

Teaching Children Money Management



We teach children to save their money. As an attempt to counteract thoughtless and selfish expenditure, that has value. But it is not positive; it does not lead the child into the safe and useful avenues of self-expression or self-expenditure. To teach a child to invest and use is better than to teach him to save.

—Henry Ford, *My Life and Work*

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Why is Teaching Children Money Matters So Important?

**What type of messages are you sending
to your children?**

- “Money is the root of all evil.” “Show me the money.”
“Money doesn't grow on trees.” “It'll have to wait until payday.”
“That money is burning a hole in your pocket.”

When and where do children learn about money issues, such as financial responsibility, savings, budgeting, debt and credit? Perhaps a little in high school, but a majority of children learn money management skills—good or bad—at home. Parents need to be proactive about teaching their children about money, or the world of marketing and advertising will teach them—incorrectly!

A nationwide survey shows that for the first time since 1997, high school students are doing better when it comes to money smarts. However, roughly 65% of those students failed the exam used to measure financial knowledge (in 2006, 62% failed).

Results of the 2004 Jump\$tart Coalition for Personal Financial Literacy study:

- ◆ 58.3 percent said skills are learned at home, verses 19.5 percent who said they learn such skills at school, and 17.6 percent from experience.
- ◆ Questions about income and spending were answered more correctly than questions about money management and saving.
- ◆ 11.4 percent of students use their *own* credit card.
- ◆ 15.7 percent use their parents' card and 4.8 percent use both their own and their parents'.
- ◆ Over one third (43.3 percent) of the students have an ATM card.
- ◆ Nearly 78 percent of the students have a savings and/or checking account with a bank.
- ◆ The 22.1 percent of the students without any bank account scored lower than those who have a savings and/or checking account.

So, children in high school are fairly active with money, but not necessarily in a position to make the best decisions. Parents can teach children good money management before they leave home, no matter their age.

Information adapted from the Institute of Consumer Financial Education, at:
http://www.financial-education-icfe.org/children_and_money/index.asp

Teaching Children Money Habits for Life How Are You Doing?

Yes No

- ___ ___ 1. Do each of my children have some money to manage without my interference?
- ___ ___ 2. Have I helped my children set up a spending and savings plan?
- ___ ___ 3. Do each of my children do some regular household chores?
- ___ ___ 4. Do I avoid using money as a reward or punishment?
- ___ ___ 5. Do I set a good example by being truthful about money matters?
- ___ ___ 6. Do I give my children more financial responsibilities as they get older and gain financial responsibility?
- ___ ___ 7. Am I a good money manager, giving my children a good example to follow?
- ___ ___ 8. Do I allow my children to make their own decisions about money, if given alternatives?
- ___ ___ 9. Do I praise my children if they have made wise decisions with their money?
- ___ ___ 10. Do I help my children find ways to earn extra money and help them to understand the consequences?
- ___ ___ 11. Do I help my children find ways to earn extra money that is age appropriate and suits their abilities and skill?
- ___ ___ 12. Do I sometimes verbalize my own desire to acquire more goods and services than my income can handle, so that my children know that I say “no” to myself, too?

“Yes” answers indicate ways you are helping your child learn more money management skills.

“No” answers could mean you may need to help them more.

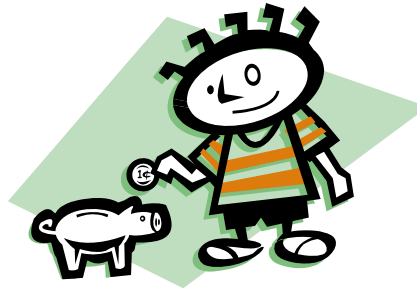
Adapted from *Money Sense for Your Children*, Alice Mills Morrow, Extension Family Economic Specialist, Oregon State University Extension Service.

Day-to-Day Mini-Money Lessons

Money management must be learned and practiced. Consider teaching the following habits in everyday home and family life to better prepare your children for “real” life. These lessons can be included in day-to-day activities and errands, and don’t need to take much time out of any schedule.

- ◆ Discuss with your children the difference between needs and wants. As basic as it sounds, many financial difficulties could be avoided if people understood that it is merely impossible to have *everything* you want, and that some things are more important than others.

- ◆ Teach your children how to prioritize. Prioritizing can help in many day-to-day decisions, beyond those dealing specifically with money.



