
Knowing how to use money wisely is a critical skill that is best learned starting at a young age. Imparting this knowledge is an issue many parents wrestle with.

Money and Kids: A Parental Guide to Teaching Financial Responsibility

By Paula Hogan

Part of being an adult in our culture is knowing how to use money wisely. And, as with other fundamental issues, it is best if one starts acquiring knowledge at a young age. Recognizing this, many parents wrestle with the issue of how to teach financial responsibility to their children.



The task is a challenge in part because it is so difficult to get good sensible information about how to manage one's own money. Consider the sources of information typically available to a young person growing up in our culture:

- Families, who often are reluctant to discuss money with their children;
- Television, which presents a fantasy land where financial limits and financial differences don't occur;
- Newspapers and magazines, which receive substantial advertising revenue from companies promoting an array of often confusing products in advertisements that purport to impart investment information;
- The government, which doesn't do much to advertise tax rates, but does have active advertising campaigns for lotteries;
- Ordinary gossip, which tends to focus on those extraordinary, mythical-sized portfolio gains rather than on the down-to-earth stuff that works. Who would ever brag about living within their income, or saving regularly?; and
- The apparent "good life," led by people, who like our government, are living over their income.

While appearances are enticing, the harsh financial realities of high debt and of meager savings for retirement are not visible to a young person looking around for cues about how the world works. All a young person sees are the fancy

clothes, the expensive cars, and the big house.

In light of this, how can financial management skills be instilled across the generations?

According to educators, learning about money not only happens best when exposure starts early, but also when responsibility comes in steadily increasing, age-appropriate steps. In other words, kids need to have the world—the real world of financial limits, choices, and consequences—made visible and accessible to them from an early age, in ever-larger doses.

At younger ages, it is important to have lots of hands-on experiences. By about age four, kids are ripe for learning about the world beyond themselves, especially handling transactions, contributing to family outings, and noticing different jobs in the community.

Upper-elementary-age kids are ready to have responsibility that increases slowly but steadily; they need to make a lot of mistakes. Teenagers and young adults are ready to consolidate the earlier experience of knowing what money can buy and how to make choices, and thus gain a sense of empowerment, control, and self-esteem.

At all stages, the process is important: It's worth the time and effort to let children come to their own decisions, and it's not only OK, but useful for them to make mistakes. Throughout this steadily increasing experience with money, kids can also benefit from opportunities to compare experiences with people in other generations. These opportunities to compare experiences can open up refreshingly frank conversations about a family's values.

How can any individual family make use of these sensible but highly theoretical views?

While there is plenty of financial illiteracy throughout the land, there are also many families who are successfully and happily transmitting habits of sound financial management to their children. The following list of ideas comes from a cross-section of teachers, parents, and now-adult children responding to the simple question: "With respect to teaching financial responsibility, what have you seen or experienced that works?"

Use the list as a starting point for a wealth of experiences

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for your own family. Experiment with the ideas that appeal to you. And share the ideas with your family.

Currency Recognition

- While waiting in a store—for example, at restaurants—play with coins. Invent games: Which ones are the nickels? How can you make 25 cents in different ways? How much money is there? Which coins are worth more? Make piles of equal amounts.
- Let a child choose between a row of eight pennies squished together and a row of five pennies all spread out. (Children who choose the longest row, instead of the most coins, aren't ready to learn much about coins yet. Talk to them about fast-food equivalents—See next section.)
- Money Calendar: Substitute coins for days. Calculate fewest number of coins to represent the date.
- Make a game of remembering which famous person is on each currency.
- Let children put coins in parking meters and vending machines.
- Let children handle purchase transactions at stores; ask older children to estimate the change due.

