

Teaching Your Children About Money

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This NebGuide offers suggestions on how to teach your child to earn money and spend it wisely.

How Children Learn About Money

Research has shown children learn the most about money from their parents. They watch parents spend or save money every day (observation). They also hear their parents talk about money either directly or indirectly (talking it over). And children learn about money by using it themselves (learning by doing).

Observation

Children see what their parents and other adults do with money and they start to understand how their parents feel about it. In turn, this influences how children feel about money. Do parents spend all their money before it's earned? If so, this may make it hard to teach children about limited resources, planning for spending, and the value of saving. Or do parents save every cent they earn? This attitude may make it hard for children to see that money is a tool, not a goal in and of itself, and can make it difficult for children to spend even for necessities.

Talking It Over

It is important to discuss the family's financial situation with children at a level appropriate for their age. Encourage children to participate in family financial discussions. Communicate about money one-on-one as the opportunity comes up. For example, daughter wants to buy a digital camera. Her parents tell her they can't afford it. Then the next week, the parents buy a new vehicle. What does daughter think? Help her understand why it is important to have the vehicle to drive to work and why that need must come before buying her a camera.

When talking about money and saving with children, encourage them to set goals that can realistically be reached in the near future. Saving money for that new camera is more realistic than saving for retirement at the young daughter's age since retirement is so far in the future. Remember kids live in the present.

Also, be reassuring when talking to children about money. If they discover the house they live in is not completely paid

for, they may worry. Assure them the family is able to make the monthly payments and they will not be out in the street by morning.

Learning By Doing

Ideas for actual activities to be done with children to help them learn about using money are described below. Choose activities that are appropriate for the child's age and current interest:

- Play store. Use play money and "price" a variety of items to help children practice using money.
- Make three banks from jars, boxes or other containers. One bank would be for money to share, a second for cash to spend, and a third for savings.
- Develop a simple savings plan for something they wish to buy. Create a storybook with younger children. Ask them to draw a picture of something they want to buy. On the next page ask them to draw the amount of money they think it will take to buy the item. On the third page have them draw how they are going to find the money they need (either earn it or save it). On the final page have them draw something that shows when they actually will be able to buy the item they want.
- Comparison-shop together for an item they want to buy or for a major item for the family.
- Allow children to make simple cash transactions at the store. Talk about the experience after they are done.
- With extended family such as grandparents or aunts and uncles, discuss the family's money heritage using questions like the ones below.
 - Were ancestors poor, rich, landowners, laborers, teachers, entrepreneurs, etc?
 - What kind of house did they live in? What other possessions did they have?
 - What kind of gifts did they give for birthdays, holidays, etc?
 - What did they do for entertainment and how much did it cost?
 - What kind of transportation did they use?
 - Are there any stories of times when they gained or lost money? How did they cope?
- Play a values clarification game. Place the sign "Agree" on one wall and the sign "Disagree" on another wall.

Read the following statements to children and ask them to move closer to the sign they feel represents what they value for each statement. After they move, ask them to explain the choice they made.

- Everyone should have a checking account.
- ATM or debit cards are not safe to use.
- It is not safe to buy on the Internet.
- Using credit cards only leads to deeper debt.
- Credit cards are a convenience.
- All children should receive allowances.
- Only older children should receive an allowance.
- Everyone should own their own home.
- Only married people should own a home.
- Only a family should own a home.
- Having a nice car is the most important thing for a teenager.
- Teenagers should pay all expenses if they have a vehicle.
- We should all plan the next family vacation.
- Only parents should plan family vacations.
- Have a money discussion with children. Ask them what the following figures of speech mean:
 - Saving for a rainy day
 - Nest egg
 - Do you think I'm made of money?
 - Money doesn't grow on trees.
 - A penny saved is a penny earned.
 - It is better to give than to receive.
 - The love of money is the root of all evil.
 - Don't spend it all in one place.
 - Easy come, easy go.

Where Do Kids Get Money?

Children usually get most of their money from their parents when they need it and occasionally by doing odd jobs. Here are other ways children can get money and the positives and cautions of each method.

Handouts

Money is given to a child when he asks for it. The drawbacks are he doesn't learn to plan and save for future expenses. This practice also may promote begging and makes it hard for parents to plan and track family spending.

Gifts

Children may receive money as gifts for birthdays or holidays. Establish age-appropriate guidelines for children to follow before they receive money gifts. Guidelines might include how much gift money can be spent, how much should be saved, and how much needs to be shared. Remember, the money is the child's and she should make the final decision about how it will be used.

Rewards

Sometimes parents give money to children if they behave well or if they earn good grades. Such behavior by the parents may give children the idea that all good behavior and achievement have a money price and should always be rewarded. Giving money for good behavior or good grades

is a bribe. From a developmental perspective, experts believe that giving monetary rewards is not something that a parent should do at all.