- ◆ Help a child understand there is no such thing as a free lunch. If a child wants an item, help them earn and save money to purchase it without going into debt.
- ◆ Teach the value of working for money, whether by getting a job such as babysitting or a paper route, or by doing extra chores around the house.
- ◆ Include your children in the process of making a family monthly budget. Make a list of all your income. Then ask the children to come up with a list expenses, including rent or mortgage, food, insurance, car payments

and maintenance, clothing, and so on. Rely on past bank or credit card statements to see how much you spent on these in the past. Have a child find the difference between income and expenses. This monthly activity can effectively prepare a child for building his or her own budget.

- ◆ Give all family members a personal allowance, whether tied to chores or not, to give everyone an opportunity to manage their own money, no matter how small. If your child wants to buy something not planned in the family budget, give the child the opportunity to buy it or save for it with an allowance. Remember to explain an item *can* be purchased with saved money, and that the money *will not* be available to buy anything else the child may want if the money is all spent.
- ◆ Be patient. It may take a while for children to understand that once the money is spent they cannot have anything else, but they will eventually learn—if you don’t give into cries for more money.

- ◆ Resist the urge to rescue your children. Stick to what you have stated about wants verses needs. This may become difficult while surrounded by other shoppers, but it will teach your children plenty about money and control, which will help them avoid unnecessary debt in the future.
- ◆ Give your children advice, but allow them to make their own decisions—good or bad. Children will learn the most from personal experience, perhaps especially mistakes.
- ◆ Saving is an important habit to begin early—early in life and early in a budget. Teach your children to pay themselves first. This means the first money to come out of a paycheck or allowance goes into savings.
- ◆ Be sure there is a goal to work toward, such as saving for a trip to Disneyland, a new bike, a college education or simply a new video game. Help the child estimate how much the goal costs, and decide how much to save each month in order to reach that goal.
- ◆ Consider having children contribute to an overall family goal. Also, consider matching savings funds as an incentive.
- ◆ While grocery shopping, show your children how to comparison shop, pointing out ways to maximize your dollar, such as reading price labels for price per ounce, or using ads and coupons to plan your menu.
- ◆ Use play money while making a budget so children can visually see how much money goes to expenses.
- ◆ Give your children the opportunity to hand money to cashiers, bank tellers, parking attendants, etc.
- ◆ When writing out checks, show your children how to carry a balance in the check book register. Share your bank, credit card, and investment statements to teach how interest works. Look for opportunities to teach money matters all around you.
- ◆ Remember that children at different ages conceptualize money matters differently. Gear money lessons around what is understood by the child, giving more responsibility to older children, but never underestimating younger children’s ability to observe your habits and attitudes toward money.
- ◆ Remember that one of the best ways to teach is by example—do your best to practice what you preach.

“The easiest way to teach children the value of money is to borrow some from them.”



All About Allowances

An **allowance** is “a fixed amount of money children receive on a regular schedule, with the understanding that they will pay for certain agreed-upon expenses.” Allowances can be one of the best ways to teach your children financial responsibility. Here are some tips for turning an allowance into an educational tool.

- ✓ No single allowance system will work for every family.
- ✓ Any system can work if: 1) it is given to children when they are old enough to manage it, and 2) the system is kept simple so that *you* can manage it.
- ✓ Studies show that children without allowances have access to just as much money, if not more, than children who do receive allowances. Allowances help you and children have more control over children’s finances—especially if it is clear that an allowance isn’t “bonus” money, but money that needs to pay for certain expenses.
- ✓ Start when kids are young, usually about age six. This is when kids start to understand that some items are worth more than others.
- ✓ Be specific about what their allowance must cover. For younger children, an allowance can cover extras, such as toys. For teenagers, that allowance can include such items as clothing and transportation.
- ✓ Talk to other parents. Find out how much they give and for what expenses, to help you figure out where to start. But you are the one to make your own decisions—go with your instincts and values.
- ✓ Resist the temptation to come to their rescue. Let kids feel the effects of the buying decisions, good or bad. If you’ll reinforce that they don’t get any more money, they’ll hopefully spend more wisely in the future. You do, of course, have the right to veto certain purchases that are unhealthy, unsafe, or in violation of your family’s principles. Spell those out in the beginning when discussing what allowances can and cannot cover.



