of just putting them on credit cards, and when you make a purchase let them know that you have the money because you saved for it. However, since having a good credit score is practically a necessity today, it is best to not tell your children to avoid credit completely. Just teach them about responsible usage. If you pay off your balance in full each month (which, ideally, you should), show your children the credit card bill and say, “We only charge what we can afford to pay off, so we can avoid paying interest.” If you carry a balance, show them the bill and point to the interest that you have to pay because you did not pay off the balance in full. This shows them that using credit for purchases, if you carry a balance, costs more than paying cash.

Advertising

Your kids are part of a heavily targeted consumer group, and advertisers use a lot of methods to get your children to spend their (or your) money. Use commercials as opportunities for discussions with your children on the products they see, how they are being persuaded to buy things, and the lifestyle images they see in ads. When you see ads with celebrities hawking products, ask your children if they think the celebrities really use the products or if they are just saying the products are good so they can make money. Teach them that the quality of the product and its usefulness is more important than the celebrities that endorse it.

Saving

Why save?

There are several reasons why adults may need to or want to save – for emergencies, a house, a car, new furniture, etc. Help your children develop a savings habit early by encouraging them to put aside some of their allowance in savings. This can be a challenge, since for most children immediate gratification is much more exciting than deferred gratification. However, setting goals can make them more excited about saving. They are not just saving for the sake of saving – they are saving for a new pair of shoes or whatever else they want. For younger children it may be better to have short-term goals that can be achieved within a few weeks. Older children should be able to save for goals that may take a few months to a year to achieve. Having more expensive, long-term goals can teach your children that they have to plan for larger purchases

and determine if something more expensive is worth the time and commitment to savings.

Start saving

Ask your kids what they would like to save for – what they would like to get that they cannot afford to buy right away. If they do not already know, help them determine how much the items will cost. It may be easier if they save for one goal at a time, especially for younger children. Discuss how much they want to put aside each week or month for the goal, then encourage them to start saving. There are several steps you can take to support their saving habit:

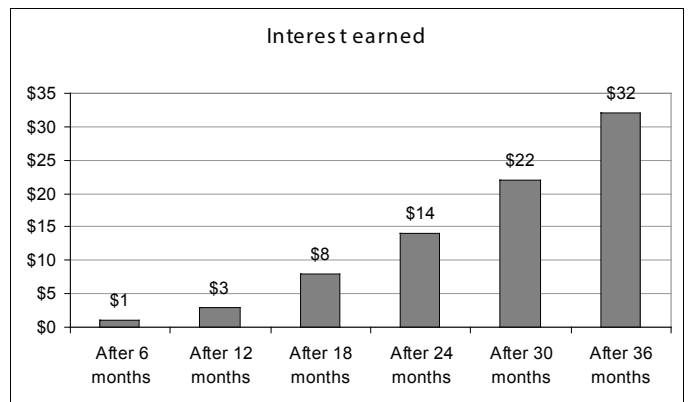
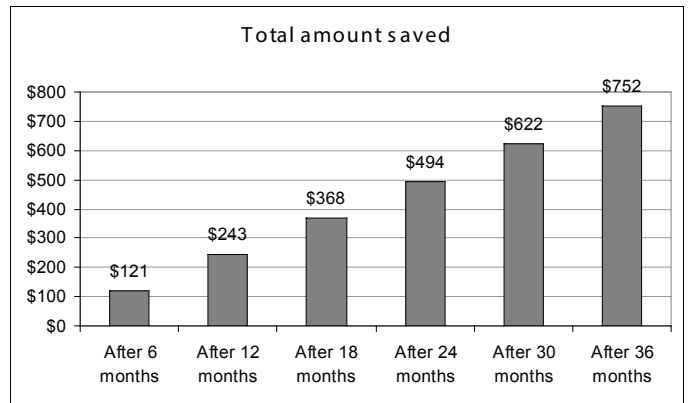
- Make a chart with a picture of the item your child is saving for and the cost. Color segments in each week or month as their savings toward it increases. (“My Goal Chart” is available on page 10.)
- Provide a place to save the money, such as a glass jar, piggy bank, toy safe, savings account, etc.
- Pay the allowance in denominations that make it easier to put money in savings. For example, if your child wants to save \$2 a week, and the allowance is \$5, give him or her five \$1 bills, not a \$5 bill.
- Offer to automatically put aside the money into savings for your child – like a 401(k) deduction.
- Praise your children for saving – they are developing habits that very few adults have developed.

