FINANCIAL LITERACY

Teaching Kids About Money

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Parents are a crucial part of their children's financial education. Research has shown that parental modeling and teaching has more positive, impactful, and long-lasting influence on financial attitudes than academic-based programs.

How, what, and when you teach your kids about money are personal decisions determined by your values and experience.

Start Early

It's never too early to start teaching children about money. Otherwise, until they start earning a living, it's easy for kids to think that money "grows on trees"! *Parents* magazine offers tips for ways to teach children about money from ages 2 through ages 16 and older.

Beth Kobliner is one of the nation's leading authorities on personal finance for young people. She is a commentator and journalist and the author of two *New York Times* bestsellers: *Get a Financial Life: Personal Finance in Your Twenties and Thirties* and a guide for parents titled *Make Your Kid a Money Genius (Even if You're Not)*. She says that by age 3, kids can grasp basic money concepts. By age 7, many of their money habits are already set. Her advice is to begin as early as possible to "Start wringing money lessons out of everyday life."

Ignorance About Financial Management Is Stressful

A 2018 PwC study revealed that just 24% of millennials demonstrated a basic understanding of financial concepts. And 54% of millennials are worried about paying back their student loans from college.

Adults experience profound stress over money-related issues, and part of the reason is that many adults were never taught money-management skills. According to a survey from the American Psychological Association,

money is a leading cause of stress in the United States. APA has conducted the annual survey for more than a decade, and money and work have consistently topped the list of stressors. In the August 2017 survey, 62% of respondents said money was their biggest stressor, and 61% said work was their main source of stress.

We certainly don't want our children to experience this kind of stress. Knowledge is power, and when we teach young people how to be good stewards of their money, those lessons will benefit them for a lifetime—and their children and grandchildren, too. The key is to help children develop positive behaviors and habits from an early age.

A 30-year study published in the *Journal of American Medical Association Psychiatry* in May 2019, makes a strong link between a specific behavior set and future income.

The researchers followed the lives of 2,850 6-year-old children. They found participants who went on to make less annual income between the ages of 33 to 35 all had one common trait demonstrated at a young age: *inattention*. The researchers considered *inattention* to be a lack of sharing, poor focus, blaming others/showing aggression, and high levels of anxiousness.

If you can work with your children on these inattentive behaviors, you can have an impact on their earnings 3 decades later. The researchers recommend that you do 4 things to help children be more attentive to money when they are children so they can be more successful adults: encourage sharing, encourage them to focus on one thing at a time, teach them to get along with others and to feel empathy, and help your child manage anxiety by giving your child uninterrupted time in the day to express their worries and to brainstorm solutions with you.

Here are additional tips for building good money-management tips in your children.

Teach Them the Basics

Don't wait until your kids are leaving for college to introduce them to the basics of financial life. Give them the latitude to make mistakes and learn from them.

- **Let children *see* their money grow.** This is where the age-old piggybank comes in. When children see their money accumulating, it increases their motivation to save. Also, when kids see you

swipe a debit or credit card at a store, they don't understand the correlation between your working long, hard hours in your job and having money to buy things. It appears like "magic" to them. *Show* them how it all works.

