

TALKING MONEY WITH YOUR KIDS

Teaching Your Children Good Money Habits



Kids and Money by the Numbers:

- 66% of parents give allowances
- 52% of parents think allowances should be tied to chores
- The annual purchasing power of tweens (ages 9-13) is \$200 billion
- Children ages 8-12 spend 4-6 hours per day on screens and teens spend up to 9
- 95% of teenagers admit to participating in “retail therapy”

“If we aren’t careful, our children will come down with ‘affluenza,’ a disease that causes them to confuse wants and needs. We need to teach our children what my grandmother taught me: Think twice about spending money you don’t have on things you don’t need, to impress people you don’t like anyway.”

— Michelle Singletary, Washington Post syndicated personal finance columnist

How Kids Learn About Money

If you’re like most people, you probably learned about money the hard way. If you were lucky, you may have had parents who talked openly about money, and perhaps even showed you how to earn and save money. Perhaps you learned in school how to manage money or how interest can make your money grow.

But chances are, most of your financial education came from your experiences – both good and bad. How your parents or the adults you grew up with talked, acted, and felt about



money probably also rubbed off on you in different ways. If they were spenders and always seemed to be living on the edge financially, you may also have trouble keeping a dollar in the bank.

Or you may be the exact opposite – a careful saver who feels guilty about spending a dime. If you never had the opportunity to earn an allowance or get a job, you may have felt powerless and unable to get what you want, and that may have led to overspending when you finally did start earning money.

If you want to help your children avoid the same problems you experienced and grow up with good money habits, this booklet is a good place to start. It offers strategies for talking with your kids about money and teaching them valuable skills that can last a lifetime.

Watch How You Talk About Money

If you find yourself arguing with your spouse or children about money, stop! Your fights may scare your kids, create stress that makes it harder for them to focus at school, or lead to behavioral problems and “acting out.”

Not only do kids often blame themselves for their parents’ problems, they may also take comments more seriously than they are intended. A child who frequently hears parents talking about being broke, for example, may think that he or she will soon be homeless.

Talk to your spouse and agree to set some time aside – without the children – to work on your finances. You and your spouse may have completely different views about money, but with some effort, you should be able to find a middle ground.

If money is tight, let your children know about that in a non-threatening way. Explain to them what you can and can’t afford right now and suggest other ways they can get what they want.

Tip: *If your family is under a great deal of financial stress, or receiving calls from bill collectors, contact a nonprofit credit counseling organization. A certified credit counselor can provide free financial advice regarding your situation and help you work out a reasonable budget and debt repayment plan.*

Watch the messages you may be passing on to your children when you talk about money. Simply saying you can't afford something, for example, may not convey what you really need to teach your child: that they have choices, and that sometimes you must choose one thing over another. Talk about good values and making choices, rather than just dismissing something as too expensive.

Another trap is buying your children gifts, either to make up for the fact that you don't spend enough time with them, or to make up for what you didn't get as a child. If you find yourself in that trap, you may need to look for other ways to give your kids what they really need: love and attention from you.

Give Your Kids Their Own Spending Power

Since most of us learn by doing, an allowance gives children the chance to learn about handling money while the stakes are still relatively small. Financial advisors point out that having a regular amount of their own income is the only way that kids can learn to manage money. They also say that the purpose of an allowance is to give your children the opportunity to learn how to manage money through their own successes and failures with the input of their parents.



Allowances can still be a tricky subject: how much, how often, and for what? Ultimately those decisions are yours, but the following guidelines may help.

Most experts agree **kids can handle an allowance by age seven** or so, though some children start receiving an allowance in kindergarten. Only you can really determine whether your child is ready for an allowance and it's best to sit down with them and explain what that responsibility means.

A general rule for deciding how much to give your child is to grant them **\$1 for every year of age**. For example, an 8-year-old would get \$8 per week, while a 15-year-old would get \$15 per week.

When deciding how much allowance to give, be sure you both understand what the allowance must cover. School lunches? Snacks? Video games? Extracurricular activities? For older kids you may want to add clothing or other bigger ticket items to the list. Write it down so there is no "confusion" later!

What about chores?

Should they determine your child's allowance? Many parents have strong views about whether allowances should be tied to chores. Some parents won't pay an allowance unless the weekly chores are done. Others view chores as something kids should do as part of a family, and not something for which they should be paid. It's up to you, but whatever you decide, make sure that you are consistent and have realistic expectations about what they can handle.

Allowance guidelines

These are the guidelines that most experts agree upon:

- **Be reliable and pay the allowance at a set time each week.** (Otherwise you'll forget and the kids will start telling you that you owe them a small fortune!)

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- **Require them to get in the savings habit by having them set aside a portion of their allowance** in a safe place, such as a savings account. You may also want to have them set aside a portion for charity or other types of sharing (gifts for others, for example).
 - **Don't withhold allowance as punishment.** Find other ways to discipline your kids.
 - **When they are older, consider paying interest on their savings** to teach them the value of compound interest.
 - **Require them to spend their money for some of their "needs" as well as their "wants."** You may make them pitch in on a new set of sneakers, for example, or even buy a pair themselves if they are old enough.
 - **Give them a safe place to store their allowance**, whether it's a piggy bank or a cash box with a key.
 - **Keep your two cents to yourself.** Kids need to be able to learn to make their own choices – and mistakes – with money. Your guidelines always apply, but as long as your child's choices don't violate your family's values or rules for safety, allow them some leeway.
 - **Pay their allowance in small denominations** to allow them to immediately set aside some for savings or giving.
 - **Set a specific amount you're willing to spend on birthday gifts for their friends.** Let your child make up the difference if they want to buy something more expensive.