- ✓ If giving to charity and savings are especially important to you and your family, have children set up portions of allowance for those purposes. Encourage children to save and give to charity as you would.
- ✓ Encourage kids to save a portion of their allowance to meet a goal of their own, such as big-ticket items like bicycles or iPods.
- ✓ Think twice before tying allowance to chores. It may not work for every child, and some parents would rather have chores tied to being a member of the family or household. A better idea might be to pay kids for extra-large jobs, such as washing the windows, raking leaves, etc. (Or, reward with something other than money, like going out for ice cream when the leaves are raked.)
- ✓ When it comes to paying for good grades—think again. Tell them you are proud of them, perhaps give a special treat such as a later bedtime. Paying money for grades distracts kids from the sense of accomplishment that should be their reward. But don't turn money into a bribe.
- ✓ If your child misbehaves, discipline to fit the deed instead of docking their allowance. If they fight about TV, turn it off. If they don't do homework, they don't get video games. If you do dock allowances, don't do it too often. If, however, the carelessness or misbehavior can be fixed with money, let them pay. For example, if they ruin their younger sisters sweater, make them pay for a new one.
- ✓ Remember, if your children pay attention to you in general and want your approval, just telling them what you expect of them—and indicating that you'll be disappointed in them if they don't deliver—can get them to do what you want. Children will be more willing to cooperate if you are open to them when they have a complaint or problem.
- ✓ Give allowances on a regular scheduled day to simplify and lessen problems of over- or under-paying.
- ✓ If you don't have time to develop an elaborate system—concentrate on what is most important to you. If nothing else, at least talk to your children about money when opportunities arise.

Reference: *Raising Money Smart Kids: what they need to know about money and how to tell them* (2005) by Janet Bodnar, Deputy Editor of *Kiplinger's Personal Finance* magazine. ISBN # 1-4195-0516-5

Roberts' Rules of Money for Children

A detailed example of how one family teaches their children money management principles.

Ages 3-6

Goal: Money recognition, values of coins, immediate gratification, and simple addition

Method: Using coins for simple chores

Supplies: Bottles for each child and coins of all denominations

Activity: Once a week is paid chore day. This is fast and fun! A parent has a pile of money that they offer to pay for simple chores. For example, each washcloth folded is 1 cent, taking out the trash is 5 cents, sweeping the floor is a dime. The child is paid immediately for the job and then offered another job. They may also trade coins for \$1 bills. The child is encouraged to save ½ their money and donate 10%. The remainder of the money is spent, that day, at the local dime store on anything the child can afford—or if he or she chooses, saved for a larger item.

Early Elementary Age

Goal: Reinforce chores done by a certain time, access to larger amounts of money, delayed gratification.

Method: Chore checklist envelope

Supplies: Envelopes, quarters, and dollar bills

Activity: Each day as the child arrives home from school, they find an envelope with a quarter in it on the refrigerator. On the outside of the envelope there is a list of chores they must complete before 5pm in order to receive the quarter. If the chores are not done by 5pm, they must still do the chores; however, they will not receive the 25 cent bonus. On Saturday, the kids wake up to envelopes containing a \$1 bill with the list of their chores on it. If they have completed their chores by noon, they can have the \$1 bonus. If they are not completed by noon, they still have to do the chores; however, they do not receive the bonus. Children are urged to keep track of earnings, donate to charity, and save.

Late Elementary Age

Same as above, except \$5 bonus on Saturday.

Junior High Age

Goal: Budget keeping, saving, donation to charity.

Method: Allowance for proof of budgeting practices

Supplies: Each child receives a notebook with pockets, a calculator, pens, etc.

Activity: Each child is given an allowance according to their age—\$1 per year of age. To receive this, the child has to have a list of expenditures and income. An additional bonus of \$5 is given for proof of savings. Also, an additional bonus of \$5 is given for proof of donation to charity. At a family meeting on the first Sunday of the month, the kids show their budgets for the previous month. After the budgets were checked, they receive their allowance. During this stage of the kids' financial lives, it is possible to insist on chore assignments because they are obligated to be a "productive member of the family."

High School Age

Children are given the opportunity to experiment with their own budgeting methods, but especially encouraged to open a checking account, make a monthly donation to charity, and save as much money as possible. If they want to continue on with an allowance, they have to prove that they are budgeting. Each child has been encouraged to find their own method of budgeting that works for them—not necessarily what works for others.

5 Things 5-Year-Olds Need to Know

1. A dime is worth more than a nickel, even though it's smaller.
2. Coins can be exchanged for other good stuff.
3. The toys they see on TV won't look as flashy, or work as well, at home.
4. Saving money can be fun when they use it to buy something later
5. They will not get everything they ask for.