- **When they reach what you consider an appropriate age, make your children responsible for sticking to a budget.** Give them an allowance that's enough to pay for their clothing and entertainment needs. If they overspend, don't bail them out!
- **At some point in high school, open a checking account for your children and fund it with their allowance.** Teach them the basics about how to make deposits, keep track of their debit-card expenses, and balance the monthly statement. If they get the "opportunity" to learn firsthand about the stupidity of paying overdraft charges, it will be a valuable lesson!
- **Teach financial discipline.** Kids need boundaries. They need to learn that you can't have everything you want when you want it. Setting and sticking to spending limits helps them learn this important lesson.
- **Show them how to save for big expenses.** If your kids want a "big ticket" item, such as a nice car, help them realize that "money doesn't grow on trees" by requiring that they contribute at least a portion of the purchase price, perhaps through an after-school or summer job.
- **Introduce your children to debit and/or credit cards.** Do so when they reach an age you feel is appropriate and in a way that's consistent with your beliefs concerning the use of credit. It's generally recommended that kids gain some experience with credit cards before graduating from high school. Consider beginning with a secured credit card (sometimes referred to as a "credit card with training wheels") by requiring a cash collateral deposit that becomes the credit line for that account. If they use the secured card judiciously, you can consider moving on to an unsecured credit card. Make certain they understand that the use of credit is a privilege, not a right.
- A company called Greenlight offers a debit card for kids that parents manage from their phones with flexible parental controls. Greenlight's mission is to help parents raise financially smart kids. The Greenlight debit card comes with a Greenlight app for both parents and kids. Parents can instantly send money to kids, turn the card off from the app if needed, and receive alerts whenever the card is used. They can automate allowance payments and manage chores so kids can learn to earn! These safe and secure experiences give parents the peace of mind they need to allow kids to manage their spending, saving, giving, and earning.
- **Introduce high schoolers to investing, using real money.** Start with money market accounts. From there, introduce them to fixed-interest investments, such as savings bonds and CDs. Then move on to the stock market via mutual funds. Check out the stock market games available on the Internet. They can be a fun, educational way to introduce teens to the stock market. Some families even set up investment clubs for their teenagers to teach them investment basics.
- **Teach your kids the importance of having money saved in an "emergency fund."** When expenses arise that were not budgeted for, let them see how having money stashed away saves

the day, as opposed to borrowing money for the emergency or paying for it with a high-interest credit card.

- **Even young children can understand the concept of exchanging a sum of money for something they want.** Teach them how to allocate money, such as 20 percent for savings, 10 percent for giving, and 70 percent for spending.
- **Show them how to reach a savings goal.** Let them see how saving X amount of their allowance each month will add up to the amount needed to buy a toy or new video game in a certain number of months.
- **Be a good role model!** While not a guarantee, children who grow up seeing you do the right things financially are more likely to follow your example as they mature.
- **When planning a trip to the store, get your kids involved.** Let them help you preparing a shopping list and/or spending budget. Help them understand how a list/budget helps avoid the expense and pitfall of impulse buying.
- **Take your children shopping with you.** Teach them about pricing, brand names, sales, comparison shopping, coupons, brand-loyalty programs, and how to evaluate at is the "best deal."
- **Involve your kids in the family budget.** Show them the monthly bills for car payments, utilities, mortgage, insurance, and credit cards. Explain the portion of your budget that is allocated for savings. Teach them firsthand about your family's cost of living and how you follow the process of making and sticking to a budget.
- **Have an age-appropriate discussion about *needs* versus *wants* with your kids.** When it comes to purchasing decisions, ask your children why they need the item…or if it's simply something they want.
- **Encourage them to use websites that will help them learn about money management.** Today, kids are all about learning online. Here are some websites that can help your kids get excited about, and engaged in, learning about money online.
    - Planet Orange is a fun, interactive website sponsored by ING Direct that teaches kids in grades 1 through 6 the basics of earning, spending, saving, and investing money. Kids start by creating a character astronaut who is assigned a mission that revolves around money. They then design their own spaceship and begin their mission.
    - Practical Money Skills teaches kids about money by letting them play fun games. For

example, the Road Trip game teaches kids that, to keep a car running, you have to pay for things like gas and insurance. Affording those things sometimes means sacrificing trips to the mall. The website also features football and soccer financial games, as well as Ed's Bank, which teaches younger kids the importance of saving money and money values.

- Even the U.S. government is doing its part to help kids learn how to manage money. H.I.P. Pocket Change gets kids interested in money by focusing on its history. After logging on to the site and then clicking on the "Toons" section, your child will be taken through interactive cartoon presentations of how money is made, what it looks like in other countries, and the history of money. Plus, there are games and a collector's club for kids who want to collect coins.
- And finally, a website you could share with your children's teachers is Next Gen Personal Finance, or NGPF. It's a nonprofit organization founded in 2014 to connect educators with free resources, professional development, and advocacy tools to equip students with the knowledge and skills to lead financially successful and fulfilling lives. The site offers free access to more than 100 online activities, videos, articles, and other resources.

