

TEACHING YOUR CHILD ABOUT MONEY





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Ask your five-year old where money comes from, and the answer you'll probably get is "From a machine!" Even though children don't always understand where money really comes from, they realize at a young age that they can use it to buy the things they want. So as soon as your child becomes interested in money, start teaching him or her how to handle it wisely. The simple lessons you teach today will give your child a solid foundation for making a lifetime of financial decisions.

Lesson 1: Learning to handle an allowance

An allowance is often a child's first brush with financial independence. With allowance money in hand, your child can begin saving and budgeting for the things he or she wants – or blow it then beg for more.

It's up to you to decide how much to give your child based on your values and family budget, but a rule of thumb used by many parents is to give a child 50 cents or 1 dollar for every year of age. To come up with the right amount, you might also want to consider what your child will need to pay for out of his or her allowance, and how much of it will go into savings.

Some parents ask their child to earn an allowance by doing chores around the house, while others give their child an allowance with no strings attached. If you're not sure which approach is better, you might want to compromise. Pay your child a small allowance, and then give him or her the chance to earn extra money by doing chores that fall outside of his or her normal household responsibilities.

If you decide to give your child an allowance, here are some things to keep in mind:

- Set some parameters. Sit down and talk to your child about the types of purchases you expect him or her to make, and how much of the allowance should go towards savings.
- Stick to a regular schedule. Give your child the same amount of money on the same day each week.
- Consider giving an allowance raise to reward your child for handling his or her allowance well.

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Lesson 2: Opening a bank account
Taking your child to the bank to open an account is a simple way to introduce the concept of saving money. Your child will learn how savings accounts work, and will enjoy trips to the bank to make deposits. Alternately, open a low or no minimum online account and guide your child through the process.

Here are some other ways you can help your child develop good savings habits:

- Help your child understand how interest compounds by showing him or her how much "free money" has been earned on deposits.
- Offer to match whatever your child saves towards a long-term goal.
- Let your child take a few dollars out of the account occasionally. Young children who see money going into the account but never coming out may quickly lose interest in saving.

Lesson 3: Setting and saving for financial goals
When your children get money from relatives, you want them to save it for college, but they'd rather spend it now. Let's face it: children don't always see the value of putting money away for the future. So how can you get your child excited about setting and saving for financial goals? Here are a few ideas:

- Let your child set his or her own goals (within reason). This will give your child some incentive to save.
- Encourage your child to divide his or her money up. For instance, your child might want to save some of it towards a long-term goal, share some of it with a charity, and spend some of it right away.
- Write down each goal, and the amount that must be saved each day, week, or month to reach it. This will help your child learn the difference between short-term and long-term goals.
- Tape a picture of an item your child wants to a goal chart, bank, or jar. This helps a young child make the connection between setting a goal and saving for it.

Finally, don't expect a young child to set long-term goals. Young children may lose interest in goals that take longer than a week or two to reach. And if your child fails to reach a goal, chalk it up to experience. Over time, your child will learn to become a more disciplined saver.

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Lesson 4: Becoming a smart consumer

Commercials. Peer pressure. The mall! Children are constantly tempted to spend money but aren't born with the ability to spend it wisely. Your child needs guidance from you to make good buying decisions. Here are a few things you can do to help your child become a smart consumer:

- Set aside one day a month to take your child shopping. This will encourage your child to save up for something he or she really wants rather than buying something on impulse.

- Just say no. You can teach your child to think carefully about purchases by explaining that you will not buy him or her something every time you go shopping. Instead, suggest that your child try items out in the store, then put them on a birthday or holiday wish list.

- Show your child how to compare items based on price and quality. For instance, when you go grocery shopping, teach him or her to find the prices on the items or on the shelves, and explain why you're choosing to buy one brand rather than another.

- Let your child make mistakes. If the toy your child insists on buying breaks, or turns out to be less fun than it looked on the commercials, eventually your child will learn to make good choices even when you're not there to give advice.

Above all, take the mystery out of money, Make it fun! A good grasp of financial skills will serve your child throughout life.

--Adapted from 360 Degrees of Financial Literacy, the American Institute of Certified Public Accountants © 2005

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