



# Helping Your Child Become Money Smart

Children, teens, and young adults learn their money management skills from a variety of sources, such as school, media, and peers. But parents have the greatest influence on their children's financial decisions. In fact, 56 percent of young adults say they rely on their parents for financial guidance.

Money management must be learned and practiced. It's important for children to learn about the value of money before they actually have any. Start early in your child's life to instill habits and build on them as your child grows and learns.

Although there are many ways to teach your child wise financial management habits, here are just a few ideas to help you raise a money-smart child.

These can easily be included in day-to-day activities and do not need to take much time out of any schedule.

**Savings Accounts** - It's never too early to open a savings account for your child. Once they understand basic counting and the concept of more and less, they can begin learning about savings and money growth. Use the savings account as a learning experience:

- ✓ Explain to them what happens each time you and your child add money to the account.

- ✓ Talk to your child about how interest helps money grow and encourage him/her to watch the balance grow.
- ✓ If your bank allows, have the statements come in your child's name. Getting mail, "just like mom and dad" is exciting and makes your child more interested.
- ✓ For pre-schoolchildren, start with a piggy bank. It's a great way to see savings growing. Once the piggy bank is full, take your child to the bank to deposit in the savings account.

**Needs and Wants** – Talk to your children about the difference between needs and wants. As basic as it sounds, many financial problems can be avoided if people understand that it is impossible to have *everything* you want. Some things are more important than others, and good financial practices involving life will always require making critical decisions.

- ✓ Teach your children how to prioritize. This can help in many day-to-day decisions beyond dealing with money. One way to help a young child understand that good decisions mean considering tradeoffs is to offer him/her a ball and a glow stick that cost the same price. Discuss the pros and cons of each. A ball can be used for lots of games, but he/she may already have one. A glow stick is fun only in the dark and will burn out in a few hours. Let your child decide between the ball and glow stick on his/her own. These basics can then be applied to grocery store items, homework materials, etc.
- ✓ Help your child understand there is no such thing as a "free lunch." If they want something, help him/her earn and save money to purchase it. This reinforces that hard work equals outcomes, without going into debt.

**Monitor Allowance Spending** – Allowance itself is not an effective tool. However, the conversations about what your child does with the allowance are the learning experiences that will help solidify that work equals income.

- ✓ Start out with cash; small bills will help your child see and more clearly understand the ins and outs of money, and how to divide it between saving, sharing, and spending.
- ✓ Talk with your child about how much of their money will go in their savings account versus using it to buy something for themselves or others. This will reinforce that part of all income should be saved. Studies show young adults whose childhood spending was monitored by their parents are better at managing their own money.
- ✓ Give your child an allowance or other money in denominations that encourage saving. If the amount is \$5, give your child five one-dollar bills and encourage him/her to set aside at least one dollar in savings.

**Borrowing and Credit** – Many young adults carry a great deal of debt. Young Americans now have the second highest rate of bankruptcy, just after those aged 25 to 44. And 45% of college students have an average of more than \$3000 in credit card debt. It may be difficult to teach young children about credit, but you can begin talking about the basics of credit and borrowing, and progress as they grow.

- ✓ Start loaning money for a toy and requiring repayment, interest free with a due date. You can expand the learning experience to include minimal interest if past a due date.
- ✓ Discuss your credit card bill and have your child calculate the interest amount if you did not pay the bill on time.
- ✓ Emphasize that credit and credit cards are not

free money. Sharing the bill payment process will help your child see that using a credit card involves more than swiping it at the store.

**Trust and Discuss** – A warm and trusting relationship provides a solid foundation for helping your child understand money concepts. Everyday activities are valuable teaching moments.

- ✓ The grocery store is a great place to teach price comparisons and the difference between needs and wants.
- ✓ When you use an ATM machine, explain that the money isn't from the machine – it's from your checking account. After your withdrawal, show your child on a statement where it actually came out of your account.
- ✓ Letting your child help you balance a checkbook is an opportunity to continue emphasizing the money process.

**Now is the time** - An article from the *Journal of Financial Counseling and Planning* notes that shared discussions between parents and children about financial matters were positively associated with confidence regarding children's financial knowledge as an adult.

In a study by Charles Schwab, parents were asked to rank a list of topics they wished they learned more about as teens. The leading answer (57%) was money management.

**Be a good financial role model.** Children learn by copying others, so be sure you model the behavior you want to see in your children-- spend less than you have, save for the future, and develop sound financial philosophies. Lessons regarding money

not only teach children to be responsible and generous, but help ensure their financial security as adults.

Above all, be patient; it may take a while for children to understand that once money is spent, they cannot have anything else, but they will eventually learn. Give them advice, but allow them to make their own decisions, good or bad. Children will learn the most from personal experience, even if it is a mistake.

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