Teach Your Kids How to Make Money

Many kids know their parents go to work, but have little idea of what it takes to make money. Learning how to start and run a business may be one of the most important lessons, financial or otherwise, they can learn.

They can learn math, marketing, communications, responsibility, and a variety of other skills. Even if your children end up working

in jobs for someone else, they'll be better employees because they understand the challenges involved in having a business.

If your children are old enough to earn money on their own, help them research business ideas that appeal to them. Assist them as they learn about marketing, keeping track of income and expenses, and following up with customers. Don't just do it all for them! Let them learn what owning a business is really like.

To get started

Visit your local library for a copy of books like:

- *The Making of a Young Entrepreneur* by Gabrielle Jordan
- *Better Than a Lemonade Stand!: Small Business Ideas for Kids* by Daryl Bernstein
- *Kidpreneurs: Young Entrepreneurs With Big Ideas!* by Adam Toren and Matthew Toren

Go with the flow

Parents often find that their kids have their own money “personalities.” No matter what you try to teach them, one child may be a spender while the other is a saver, for example. While it may be frustrating at times, you'll have more success if you recognize their personalities and try to work with each child.

A child who is a spender, for example, may need you to dole out her allowance over several days during the week rather than all at once. Or, if they are older, you might need to open a bank account where they can park their money without easy access to it.

If you have a saver who can't part with a penny, you might instruct them to give a small percentage to a good cause of their choice, or let them have more decisions over purchases they must make, like school clothes and supplies.

Teach your kids to be resourceful

Your kids may be more willing to help you stretch the family dollar than you realize. Challenge them with helping the family save money — and offer an inexpensive reward.

Depending on their age they may help you come up with ideas for inexpensive meals, be willing to visit the local library or find places for free recreation. Most kids like the idea of pitching in to help the family, as long as they feel their contributions are valued. Give them the chance.

Help them set goals

Research by Consumer Federation of America and Bank of America has found that adults with a written financial plan have twice as much in savings and investments as those without written goals — and that includes families with small incomes. Starting this at a young age can help make goal-setting second nature.

Encourage your child to write down what they want. Depending on their age, help them figure out what it will take (allowance, extra income, gifts, etc.) to get there. A colorful chart can make it easy to track their progress as they go along. Celebrate with a special meal or outing when they successfully reach a goal!

Keeping written records of what they've saved, spent and earned can also be helpful for your kids. Not only will it help them better manage their money, it will also help with their math skills!

Limit screen time

Watching television, YouTube videos, or even just playing games on a smartphone exposes children to a lot of advertisements. In turn, they often want what they see. Consider limiting screen

time, and also talking with them about the ads they see to help them learn how to distinguish between hype and reality.

Use Real Life to Teach Your Kids

Day-to-day, there are plenty of opportunities to teach your kids about money. For example, you can have your kids help you:

- **Calculate the tip in a restaurant.** If they are too young for that, let them count the tip or leave it on the table if you're paying in cash.
- **Double check the money you take out of the ATM by counting it.**
- **Keep track of what it costs to feed and care for the family pets,** or create a budget for a new pet they want.
- **Plan a special evening meal within a fixed budget.** With your children, plan the menu and shop for the food.
- **Clip coupons.** One mother lets her child clip coupons and for every one she uses, he gets to keep half the savings!
- **Tell them you'll only buy their favorite treats when they are on sale,** or if you have a coupon.
- **Research prices** for something they want by hunting for it online, or noting prices in a couple of stores.
- **Compare prices** among the different grades of gasoline at the pump.
- **Make a list** before you go shopping, and let them help you stick to it!

Teach them about compounding

Compounding can work for or against you. If you save your money in an account that earns interest, compounding works for you by allowing you to earn interest upon interest. If you are paying interest to credit card companies and other lenders, however, it works against you.

Encourage your kids to save, and consider paying interest on their savings until they are old enough to open an interest-bearing account at a local bank or credit union.

As your children get older, they may be ready to learn about the stock market and investing. A fun way to get them started is to help them buy their first share of stock in a company whose products they buy. You can also visit websites that teach investing to kids through games and simulations. Finally, you may want to get your child started investing in the stock market, either by buying stocks or mutual funds.

Teach them about credit

If your kids do want to borrow from you, teach them how lending works in the real world! Charge an interest rate and draw up an agreement. You can make up payment coupons or use another system to keep track of their payments.

Be consistent with it and don't let them borrow again until they've paid off the first loan! Also, be careful about letting them borrow too frequently, or too far in the future. It's better to try to get them to save instead.



Avoid borrowing from your children, including from their savings or the gifts of money they receive from others. If you have trouble managing your own expenses, talk with a credit counseling agency.

It's also a good idea for you to explain to your children how credit and debit cards work. Obviously, very young children will have trouble grasping this concept. They may think that all you need to do to get money is to go to the cash machine! But as they get older you can explain to them how you deposit your pay

and get money out when you need it. **Around age nine or ten, most kids are ready to open a bank account and use it.**

Don't forget to warn your kids about credit card safety and ways to protect themselves from identity theft. Avoid giving them your passwords or personal identification numbers to your debit or credit cards unless absolutely necessary.

Encourage financial education

Schools are beginning to adopt financial education programs, and some states have enacted laws requiring financial education in the schools. Talk with your child's teachers, school administrators, or parent teacher organization about making sure financial education is part of the curriculum. [Jumpstart](#) and [Junior Achievement](#) both have financial education resources for parents and teachers.

But most important of all...

Have fun!