

Money, Money, Money

Our nation is in a financial crisis created in part by people's poor choices concerning money and personal finances. Easy credit lured unwary people into debt they could not repay; people defaulted on mortgages; banks collapsed; and the world was plunged into a recession. Financial experts agree that the first step toward financial security is learning to properly handle money. Like most of life's lessons, this is best learned young. A few practical ideas learned today may help adolescents become smarter money managers—and spare them heartache later.

Family finances are often a mystery to kids. Few children can name their parents' employers and even fewer can explain what their parents do for a living. Kids simply know that mom or dad or both go off to work each day and earn a paycheck. Only a tiny percentage of those kids can explain how families spend those earnings other than to pay bills or to buy "stuff."

The simple truth is that most children learn about managing money by observing their parents. If children do not know about finances at home, they will be ill-prepared to handle that responsibility for themselves.

“A” is for allowance

A great place to begin teaching financial responsibility is with an allowance.

An allowance should never be confused with a wage. Lessons in family responsibility and work ethic should not be tied to an allowance. Family members pitch in to complete various household chores—not for pay, but simply because they need to “be done.” Children should not expect payment for being a responsible part of the family.

Instead, the goal of an allowance is to teach kids to wisely handle money. Parents already make most of their children's financial decisions such as how much to spend on kids' clothing, school lunches and snacks, recreation, gifts for others, and even savings. A well-crafted allowance simply transfers a portion of that decision-making to the child.

As an example, rather than giving their child a few dollars each day, parents might give them a week's worth of spending money on Monday morning. The child can then decide how and when to spend that money. He or she might spend it all on treats after school or save a portion for a trip to the movies with friends on the weekend. Giving children a say in how they spend the money allocated to them helps them become confident and capable of making bigger financial decisions as they grow.

Giving your children allowances is not an easy task. The details will vary from family to family. Here are a few things to consider as you try to decide how large that allowance should be:

- How much does your child need? How old is your child and what things will you expect him or her to purchase?
- How much can you afford to give? If your finances are tight, it's important to set boundaries.
- How much can the child safely handle? Age and experience are important factors. Young or inexperienced children may not be able to safely handle a large sum of money.

After you set an amount, consider these ideas to help your children:

- Be consistent. Give a set amount at a set time. This teaches planning.
- Adjust the value as kids grow—both in years and experience.
- Don't make it a habit to give extra spending money. If your child makes a bad decision and ends up short of cash, a bailout will only reinforce those poor choices.
- Don't give and forget! Check in periodically to see how they use their allowances for saving, spending, and investing.

More ways to teach financial principles

Allowance is a great hands-on tool, but a parent's role cannot stop there. Most of an adult day is devoted to earning and handling money. Simply including children in that process can go a long way toward preparing them to wisely make their own financial decisions. Here are a few suggestions to help along the way.

- Start early—The earlier you expose your children to basic money matters, the better they'll be able to understand the concepts and value of money as they get older. Remember that it is never too late to start.
- Explain your job—Kids should know where you work, what you do, and what you receive in return. They will learn that we earn the money we spend and that it really doesn't grow on trees.
- Don't hide personal finances—Show your kids how much you spend on various expenses such as mortgage or rent, insurance, taxes, food, medical bills, car expenses, and utilities. Show what you put away in savings and retirement. They'll soon discover that the bulk of your earnings pay for the necessities.
- Teach the difference between a want and a need—Is it “I need a new cell phone” or “I want a new cell phone?” Seeing a friend with the latest electronic gadget or watching the television ad pitching the latest must-have jeans can be confusing. Understanding the difference between things we want and things we need is the first step in learning to prioritize spending. A child who buys wants first, may soon be short of funds to pay for needs later.
- Explain some of the more difficult topics—How does a credit/debit card work? If all kids know is that you slide a card into an ATM machine and you get cash, they won't make the connection that you earned and deposited that money. What is insurance? Who pays for the doctor or to have the car repaired after an accident?

- Don't protect them from all consequences—Parents hate to see their children struggle. The reality is that kids all stumble from time to time and they learn some of the best life-lessons from those mistakes. Making a \$20- or \$50-blunder as an adolescent is far less painful than a \$20,000 disaster as an adult.
- Don't automatically replace everything that gets broken or lost—No one intends to leave a designer jacket unattended or to drop an iPod down the stairs, but accidents happen. Unfortunately, accidents carry a cost. If parents automatically replace those items, kids can fail to learn the value of those purchases.
- Save, save, save—What began with a piggy bank should evolve into a bank account. Big purchases generally require planning. Savings is part of planning for college tuition or the down payment on a car. Be sure to explore other financial instruments such as certificates of deposit, money market accounts and saving bonds. Investment planners recommend saving 10 percent of your income. It is never too early to start.
- Don't overlook sharing—Money is not just for spending on yourself. Some of what you earn goes to religious or charitable groups or to gifts for family and friends.

The important thing to remember when teaching your child about money is that you don't have to be a financial whiz to teach your child sensible and sound financial choices. If there are topics you don't know well, take the opportunity to learn together.

A few financial snippets to share:

If you don't have the cash, you likely can't afford it. Being able to make the payments doesn't mean that you can afford it.

Money isn't everything and it should never be your goal. Money is merely the means to have the things we need and to enjoy our lives.

A bargain is not a bargain if you can't afford it.

More resources

Not every parent may be comfortable with his or her financial wisdom and may not feel entirely comfortable speaking on the topic. Here are some resources for both parent and child to make the process go more smoothly.

Internet resources

Kids Money—an award-winning Web site for parents and kids covering all sorts of money-related topics www.kidsmoney.org/

University of Massachusetts Family Business Center—lots of resources, some for kids and plenty more for parents www.umass.edu/fambiz/articles/money_issues/index.html

Eduguide's Teach Kids about Money—a resource rich with articles, quizzes, real-life stories and link to even more resources

<http://www.eduguide.org/Parents/Library/EduGuideView/tabid/403/id/2300/Teach-Kids-Money-Management.aspx>

Books

“The Everything Kids' Money Book: Earn it, save it, and watch it grow” by Brette McWhorter Sember—A guide covering all sorts of topics from saving for a new bike to investing their allowance online. Learn how coins and bills are made; what money can buy; how credit cards work; and much more

“Money Doesn't Grow on Trees” by Neale S. Godfrey—Exercises and concrete examples on everything from responsible budgeting to understanding the difference between "want" and "need" for children of every age. It even tackles the power of the Internet, advertisers' tactics and the wise use of eBay.

“The New Totally Awesome Money Book for Kids” by Arthur Bochner and Rose Bochner—Written by a 24-year-old and his 14 year-old sister, this book is filled with cartoons, quizzes, games and other activities to make learning about money fun. Topics include budgets and savings, investment basics, credit cards, paying for college and finances on the Internet.