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Help Your Kids Master Money Management

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The fact is, many adults and teens don't understand the most basic concepts about money. On the other hand, young people typically turn to their parents for financial education and guidance. To help children learn money management skills, parents should first assess their own grasp of personal finance and gain the confidence necessary to talk to their children about money matters.

According to the Indiana Department of Financial Institutions, children and teenagers have more money to spend than previous generations and develop spending patterns at a younger age. Children's attitudes about money are most influenced by their parents, the media, their peers, and their own successes and failures in spending money. Their money management skills will develop from the ideas, attitudes, and spending habits they learn at home, school, and in the marketplace. Those who learn good money management skills are more likely to become adults who can make sound financial decisions, avoid excessive debt, and manage income and expenses to reach their financial goals.

Parents can help children become good money managers and responsible consumers by teaching them money management skills from an early age. Financial education should be based on the needs, interests, and abilities of each child. The following guidelines may be helpful for parents:

Under Age 5

Consider talking to your children about money when they reach age 3. Use a piggy bank to teach them how to identify and count coins and cash. Between ages 4 and 5, explain the importance of good savings habits. Help them understand that saving for a specific item and then buying it gives great satisfaction.

Take your child to the store to actually see a toy he or she saw advertised. Together, examine the toy and decide if it can really live up to the promises made in the advertisement. Children at this age are quite aware of television commercials and often sing the jingles they hear. Begin talking with them about the financial realities of the family and how choices are made.

Ages 5 to 10

An appropriate age to give an allowance and open a savings account for your kids is between 5 and 10 years old. You can teach them to plan the use of their money, whether from allowances or money gifts. You can also suggest that they can earn ex-

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tra money by doing household jobs. When children begin spending money, help them analyze their decision making. They will learn that there are consequences when we make poor decisions and that it is important to prioritize needs and wants.

Ages 11 to 14

When children enter adolescence, they are concerned about what their friends are doing and buying. Consequently, they tend to adopt the spending patterns of their peers. This is a good time to demonstrate the importance of comparison shopping when you buy goods and services. During this time, many teens find jobs such as baby-sitting, lawn mowing, or snow shoveling. They may save the money they earn or spend it for extras such as clothing, accessories, and CDs. It is important that they have control of their money because their financial successes and failures will become valuable learning experiences.

Ages 15 to 18

These are difficult years when teens are trying to become independent but are still financially dependent on their parents. This is the time to seriously discuss savings for long-term goals such as college or a car. To obtain these goals, many teens have part-time jobs such as fast-food restaurant workers, salesclerks, or cashiers. During their senior year in high school, some students obtain a checking account and/or a credit card to be used in college.

So what do you do if you don't like the way your teenager manages money? According to the University of New Hampshire Cooperative Extension, impressions about money are formed at an early age, so if you are concerned about your teenager's money management habits, you need to consider that child's history with money matters for clues. Money often plays a pivotal role in one's self-concept, self-esteem, and sense of intelligence. Consider what emotions might be motivating your child's money management decisions.

Our personal values—what matters most in our lives—influences all financial decisions. Personal values are the standards or qualities considered important or desirable that justify our behaviors, actions, or goals. We express our values, in part, by the ways we choose to spend or save our money. You can encourage your children to learn basic money management—saving, investing, giving, spending, earning, and budgeting—that reflects your family's governing values. ■

Should I Give My Kids an Allowance?

To pay or not to pay your kids an allowance—that is the question. Some parents do while others don't, and of course, the decision is yours. Many parents feel an allowance represents a great opportunity for kids to learn about managing money through hands-on experience—it's real money that kids can handle and manage now.

An allowance should begin when children can identify coins and cash, know how to count and have spending opportunities. This often occurs around age 5 or 6. If you decide to give your kids an allowance, whether or not it is tied to household chores, remember it's important to pay it at regular intervals and to provide some general guidelines on how to spend and save it. Give them enough freedom to make their own decisions and mistakes.

Encourage young children to bring their allowance with them when you go grocery shopping. Then they can decide if they want that soda, popsicle, bubble gum, or candy bar enough to spend their allowance on it. If you do not want to give your children an allowance, allow them to manage money by letting them pay the grocer or the parking attendant.

Whether or not children receive an allowance, discussions and negotiations over purchases will occur regularly. Help your kids learn to distinguish between needs and wants. Also, if you establish what you as parents are responsible to pay for and what children will pay for, arguments and stress could be reduced. Let's say a child wants a pair of $80 shoes and you can afford $40. You could put your $40 toward the purchase and they could come up with the rest. Once "who pays what" is defined, be consistent. It's amazing how quickly a "must-have" item diminishes in importance when kids know it's their money they have to spend.

Timely Tips for Raising Financially Responsible Children

The following tips provide useful insight for parents as they work to raise children who practice sound money management:

Be an example.

Children develop their financial attitudes and behaviors by what they see their parents do and not by what they're told. Actively encourage good values. Teach your children responsibility and the value of work. Teach them to save towards a goal of a new bike or video game; let them know that even you have things you want and cannot have.

> "We teach children to save their money. As an attempt to counteract thoughtless and selfish expenditure, that has value. But... to teach a child to invest and use is better than to teach him to save."
>
> — Henry Ford

Define boundaries.

Even parents who are able to buy their children everything need to be careful of overindulgence. By fulfilling every whim, you may deny your child of several things: appreciating things that cannot be bought; being motivated to work hard; persevering through obstacles and frustration; and achieving a hard-won goal.

Teach them to be charitable.

