



# KIDS & FINANCES



## How to Teach Kids the Financial Facts of Life?

As parents, we do our best to raise our children in a wholesome manner and teach them about the basic things in life. We all want our children to be well behaved, educated, street-smart, artistic and athletic. We guide them inline with those traits so that they can become respected citizens in the future.

In addition to all the above qualities, parents should teach their kids about money and basic financial concepts. Kids are like sponges, their brains can accumulate a lot of information and they usually learn by watching their parents. Parents should use this opportunity to pass on some of their money management skills and knowledge to their children so that they can grow up to be money-savvy.

CreditGUARD of America, Inc. has produced this publication to educate parents and guardians about the proper way to teach children the value of money. This publication will cover all significant topics relating to kids and their finances as well as suggestions and tips for parents about tackling this difficult subject.

### Start at an Early Age

At what age should parents start teaching their children about money and savings? There is no set age for teaching your kids basic money management skills. A good indication might be when junior starts taking interest and asking questions about money. Start off your child's financial future by buying a piggy bank and putting a couple of coins in it yourself. This will encourage your child to do the same. Remember, kids usually like to copy their parents.

**Piggy Bank Concept:** Younger kids do not understand the time value of money, so they are more likely to buy the first thing they see in a candy or toy store with their piggy bank savings. Parents should curb this impulsive behavior by encouraging their children to save for a toy that they really want. You can then find a picture of the toy and tape it to the side of the piggy bank. The picture will keep them focused on that particular toy and will motivate them to save money towards it.



**Open a Savings Account:** Once junior understands the piggy bank concept and successfully saves money towards something important, you should open a savings account for him. Parents should explain in general how banks, saving accounts and interest work to their children, so they know that their money is safe and accessible.

Parents should take their kids on routine bank errands and allow them to fill out deposit slips and withdrawal forms so that they can familiarize themselves with basic bank transactions. Also, take your child with you when you open a savings account for him and encourage him to ask any bank related questions that he might have.

At this stage, parents should encourage their kids to save towards something more expensive like a new PlayStation or a bicycle. Parents should also encourage their kids to make regular deposits and guide them through so that they do not get distracted and buy something out of the whim. When the monthly bank statement arrives, allow your child to review the statement with you and explain the basic financial definitions such as debits, credits and earnings.

### **Give an Allowance**

When your child shows responsibility and maturity towards money, it is the right time to start giving an allowance. Allowances can be a great financial learning tool for kids and parents should utilize this opportunity to teach them on how to be financially responsible and disciplined.



**Establish a Payday:** Parents should give their kids a set allowance every week around the same time. The agreed allowance should remain constant throughout a year or so without too many modifications. Parents should also discourage kids from asking for money before the allowance date. This will

encourage kids to budget their allowance properly and live within their means without borrowing.

**Setting a Dollar Figure:** Almost all new parents come across this question at least once during parenthood. How much allowance is sufficient? Again, there is no set rule governing allowances. However, most experts agree that the child's allowance should be based on the kid's age, personal expenses and the family's financial condition.

Before arbitrary deciding on your child's allowance, sit down with your child and make a list of his expenses. All possible expenses such as lunch money, bus fare, snacks and etc. should be included in this calculation. Ideally, there should be at least a little money left over each week to allow him to make choices about spending and saving.

**Review the Allowance Every Year:** After a year or so, review his personal expenses and increase his allowance by a margin that you feel fair and comfortable with. You should never decrease your child's allowance based on new expenses, as it would send the wrong signal to your child. If you decide to decrease his allowance due to financial hardships, explain this to your child and try to get his support beforehand.



As your child gets older, the basic allowance should cover more expenses. By the time your child reaches teen hood, you should include a separate allowance for clothing. Giving a fixed but reasonable amount to spend on clothing provides him with another opportunity to make financial choices.

**Chores and Allowance:** Many experts agree that parents should not associate chores with allowance. Simple household chores such as making beds, taking out the trash, setting dinner tables and etc. should be considered as family responsibilities that all family members should be a part of. If you relate allowance to chores, your child may think that you are paying him to make his bed or to take the trash out. However, difficult chores such as washing cars, cleaning out the garage and mowing the lawn may be offered to the child as possible money-making opportunities.

**Schoolwork and Allowance:** Similar to basic household chores, parents should not associate allowance with school grades or homework. As a parent, it is your duty to make him understand that as a member of the family he is expected to get reasonable grades and finish his homework. If you link allowance with his grades, it will distract him from the sense of accomplishment and he might feel coerced or bribed for his good grades. To reward outstanding schoolwork or a great report card, try activities such as taking the family out for dinner at your child's favorite restaurant.

**Monitor Spending:** When it comes to the allowance, your child should have the sole control over how the allowance should be spent or saved. If your kid wants to buy baseball cards with all his money, let him do what he prefers. Let him make his own financial mistakes at the beginning so he understands the consequences. In general, parents should be involved only in guiding and encouraging their kids to make careful spending decisions. However, if your child spends all his allowance on other kids or to buy friendship, you should step in and correct this behavior.



### **Encourage Them to Work**

There is an old saying; 'You really don't understand the true value of money until you have earned it yourself'. By encouraging kids to work, parents can effectively teach their children the value of money and help them understand that money really does not grow in trees.

**Young Kids:** As we mentioned earlier, younger children can undertake simple household tasks around the house and garden to earn a little income in addition to their base allowance. When the child gets a little older, he can take on some other odd jobs around the neighborhood like mowing lawns, shoveling snow, raking leaves and etc. to earn a few extra bucks.

**Pre-Teens:** During the pre-teen years, your child can earn some extra cash by baby-sitting, pet-sitting, tutoring other kids or signing up as a caddy at the local golf course.

**Teenagers:** Once your child reaches teen hood and shows financial maturity, you should encourage him to get a part-time job if possible. Teenagers can find part-time jobs at supermarkets, restaurants and other local businesses around your neighborhood. However, before agreeing to a particular job, parents should discuss work hours, schoolwork schedule, grade expectations and other household responsibilities with their teens.

### **Help Them Understand Credit**

Teenagers and credit cards can be one of the most dangerous financial combinations if not handled properly. Teenagers usually begin to receive credit card offers during their high school senior year and college freshman year. Without basic credit knowledge, your child is most likely to sign up for every credit promotion on campus without considering the consequences.



**Debit Card:** At this stage of your teen's life, you should help him open a checking account with a MasterCard or Visa debit card. A debit card can be a great tool in helping your child understand how basic credit cards work without taking any credit risks. Once your child masters the debit card concept, you can sign him up for a credit card.

**Pre-Paid Credit Card:** Initially, you can sign him up for a pre-paid credit card with a low spending limit. Pre-paid credit cards such as Visa Buxx or Citi Cash allow parents to set spending limits and monitor their kids spending patterns. To learn more about these pre-paid credit cards, please visit [http://www.creditguard.org/press\\_release\\_11.html](http://www.creditguard.org/press_release_11.html).

**Credit Card:** Once your teen handles the previous two steps with financial maturity, it is the right time to sign him up for a low limit credit card. Remember, at this stage your teen might need you as a co-signer to get his first credit card.

## Final Thoughts

As a parent, teaching your child the basic financial concepts and credit know-how's would be one of the greatest gifts you will ever give him. Children who grow up being money savvy and financially knowledgeable are more likely to make credit smart decisions in the future and pass on that knowledge to their children. In summary, teaching your child money management skills could be one of the most rewarding investments you will ever make.

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***If you have any questions or comments regarding this publication, please contact Nema Perera at [nema@creditguard.org](mailto:nema@creditguard.org).***

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