Paying interest

Just like charging interest on a loan teaches your children that using credit costs money, paying interest on the money your children save teaches them that saving earns money. If your children have savings accounts, the interest payments will be automatic. If you want to get your children a savings account and they are under 18 they may need to get a special kid’s account – many credit unions and community banks offer them – or a custodial account. When they receive their statements, point out to them the part that shows the interest they earned. If your children put their money in a piggy bank or jar, consider paying them interest on the money they have in there. Let them know they are earning this interest because they have saved money.

For older children you can talk about the benefits of compound interest – interest earned on interest.

(For younger children the concept may be too difficult to understand.) Compound interest can allow savings to increase quickly. The charts below demonstrate the benefits of compound interest, assuming you put aside \$20 a month in an account that compounds monthly, with an interest rate of 3%.



Even though the contributions are the same each month, the amount of interest that is earned grows exponentially since interest is being earned on interest. This benefit only occurs if the earnings are left in savings. You do not earn interest on money that is withdrawn and spent. Of course, you could say that \$32 in interest after three years is not that much. True, when they are young, your children will probably not contribute a large amount to savings or put their savings in a vehicle that provides a high return, so the interest they earn will not be that large. However, understanding and utilizing compound interest will become important when they are older and start to do such things as save for their retirement (where the contributions and interest yield will be higher). People who start making contributions toward their retirement funds when they are younger can have much more than

those who wait, even if the late-starters make higher monthly contributions. Understanding compound interest can also help them to avoid excessive use of credit cards. Just like compound interest helps savings to grow, it also helps increase the amount that you must pay back when you carry a balance, since interest is charged on interest.

Following up

Once your children have saved up enough money and made their purchase, ask them how they feel about it. Did they really miss the little things that they had to sacrifice in order to save? They will probably appreciate what they bought more because they saved up for it and bought it themselves. However, if they saved for some trendy item they are no longer interested in, they will probably learn to choose their goals more carefully in the future.

Teaching by example

Like with shopping, it helps to teach your children about saving by example. What are your kids learning about saving at home? Have you talked about some of things you may be saving for? Try making your saving visible. Are you planning to purchase a \$600 television in six months? Put your \$23 a week ($\$600/26$) in a clear jar, so your children can see the savings grow. Of course, you should still keep most of your savings in an appropriate vehicle, like a savings account.

Games

For younger children, play can help them to learn more about money in a simple and fun way. Consider what role playing games you can do, like “Financial Institution” or “Store.” Props, such as toy ATMs or cash registers, can assist with role playing. Games that involve identifying coins, stacking or sorting coins, and making simple change are helpful too. For slightly older children, board games such as Payday, Monopoly, and The Game of Life provide opportunities to talk about managing money, investments, spending, and windfalls. However, avoid spending too much – remember the importance of modeling good shopping habits.

Now comes the hard part – actually imparting money management skills to your children on a day to day basis. Just remember to focus on teaching the basics – income is limited, spending should be done carefully, and some earnings should be saved – and modeling your own money smart behavior. Mistakes can sometimes be made (maybe you give in and buy your child a toy after he or she begs in the store), but avoid letting mistakes derail you. By staying focused, you can have a money smart kid who grows up to be a money smart adult.