If parents do decide to give money as a reward, make it something that is not planned or announced, but serves as a pleasant surprise. Peter Spevak of the Center for Applied Motivation says that money shouldn't be used as reward beyond the age of 11 or 12. By the time a child reaches that age, rewards should be internal. If a child does a good job cleaning the bathroom, compliment her effort and mention how good she must feel. An occasional, spontaneous family night out to celebrate good grades can be a morale booster. Even adults are rewarded like winning scholarships, getting a raise at work for doing a good job, or being promoted. Help children learn that rewards for achievements happen occasionally and cannot be counted upon every time.

Earnings

Earnings are the money children receive for doing jobs which are not part of what is expected as a member of the family or may be earned by selling something such as recycled aluminum cans. If children are to be paid for special work done at home, set the price and the standards for the job before it is started. For example, if a child is going to clean out a shed and she will be paid, tell him before he starts how much he will receive and what is expected to be done as a part of the cleanup effort. Consider paying a child for jobs outsiders might be paid to do such as removing snow, raking leaves, mowing grass, cleaning the basement, babysitting or weeding.

Allowances

Parents often give a set amount of money to children on a regular basis or schedule (ex: \$5 per week). This allows children to learn how to save, share and spend. It also lets them set their own financial goals.

The Allowance As A Teaching Tool

Many parents wonder when is the best age to start giving an allowance. That depends on the child. An allowance can be started as soon as a child grasps how money works (i.e., that we use money to buy the things we want and need.) Some experts say even as young as age 4 or 5, children can be ready to learn how to use money and can be started on an allowance. Others say 6 or 7 may be a better age. Children with older siblings usually are ready for an allowance at an earlier age than only or first-born children.

Why consider an allowance?

- Children learn about receiving a fixed income and they can begin to make decisions about how to use it.
- Children receiving allowances may learn to set financial goals.
- Children experience and learn the results of poor money management.

Many financial experts agree that it is important to keep the idea of an allowance *separate* from being paid for doing chores. Children have responsibilities within their families which they should fulfill without expecting to be paid for completing them. Paying children for chores also encour-

ages the attitude that everything has a price and they should get paid for what they do. Chores are a part of belonging to a family. To see how paying for chores can get out of hand, let's suppose Maria makes her bed only four days out of seven. Do you pay her the usual weekly allowance? If her allowance depends upon chores being completed, someone has to keep track of what's done and decide upon a pay scale. What if Maria decides one week she doesn't need any money, so she doesn't do any work?

An allowance usually includes money to buy certain items as agreed to by the parent and the child. Children decide how they use their allowance. Here are some suggestions for what children might be expected to purchase using their allowances at different ages:

Under age 6: candy, gum, ice cream, small toys, gifts for others, books, paints, crayons.

6-9 years old: in addition to the above, movies, amusements, lunch at school, magazines, gifts for birthdays and holidays, contributions, club or activity dues, hobbies, special sports equipment, school expenses.

9-12 years old: in addition to the above, fees for activities such as swimming or skating, some school supplies or trips, some clothing, and upkeep of items like sports equipment.

13-18 years old: all of those mentioned previously plus money for dates, grooming, cosmetics, jewelry, school activities, travel and savings for college. The needs and wants of teenagers rapidly outgrow the family's ability to pay for everything. So the opportunity for earning money outside the family becomes essential.

In addition to the needs of the child, the actual amount of an allowance should fit with the family's financial situation. The lower the family's income or the more people in the household, the smaller the amount of each child's allowance compared to families with higher income and/or fewer family members.

Check with the parents of a child's friends. What amount do the friends get as an allowance? Giving him either much more or much less than what friends receive may create problems for him.

So how much should be paid as an allowance? Consider family income and financial commitments, the age and ability of the child to manage the money, what the child's friends receive as an allowance, and the cost of items the allowance will cover. The allowance amount should be enough to cover specified items with a little extra for saving and some for fun spending. Yet it also needs to be small enough that it forces the child to make financial decisions. Develop a trial amount by keeping track of the child's purchases for a month or two. Then track what happens with the allowance for a couple of months to see how it works. Change the amount of the allowance only when really necessary like when the family's income drops or a child's expenses go up. Build-in regular increases such as on birthdays or at the beginning of a school year. Decide the amount of the increase by checking with other parents or look on line or in publications at the local library. Remember to set the amount so children have enough money to buy what they need and at least a few things they want but not so much money that their parents become upset when they do spend their money!

Sit down and discuss expectations with the child before an allowance is started. Establish what allowance is to pay for and any limitations on what can be bought. For example, what limits are there on the amount of candy they can buy? Will you say "no" to certain movies they buy or go see? If her bike tire needs replacing, will you help out or will she be expected to pay for the repair with her allowance?