Teach Your Kids About the Power of Interest

Children need to learn about "good" interest, such as interest paid by savings accounts, and the "bad" interest that accumulates when credit card bills are not paid in full and on time. Here are some tips for doing just that.

- **Take your child to the bank or credit union and open a savings account.** Let him or her calculate how much interest ("free" money!) the account will earn over time.
- **Require that your kids save a certain percentage of their allowance and birthday/holiday money.** Review monthly statements with them, pointing out how interest has increased the value of their account.
- **When children meet their savings goals, consider matching their savings.** For example, at the end of each month, you could reward their savings with $1 for each $10 they've saved.
- **Show your kids your credit card bills and explain how important it is to pay them on time.** Illustrate for them the "bad" interest that will be charged if the balance isn't paid in full when due. Most of all, teach your children the wise use of credit. Help them understand that credit card debt is the equivalent of financial handcuffs.

If You Decide to Give Them an Allowance

Some parents feel strongly that an allowance is the best way to teach children financial responsibility. Other parents feel just the opposite. Here are some suggestions for ground rules to set if you decide to give your kids an allowance.

- **Don't give children an allowance until they have some understanding of money and are old enough to count.** An allowance given at a young age should be for the purpose of helping kids learn a spending/saving/sharing balance. Teach them how to split their "earnings" into three piggy banks or glass jars: savings, spending and sharing. Consider giving children an allowance beginning in elementary school.
- **Set guidelines.** Make it clear that a certain percentage of the allowance is for savings and another percentage is for giving.
- **One school of thought says a kid's allowance should not be tied to household responsibilities.** Kids should be expected to perform certain household chores because they are family members…not because they're paid to perform them. You might, however, want to pay children for performing bigger chores or additional chores that you would otherwise pay outsiders to perform, such as raking the yard or washing the car or the windows.
- Another approach is to develop a list of chores for your kids to complete around the house. Pay them a base allowance, whether they complete the chores, but pay a higher allowance when all chores are completed satisfactorily. Teach them the rewards of hard work!
- **What happens when your kids hit you up for a raise in their allowance?** The experts say this is a great opportunity to teach negotiating skills. Engage them in a discussion that includes questions such as when they received the last raise in their allowance, if the raise will cover new expenditures, and how much of the raise will they save.
- **How much allowance should kids receive?** Your answer will depend on your values, income and common sense. Don't be swayed by what your kids' friends are getting. Many parents give their kids the equivalent in today's dollars of what they received at the same age. Whatever amount you decide on, consider increasing the allowance as your child's age increases. Also increase the financial responsibilities that go with the allowance. For example, a grade-schooler's allowance might cover just incidentals, but a teen's allowance might be expected to pay for clothing, entertainment, gas, and auto insurance, as well as incidental purchases. Again, your objective is to teach financial responsibility.
- **How often should you pay an allowance?** The general recommendation is that younger kids should be paid every week. As they reach their teens, however, you might want to shift

to twice a month or monthly. This more closely approximates the real world, where they'll need to be able to budget between paychecks.

Teach Them to Give Back

Giving something back is an important value for children to learn at a young age. This is something they need to see you doing and practice doing themselves.

- **Let them experience the joy of giving.** Even young kids can learn giving by donating toys or clothes around the holidays.
- **Teach by example.** Encourage your children to participate in your tithing, charitable contributions, and/or community volunteer activities.
- **Let your kids choose an organization that supports a cause they feel strongly about.** Teach them how to evaluate whether a charitable organization is putting its funds to good use. Don't assume that the causes you care about are the same ones they care about.
- **Consider matching your children's monetary charitable contributions.**

If you teach your children sound money habits when they are young, it will help them be good stewards of their money as adults. It's our hope that some of the suggestions in this white paper will make your job just a bit easier. Plus, you might just learn some great tips yourself!

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