5 Things 10-Year-Olds Need to Know

1. They will have to pay for their own trading cards, movie tickets, snacks, or other expenses out of their allowance.
2. They will not get an advance on their allowance.
3. They should be able to navigate a supermarket with a cart and a list, and bring home a bargain or two.
4. They should have a savings account in a real bank—and they should learn that although they can withdraw their money, it won't be the same cash and coins they put in.
5. They will not get everything they ask for.

THERE'S A NEED TO KNOW...

5 Things 16-Year-Olds Need to Know

1. They will have to pay for their own gasoline and clothing out of separate allowances for gas and clothes—and earn extra money if they want to buy more.
2. They should have a reasonable idea of your family's finances and realistic expectations for college, so they know how much you can afford to pay and how much they will have to contribute.
3. They should know how to write a check and balance a checking account.
4. They should save half of everything they earn from a job for major high school expenses, such as a class ring or class trip, or for college.
5. They will not get everything they ask for.

From: *Raising Money Smart Kids: what they need to know about money and how to tell them* (2005) by Janet Bodnar, Deputy Editor of *Kiplinger's Personal Finance* magazine

10 Commandments of Personal Finance For Young People

- 1) Manage your expenses so they don't exceed your income.
- 2) Spend money thinking of your future as well as your present.
- 3) Begin saving early to take advantage of compound interest.
- 4) Avoid collecting credit cards and using them for borrowing.
- 5) Always honor your debts and other financial obligations.
- 6) Project your income and expenses for the next 12 months and track variances.
- 7) Focus on the relationship between the risk and projected return of investments.
- 8) Maintain organized records for tax and general financial planning purposes.
- 9) Have a plan and a purpose for your investing.
- 10) Obtain a financial education to be in a position to make intelligent financial decisions.

From the Institute of Consumer Financial Education, available at:
http://www.financial-education-icfe.org/children_and_money/10_commandments_of_personal_finance.asp

Books to Read with your Children

Check out these books from your local library or add to your personal collection.

For a longer list (with summaries)—for children and adults—visit the University of Nevada Extension at <http://www.unce.unr.edu/programs/sites/moneybookshelf/>



Ages 4 and up

- ◆ *Just Shopping with Mom* by Mercer Mayer
- ◆ *My First Job* by Julia Allen
- ◆ *Ox-Cart Man* by Donald Hall
- ◆ *Sheep In A Shop* by Nancy Shaw
- ◆ *The Berenstain Bears & Mama's New Job* by Stan and Jan Berenstain
- ◆ *The Berenstain Bears' Trouble with Money*
 - ◆ *The Berenstain Bears Get the Gimmes*



Ages 5 and up

- ◆ *A Bargain For Frances* by Russell Hoban
- ◆ *Alexander, Who Used to be Rich Last Sunday* by Judith Viorst
- ◆ *Tight Times* by Barbara Shook Hazen

Ages 6 and up

- ◆ *A Chair For My Mother* by Vera B. Williams
- ◆ *Arthur's Pet Business* by Marc Brown
- ◆ *Money Trouble* by Bill Cosby
- ◆ *Something Good* by Robert Munsch

Ages 9 and up

- ◆ *All The Money in the World* by Bill Brittain
- ◆ *Tybee Trimble's Hard Times* by Lila Perl

Ages 10 and up

- ◆ *The Toothpaste Millionaire* by Jean Merrill
- ◆ *Finders, Keepers?* By Elizabeth Crary

All Ages

- ◆ *The Gift of the Magi* by O. Henry
- ◆ *The Giving Tree* by Shel Silverstein

Useful Websites

Wells Fargo Hands on Banking

<http://www.handsonbanking.org/>

Zion's Bank

<http://www.bankjr.com>

<http://www.bankhighschool.com>

National Endowment for Financial Education

Teen Resource Bureau: <http://www.ntrbonline.org/>

Thrive by 5—for Pre-school Age Children

http://www.creditunion.coop/pre_k/index.html

For additional resources

http://www.creditunion.coop/pre_k/resources.html

Girl Scouts Money Smarts

<http://www.girlscouts.org/moneysmarts/>

Kids' Finance

Word puzzles, Matching Games, etc.

<http://www.kidsfinance.com/>



Jump\$tart Coalition—Reality Check Calculator

<http://www.jumpstart.org/realitycheck>

Institute of Consumer Financial Education

http://www.financial-education-icfe.org/children_and_money/index.asp

University of Minnesota Extension

Gives tables of developmental characteristics and activities

<http://www.extension.umn.edu/distribution/youthdevelopment/>

DA6116.html

University of New Hampshire Cooperative Extension

<http://extension.unh.edu/Money/MMKids.htm>

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