Help your children experience the good feelings of sharing their income with others. Encourage your children to regularly contribute a portion of their income to a charity or help them buy treats for the family. "Adopt" a family through your church, synagogue, or community during the holidays or give your children the responsibility of buying or making birthday gifts for friends. Also, teach your kids to contribute in ways other than giving money by giving time, energy, and skills to help someone else.

Opportunities for extra chores.

Give your children the chance to earn extra cash by doing jobs beyond their expected chores. Award jobs to the lowest bidder as part of a "Saturday Job Auction."

Money jars.

Help children divide their allowance or earnings into four jars—charity (10%), quick cash (30%), medium-term goals (30%), and long-term goals (30%).

Paying bills.

Have your high-school age children pay the family bills for one month (with the parents' money, of course). Use play money to recreate bill paying for younger kids. Help them see what you have, what you need to pay, and what will be left over for your discretionary spending.

Budgets and spending plans.

Help teenagers who are earning money create and follow a budget. This is especially important before they leave for college, where they will have significant financial responsibility. Emphasize the freedom that comes when they plan their spending and saving.

Planning for vacations.

Help children plan a family vacation. Involve them in the decision-making process for all aspects of the trip, such as food, travel, hotel, souvenirs, activities, etc.

Understanding compound interest.

Teach your children the benefits and penalties of compounding interest. Teach them they can earn interest by matching their savings 25 cents on the dollar or help them open a savings account or mutual fund. Teach them the drawbacks of paying interest when they borrow or purchase on credit.

> "Teach kids to manage money, so they don't become debt-ridden adults."
>
> — Oprah Winfrey

Savings and checking accounts and credit cards.

When your kids are mature enough, help them open a checking and savings account and teach them how to balance a checkbook. If your teenager is financially mature enough to apply for a credit card, find one that allows you to set the spending limit and receive a monthly statement of your child's purchases. Review the monthly statements with your child and teach the importance of paying the balance each month.

Investments.

Help children learn about the ups and downs of the stock market early in life. Then they will most likely be more comfortable with investing when they are adults. Give gifts of stock in companies your children are familiar with to encourage them to follow the stock market.

Tax returns.

Taxes are a significant expense that few children consider. Have your child sign his or her tax return. If your child is employed, look at his or her paystub together and discuss how taxes work and why they are necessary.

Teach Your Teen How to Handle Credit Cards

The ancient Chinese philosopher Lao Tse said, *"Give a man a fish and you feed him for a day. Teach him how to fish and you feed him for a lifetime."*

The same principle applies to teens and credit cards. Teach them how to use credit responsibly and chances are they'll enjoy a lifetime of wise money management free from nagging consumer debt. Of course, teaching kids how to handle credit cards is easier said than done. Here are some proven tips you can adopt as is, or adapt to your particular needs and circumstances.

Start With Cash

Teach them first how to manage the cash they already have. As early as middle school age, kids can grasp budgeting and the concept of either spending all their allowance or cash for school clothes right away, or saving some of it to buy something later.

Understanding spending limits is a key step in learning how to control credit spending. But remember to emphasize that once their money is spent, it's gone. Resist the temptation to slip them extra cash if they discover they missed out on some "must-have" purchase. "Missing out"—or said a better way— "going without" is a learned behavior critical to managing future finances successfully.

Get them Checking Account

Once your kids have a good handle on money responsibility help them "graduate" to a checking account. By the time your kids are in high school, they should have access to a checking account so they learn how to write checks and manage a debit card, reconcile a bank statement, and avoid overdrafts and bank fees.

Their first debit card should be considered "plastic training wheels." A debit card allows them to make purchases and withdraw funds from an ATM, but it can also be used like a credit card.

The good thing is that the charge is deducted directly from the account's balance, so there's no lingering credit balance that accrues exorbitant interest. So kids get the experience of using plastic while avoiding the potential pitfalls.

Make sure when you set up the account that you place a hold on overdrafting so that if the card is used with insufficient funds in the account that you can avoid an overdraft fee and the teen will learn to watch his available funds and budget properly.

Invest in a Youth Financial Training Course

While some secondary schools offer financial management classes to teenagers, not all schools have these programs. By high school your teen should be ready to learn about and understand things like compound interest, budgeting, saving, and basic investing. It may seem too early to start talking about retirement funds when the kid has barely entered the workforce, but the sooner your child begins saving in an IRA or 401K the more that interest-over-time will benefit them when they are ready to retire.

Sites like Youth Financial (youthfinancial.com), The Youth Financial Literacy Foundation (yflfoundation.org), the FDIC Money Smart for Young People (www.fdic.gov/consumers/consumer/moneysmart/young.html), and courses by Dave Ramsey (daveramsey.com/school/) and others offer great training programs, worksheets, and even video games to help teach kids and teens how to understand and be responsible with money—especially in regard to student loans they may need soon.

Make the Jump to Credit

Once the teen is ready to graduate or start college it is a good time to look into low-limit or pre-paid credit cards. Many companies offer student cards to teens over 18 so that you don't have to co-sign with them and they can work on building their own credit.

Keep in mind that a pre-paid credit card like a Visa Secured card lets you set spending limits and track where your kids are spending money, both through monthly statements and through Internet accounts that show daily transactions.

What's more, you can transfer money from your own checking account to the card as needed for a minimal transaction fee, and the card can be used like any other credit card to make purchases and build your credit history.

Set a Good Example

Remember that kids learn best by example. Having a good understanding of your own finances and control over your spending habits will influence your teens as they make the jump to becoming financially independent. ■

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Family Financial Education Foundation

ACCESS EDUCATION SYSTEMS
724 Front Street, Suite 340
Evanston, WY 82930
contact: (877) 789-4175
www.ffef.org | info@ffef.org

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