Pay an allowance on the same day each week. The child should not have to remind or beg for an allowance to be paid. Paying at the beginning or middle of the week may help younger children learn to stretch their money until the next allowance is paid. Do not rescue a child when he runs out of money. He needs to learn there are consequences for not spending wisely. He might not get to go to the movies with friends if he's spent all his money early in the week. If she asks for more money for what the parent thinks is a worthy cause, consider giving her a chance to earn it by doing one of those special jobs like cleaning out the attic.

Paying the allowance with various kinds of coins or bills may help younger children learn the value of each coin or bill. It also makes it easier to divide the allowance into spending, saving, and sharing amounts according to a previously-set money plan.

An allowance basically is money that would be spent on a child anyway, just given in a different form. Instead of paying for things at the time when he wants them, parents pay him an allowance and let him decide how to spend the money. The goal of an allowance is to teach children to distinguish between wants and needs and to prioritize and save — difficult lessons that will pay off throughout life.

Making A Money Plan

A money plan is a good way to teach children how to plan for where money comes from, where it's going, and how to meet their goals based upon their values. To make a money plan, have a child answer these questions:

1. What are my goals? What do I need and want?
2. How much will it cost to meet those needs and goals?
3. How long will it take to save the money I need to reach my goals?
4. How much money will go to spending, sharing, and saving?

Spending

Help the child keep track of the money she spends for three or four weeks to find out her expenses. A sample money planning sheet might look like the one below:

<u>Income for the Week</u>		<u>Expenses for the Week</u>	
	<u>Amount</u>		<u>Amount</u>
Allowance	_____	Savings	_____
Earnings	_____	Share	_____
Gifts	_____	Spent	<u>Item</u> _____
Other	_____		_____

Total Income	_____	Total Expenses	_____

Ask the child to compare her income with her expenses. How will her money plan change for the next week if expenses are more than income? Can she cut back on expenses or earn more money or ask for an allowance increase?

Saving

The idea of saving for something you want to buy in the future is a difficult concept for children to understand because their understanding of time concepts (week, month, year) does not develop fully until they are teenagers. Five- and 6-year-olds may use the words “month” or “year” but they have little idea what it means to live through those time periods. By the time a child is 9 years old, he should understand the concept of saving for a few days or weeks to buy a toy but still won’t grasp saving for college or big-ticket items.

As soon as a child starts using money, help him open a savings account. Help him shop around to find an account that pays the best interest rate by visiting local banks and credit unions.

Sharing

Young children first learn the concept of sharing when they exchange or share toys. Sharing develops thoughtfulness and generosity. Encourage children to give to community charity projects by donating money or things like gently-used toys, books or clothing. This develops a concern for others by going beyond the family circle. Some parents set a certain amount or percentage (ie. 10 percent) of the allowance that must be given to others.

Children’s Money Mistakes

Just like adults, children will make mistakes using money. As a parent, remember these mistakes are lessons, less expensive lessons if they learn them now when they are younger. Here are some examples about how to handle common money mistakes.

Blowing It

This happens when something of poor quality which only lasts a short while is bought or when a child spends all of his money at one time. Both instances can be real learning experiences. In the first, the child begins to see the importance of looking for quality items. In the latter, finding he has no money for other needs later in the week can lead to better planning next time.

Not Spending As Intended

If a parent and child have agreed that the child is to buy her own school lunch with allowance money and she decides to skip lunch and spends the money on video games instead, a parent may choose to give lunch money daily or have her make and take her lunches to school for a while. If this happens, think about whether she might be too young yet to handle certain financial responsibilities such as taking care of a week’s worth of school lunches at one time.

Losing Money

Children tend to lose money frequently due to carelessness or by accident. Talk about why the money was lost. Decide what can be done to prevent it from happening again. For instance, maybe he needs a safe place like a wallet or coin purse in which to keep his money. Try to find out why it’s happening but avoid placing blame. Again, the parent may decide he is just too young yet to safely keep track of a week’s worth of money. Giving an allowance twice a week to younger children may help reduce how much money is lost.

Stealing from Someone Else

Theft usually is a passing phase, but must be dealt with in a timely manner. Try to understand why it happened. Is she old enough (past 6 to 8) to realize the money was not hers? Does he have enough money of his own to spend? Are her activities interesting so stealing isn’t viewed as exciting? Is he receiving enough emotional support from family and friends?

Children should return the stolen item or pay back the money if it already was spent along with a personal apology to the rightful owner. For most children, getting caught and having to return a stolen item with an apology is enough punishment.

Breaking Things

One author remembers once accidentally breaking a large window in her parent’s living room. She had to pay for the new window. Accidents do happen, but children must learn that someone has to pay for the damages. Decide if a child has to pay for part or all of the repairs based upon the situation.

Turning Into Scrooge

Children may pass through a phase where they won’t spend any of their own money. Look at the situation. Are they getting everything they need from a parent when maybe they should be using some of their own money? Are they having trouble deciding what to buy? Discuss possible ways to use money, guiding them as they make choices, and encouraging them to use their own money for some of the things they want.

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