

Teaching children about money

It's never too soon for money school

Have you ever noticed the joy and pride a child gets from a jar of change? That's because even at an early age, kids understand the value of money. Or at least they understand that money has value. It's a way to get the things they want. Helping them understand the rest is up to you.

Money: How to get stuff

At an early age, children recognize the importance of money. They see you exchange it for food at the grocery store or for something that might mean even more to them – such as for toys at the toy store. To them, it's how you get stuff. But where does money come from? How do you get more? Why isn't there an unlimited supply?

It's never too soon to start teaching your children these and other important lessons about money. The sooner you start, the better chance your child will develop financial skills that will last a lifetime.

“Money doesn't grow on trees”

Your parents said it to you, and you're sure to say it to your children one day as well. Okay, so if money doesn't grow on trees, where does it “grow?” While every child develops at a different rate, most young children can understand the concept of earning money. Explain to them that you earn money by working, and that this is why mom or dad (or both) leave each day to go to work.

Once children understand that money is “earned,” you can consider letting them earn their own money through an allowance. To children, an allowance is a first step to the adult world of finances. It's like getting their own regular paycheck, which allows them to buy the stuff they want. Some key considerations when providing an allowance include:

How much will the allowance be? An allowance can be directly tied to the child's age, as older children may need more money to cover certain expenses. If you expect the allowance to be used for expenses it should cover those costs. And of course, the family income is a big factor.

Will it be tied to specific chores?

The decision of whether to reward an allowance for performing chores depends on what is best for your family. If you choose to enforce chores, just be sure the rules are clear and consistent and that the chores are age appropriate.

How can the child use their allowance? It is never too early to teach the importance of savings. You could consider imposing a rule that a certain percentage be saved from every allowance payment. You could also enforce percentages on how the money can be spent. For example 10% to entertainment or toys, 20% to clothing, etc.

Saving lessons

One of the most important money lessons for children to learn is the concept of saving. When setting ground rules for an allowance, consider requiring that the child set aside a portion of his or her money for future goals. Make sure the goals are meaningful to the child, such as purchasing a new bike (as opposed to saving for college). Here are a few tips to consider:

- **For younger children** – Make the process of saving visible, fun and physical. Use a large jar with a picture of the target purchase taped on it or a brightly-colored piggy bank shaped like a favorite cartoon character. Find creative ways to help the child count and record his or her money.
- **For older children** – Consider a savings account at your local bank to teach the concept of interest. Many banks have “kids accounts,” with simple recordkeeping that makes it easy for a child to track his or her account.
- **For larger purchases** – Consider matching the child's savings. For example, contribute a dollar for every two dollars saved towards the purchase of a new pair of brand-name sneakers worn by a favorite basketball player. Or contribute a flat amount of, say, \$30, and let him or her come up with the rest.

Simple investing concepts

Children as young as eight years old can begin to learn financial concepts, as long as they're explained to them in simple terms. Here's how to explain three popular terms:

- **Compounding** – Explain that with the interest earned through a bank account, money can be used to make money. The longer the money is left alone, the greater the effect of compounding, as the new money earned earns additional interest on the original money.
- **Stocks** – Explain that many companies they know and love (e.g., Burger King, Mattel, Disney) have many owners who own a small part of the company, called a share of stock. Consider giving a gift of stock of a favorite company, explaining that this stock makes the child an “owner” of the company.
- **Mutual Funds** – Explain mutual funds in terms of sharing, with lots of people sharing all the interest earned on a big pool of money that's being invested in things like stocks. Compare it to the family DVD player, for example: the whole family owns it, but it's there to benefit each person.

Teach by example

Remember that at a very early age, your children will start to take their cues from you about money management, just like everything else. So take a long, hard look at how your family handles financial matters. Is money a frequent bone of contention between you and your spouse? If so, how do you resolve your differences? What purchasing standards do you set for your own spending? Do you buy on impulse, or only after a careful canvassing of Consumer Reports? Are you a spender or a saver? Do you save for your children's education, but not your own retirement?

Of course, money is only one of many factors affecting family dynamics. The good news is that family financial guidelines are relatively easy to implement. All it takes is some creativity, clear communication and careful planning.

Money Schooling

By teaching your children about the basic concepts of money – how money is earned, how it's saved and how it's invested – they'll be more likely to become financially responsible as adults.