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Nine Steps to Raising Money-Smart Kids

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There are many ways to teach your children good money sense. You can tell them stories about how you used to earn, save and spend money all those years ago. You can emphasize how important it is to be careful and wise with their money. However, the bottom line is that experience is the best teacher. The key is to have your children learn by doing.

Courtesy of
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Here are some ways you can encourage your children to save and manage money. In addition to the short-term benefit — having children who realize that money does not grow on trees — you will be instilling in them financial responsibility they can carry with them through adulthood.

1. Get them interested in money early

When your children are very young (perhaps age three or four), show them how to tell different coins apart. Then give them a piggy bank they can use to store up their change. A piggy bank (or even a wallet or a purse) is a tangible place to keep their money safe.

Using a clear piggy bank is probably best, as this will allow your child to hear, feel and see the money accumulating. Once saving has begun, let children spend money on treats, buying things both when there are just a few coins in the bank and when it is completely filled. This way, they will come to realize that a little bit in the bank buys a small treat but a full bank enables them to purchase something special.

When your children are a little older, try playing games to help them understand the difference between needs and wants. When riding past billboards or watching television, for example, ask them to identify whether each product advertised is a need or a want. Tally their score, and when they have accumulated enough points by guessing 10 or more correct answers, treat them to a want.

KEY POINTS

Children learn by doing. Give them as many opportunities as possible to

- save money
- spend money
- earn money

Guiding children through real-life transactions will help them gain an understanding of the value of money and the importance of managing their funds carefully. Encourage children to earn money outside of their allowances and teach them about prices.

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This material should be used as helpful hints only. Each person's situation is different.
You should consult your investment professional or other relevant professional before making any decisions.

2. Make saving a habit

To get children off on the right foot, consider making a house rule that they must save 10% or more of their income, whether the source of that income is earnings from a neighborhood lemonade stand, their weekly allowance or a part-time job.

If implemented when your child is beginning to learn about money, your plan should not run into much resistance. However, if you do not set some sort of guidelines, the chances are pretty slim that your child will take the initiative and save on his or her own.

To find proof of this, all you have to do is think back to when you were a child. Can you honestly say you would have saved the money you received from a relative on your eighth birthday without parental guidance? Saving money is a learned skill.

3. Open a savings account in their name

Like a piggy bank, a bank savings account can show kids how their money can accumulate. It can also introduce them to the concept of how money can make money on its own through compound interest. Start by giving your children a compound interest table (available for the asking at most banks) to let them anticipate how their money may grow.

Be sure to plan regular visits to the bank. Although these days many people find it easier to save via direct deposit, having your young child see you make regular, faithful trips to the bank can shape his or her own saving behavior.

Being able to participate in something a grownup does makes youngsters feel mature and responsible. In case you have not noticed, children who accompany their parents to the bank invariably want to fill out their own deposit slips. Why not do it for real?

4. Encourage goal setting

Have your kids write down their want lists, along with a deadline for obtaining the items on the lists. For example, your child may want in-line skates by the end of the summer or a mountain bike by next year. Visualizing may give kids the added motivation they need to save.

You also might contribute a matching amount every time they reach a certain dollar amount in savings by themselves. Such a proposition sounds just as appealing to a child as it would to you if your boss told you the company would kick in a dollar for every dollar you saved over $10,000.

Not only will such an arrangement make them work harder to reach their goals, it also might prevent them from thinking they will be old and gray before they save enough for an item on that wish list.

5. Give regular allowances

Allowances give kids experience with real-life money matters, letting them practice how to save regularly, plan their spending and be self-reliant. Of course, you should determine the amount of allowance you think fits their age and scope of responsibilities.

Some parents feel they do not have to pay allowances because they generously hand out money when their kids need it. But kids who get money from their parents as needed may have less incentive to save than children who receive allowances, even when the total amounts children in each group receive are the same.

While you will, of course, decide for yourself when to start allowances and how much to offer your children, consider the following guidelines:

- Do not grant too much independence by telling them they can spend their allowances on whatever they wish. Encourage them to save at least some of their allowance, and advise them to spend the rest wisely.
- Do not take away allowances as punishment. Allowances are an educational tool, not a disciplinary one.
- Carefully consider increase requests. Discuss with a child why he or she is making such a request. Spare yourself weekly petitions for increases by telling your children they can ask for them only twice a year, and then stick to your rule.
- Do not reveal too much about your own finances when justifying reasons not to grant a raise in allowance. Simply explain that your own budget is limited and that there is no extra money for a higher allowance.
- Do not be too generous. Too much money in a child's hands can breed careless spending habits.

6. Help plan a budget

Encourage your children to write down what they buy during the week and how much each item costs. Then write down their weekly incomes. If the two amounts do not match up, they will have to prioritize their needs and wants.

To give younger children practice making tough decisions, allow them one special treat — which they pick out themselves — at the grocery store. Having to face 10 or more aisles knowing they can choose something from only one helps children understand that spending means making choices.

Just as you know fixing a leaky roof might mean postponing your Caribbean vacation, your children will realize that opting for an action figure during a store visit means they will not be able to enjoy a candy bar on the way home.

7. Encourage money-earning ventures

To help your children earn money beyond their weekly allowances, suggest that they find creative ways to make it. Encourage them to do special household chores or to seek jobs in the neighborhood such as raking, mowing, pet sitting or shoveling snow.

Many people in your neighborhood — particularly elderly residents — would love to have a person regularly doing things for them that they no longer can, such as taking out the garbage or raking leaves. This is a perfect opportunity for your child to both earn some money and do something for someone in need.

Even though by the teen years many children begin earning their own money by working part-time jobs, continue to encourage that entrepreneurial spirit.

8. Show them the effects of inflation

To show your children how prices have risen over the years, take them to the library to look up ads for movie tickets, bikes and sneakers in the newspaper archives. (Try finding the year they were born.) Or go on the Internet. The US Bureau of Labor Statistics (www.bls.gov) publishes statistics tracking such everyday purchases as bananas and gasoline. This information can provide both a financial awakening and a history lesson for your children.

Once armed with the knowledge that products and services almost certainly will rise in cost, your children can use their math skills to see how much items they are saving for will cost in the future. For example, a bike that costs $150 today might cost $180 in five years, with 4% inflation.

If they are old enough, let them know there are ways to try to keep ahead of rising prices, such as investing. While investing may not hold interest for them at this point in their lives, it is important that they know such financial opportunities exist.

9. Most important, give them a head start

The money habits your children learn — and witness from Mom and Dad — could certainly carry over into adulthood. While you may be proud of the 12-year-old who saves enough to buy a $400 bike, you might be even prouder of the 22-year-old who can move into her first apartment without having to ask mom and dad for a loan, or the 32-year-old who can draw on his savings and investments to put a solid down payment on his first home.

Chances are that after you have imparted all of these lessons and their financial successes come, your son or daughter might even turn to you and say, "Thanks. I owe it all to you."

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