ALLOWANCE PLAN

1 Allowance will be paid:

- once a week
- once a month
- other_____

2 The amount below will be paid each allowance period:

- \$_____ regardless of chores completed
- \$_____ for completing regular chores

3 Regular chores include:

4 Bonus Chores. Additional money can be earned by completing bonus chores.

5 You are responsible for paying the following expenses with your allowance:

MY SPENDING PLAN

For the week of _____ to _____

Weekly Income

Source	Expected	Actual	Difference
Allowance			
Extra chores			
Other:			
Other:			
Total			

Weekly Expenses

Expense	Expected	Actual	Difference
Food			
Games			
Hobbies			
Entertainment			
Clothing			
Gifts			
Savings			
Other:			
Other:			
Other:			
Total			

MY SPENDING PLAN

For the month of _____

Monthly Income

Source	Expected	Actual	Difference	Notes
Allowance				
Extra chores				
Part-time job (net)				
Other:				
Other:				
Totals				

Monthly Expenses

Expense	Expected	Actual	Difference	Notes
Lunches				
Dining out and snacks				
Beauty or barber				
Movies				
Sports and hobbies				
Gym membership				
Vacation and travel				
Books				
Clothing				
Music				
Video games				
Cell phone				
Gifts				
Car payment				
Gasoline				
Car insurance				
Car registration				
Car repairs				
Toll or parking				
Public transportation				
Tuition or lessons				
Charity				
Savings				
Other:				
Other:				
Other:				
Totals				

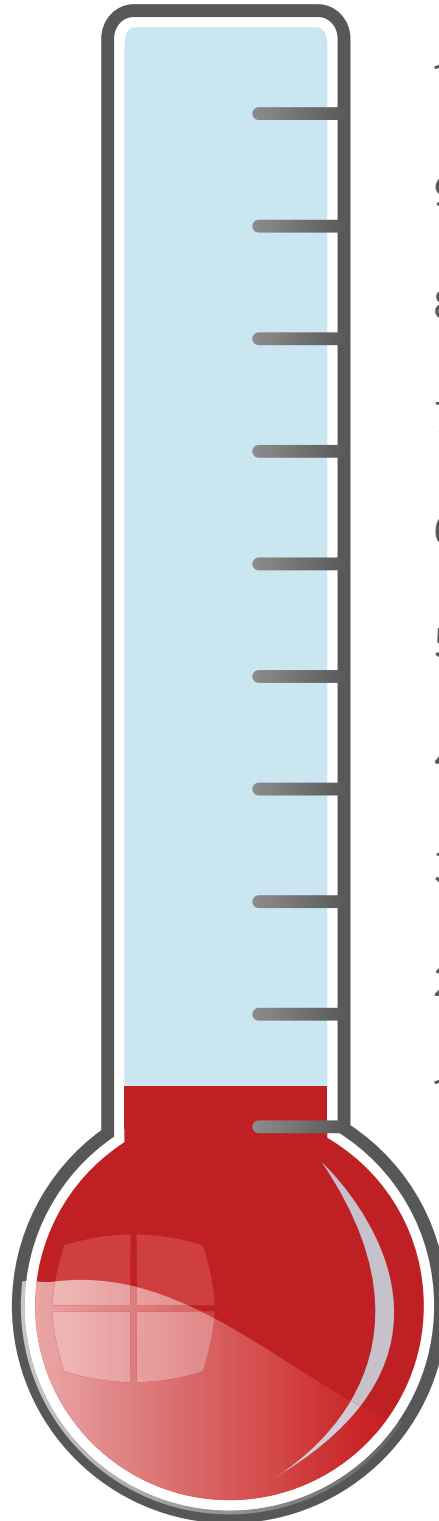
MY GOAL CHART



Goal

Price

Date to Reach Goal



100% \$ _____

90% \$ _____

80% \$ _____

70% \$ _____

60% \$ _____

50% \$ _____

40% \$ _____

30% \$ _____

20% \$ _____

10% \$ _____

RAISING A MONEY SMART KID QUIZ

1. Your 17 year old son's car broke down, and it needs \$500 worth of repairs. You:

- a. Don't need to worry. Because you encouraged him to save, your son has enough money in his account to pay for the repairs.
- b. Tell him to walk to school until he has saved up enough money for repairs.
- c. Loan him the money, setting up a firm repayment schedule.
- d. Tell him you do not have the money either, but you will put it on your credit card.

2. Your daughter wants to set up a lemonade stand in order to earn money. You:

- a. Say, "Why do you need the extra money? I will just buy you whatever you want."
- b. Let her do it, and give her money when no one buys her lemonade.
- c. Let her do it, and say you will give her the supplies for free if she puts some of the earnings in savings.
- d. Help figure out how much the supplies will cost and how much she can sell the lemonade for, to determine if setting up a stand is profitable.

3. Your son loses the \$10 you gave him for his allowance. He wants you to give him another \$10. You:

- a. Do not give him the money, discuss the importance of keeping money safe, and help him determine where he will store the money in the future.
- b. Just say no.
- c. Give him the money. He is just a kid, after all.
- d. Give him \$5, and say you will not do this again if he loses the money.

4. Your daughter has saved \$100 for a new purse but wants to get a \$500 designer purse now. You:

- a. Give her the \$400, and buy a purse for yourself as well.
- b. Tell her to ask her grandparents for the money.
- c. Tell her if she really wants it, she will have to wait until she has saved up enough money.
- d. Discuss with her the importance of making smart shopping choices, and encourage her to think about if a \$500 purse is really worth the cost.

5. Your 25-year-old son has a good job but wants to live at home rent free to save money. You:

- a. Let him move home, but make him do chores.
- b. Let him move home, but charge rent. Let him know you are saving the money for him for a down payment on a house.
- c. Tell him that since he is an adult and is employed, he needs to be responsible for paying his own bills and cannot move home.
- d. Tell him he can stay as long as he wants, and he never has to pay rent.

6. Your daughter spent all of her allowance and now wants money to go to the movies. You:

- a. Give her money for the movies, plus extra money for snacks.
- b. Don't give her the money, and tell her to watch a movie on television instead.
- c. Tell her to just put it on her credit card, since she does not have the money.
- d. Don't give her the money, since this is something she was supposed to pay for with her allowance money. Tell her this shows why it is important for her to spend her money carefully.

7. A friend asks you how much your children have in savings. You reply:

- a. "What savings? I do not even have any money in savings myself."
- b. "Well, they had some money in savings, but they took it out to buy video games."
- c. "\$500. They save a quarter of their allowance, and I pay them interest on the money they save."
- d. "\$500. They save a quarter of money they receive on birthdays and holidays."

8. You take out your credit card to make a purchase, and your son asks you what it is. You reply:

- a. "It is a way to purchase things when you do not have the money to pay for them."
- b. "It is the same thing as purchasing something with cash."
- c. Your child would not ask this question, since you never use your credit cards in front of him.
- d. "Having a credit card is a way to build a good credit score, which you need for many things, like getting a house and car. You should never use a credit card when you do not have the money to pay the bill when it comes."

9. You are writing out checks to pay your bills for the month. Your child walks by and wants to know what you are doing. You:

- a. Take this as an opportunity to explain to your child how adults have many bills to pay, and they must allocate their salary carefully to ensure there is enough money for things like the electric bill and the mortgage.
- b. Say, "I am paying the bills."
- c. Say, "Just adult stuff."
- d. Say, "I am paying the bills. Our electricity bill is a little high this month, since we left the lights on a lot. Remember to turn off the lights when you leave the room, so we can save money."

10. When someone asks your 16-year-old daughter what a stock is, she replies:

- a. "I don't know."
- b. "A type of investment that gives you partial ownership in a corporation."
- c. "A way to make money."
- d. "A type of investment. I bought some stocks myself, to save for future goals."

POINTS KEY:

- | | |
|------------------------|-------------------------|
| 1. a(3) b(2) c(1) d(0) | 6. a(1) b(2) c(0) d(3) |
| 2. a(0) b(1) c(2) d(3) | 7. a(0) b(1) c(3) d(2) |
| 3. a(3) b(2) c(0) d(1) | 8. a(0) b(1) c(2) d(3) |
| 4. a(0) b(1) c(2) d(3) | 9. a(3) b(1) c(0) d(2) |
| 5. a(1) b(3) c(2) d(0) | 10. a(0) b(2) c(1) d(3) |

SCORING:

- (25-30) You and your kids are very money smart
- (15-24) You're on the right track
- (6-14) You can gain a lot from the advice in this workshop.
- (0-5) Your children may learn damaging money habits.