Learning What Money Can Buy

- Express costs in terms of equivalent meals at fast food restaurants, family vacations, or ice cream treats. Children who aren't ready for coins and bills can grasp the concept "That toy costs as much as a burger-and-fries, while the other one costs about three burgers-and-fries."
- Make a project of comparing the cost of ice cream from the ice cream truck versus the cost of ice cream in a package from the grocery store.
- Have a pretend catalog shopping spree, e.g., what would you buy with \$500? Children can paste pictures, record costs (including tax, shipping, and handling for older children), and think creatively to reach exact amount.
- At restaurants, ask children to work within a budget when ordering from the menu. Older children can figure the tax and tip.
- Calculate the difference between plain jeans and designer jeans. As kids get older, give them responsibility for contributing all or part of the increase in price due to style.
- Make a game of analyzing ads: Is it a bargain to buy something on sale if you don't want it? Is 25% off of an excessive price a good deal? Do you think that toy really does everything it did on TV?
- Analyze a pay stub. Figure out how many months of income go toward taxes.
- Use the grocery store as a rich learning place: Ask kids to find the best value in, for example, paper towels. Buy several cereals and compare quantity, price, ads, and taste. And ask, why are those candy bars displayed at the cash register?
- Calculate how much you could save by buying in quantity.

Make a list of product and brand names that your family uses often enough to be worthwhile as a quantity purchase. Calculate savings and make a family decision about how to spend the money—offer a parental reward for good shopping.

- Challenge kids to lower the utility bill and offer to share the savings with them.
- Give older children responsibility for purchasing within a budget some segment of weekly groceries—for example, the family's afternoon snacks—or weekly contribution to a food pantry.
- Teach young teenagers how to write checks by asking them to write out the household bill payments on some rotating schedule. (Kids who do this know that when a person rents an apartment, there's also a monthly utility bill!)

Learning What Work Can Earn

- Encourage older children to look for small jobs in the neighborhood, including paper routes, baby-sitting, mowing/shoveling, and pet care.
- Make the lemonade-stand concept a little more realistic. At least have a conversation about the cost of raw materials and rent and about how a marketing plan involves something other than shouting at strangers or humiliating the neighbors into making double purchases.
- Talk about what it means to be a good employee and a good employer.
- Make a game of figuring out what different jobs are like. What do different jobs pay? What education is required? What makes a job attractive? What's the trade-off between leisure time, money, and personal satisfaction? (Getting two out of three is pretty good!)
- Volunteer activities can start young. They can also provide experience and references.
- Write a contract between parents and kids. For example: "For completing the job _____, I'll earn _____. The job is complete when _____."
- Make a game of planning an imaginary business: What is the product? What would your expenses be? How would you advertise it?
- Discuss local businesses: Which ones are good and why? What would you do if you were the business person when, for example, something defective is sold, the customer is rude, you run out of inventory, or a big competitor moves in next door? What would be a good new business?

Learning to Make Choices

- Look for small experiments with choice for young children: Pick one treat from this store. Pick three rides at the state fair. Pick three outfits from the five that fit. Let young kids pick a treat or choose a friend's birthday present, within a stated budget. Give very young children substitute money experiences—for instance, homemade tickets redeemable for candy or treats for as long as they last (two tickets per

week, for example).

- For older children, make a budget for back-to-school clothes: take inventory, discuss needs, comparison shop, give choices to the child as much as possible.
- As children grow, look for ways to steadily increase the time and scope over which a child budgets, starting out from, "You have 25 cents, which candy do you want?" through "If you want those jeans, you'll need to contribute \$10 or x number of weeks of allowance."
- Continue to expand the time and responsibility covered by a child's allowance. For example, graduate from the nickel that usually gets lost, through 50 cents for snacks and treats, through several dollars per week with responsibility for holiday and birthday gifts, through more money each week with responsibility for some part of clothing purchases or entertainment. It's not how much money children get; it's how much responsibility they are given!
- Until the toy manufacturers come out with a developmentally appropriate piggy bank, make your own: Get a change box from the local hardware store and some small plastic bags. Help your child set up one bag for each type of goal. For example, the "spend" bag for fun impulse purchases, the "save" bag for longer-term purchases such as holiday gifts, a "charity" bag for charitable contributions that your child controls, and an "add-only" bank for long-term, college-education-type savings. Jointly develop a budget for the weekly allowance, so a child can see that so much money goes into each bag each week. Give the weekly allowance in a timely manner and with sufficient enough coins and bills so that your child can physically proportion the correct amount of income into each bag. This hands-on savings bank imprints sound budgeting principles and helps a child to be in control of his budget.
- Involve children in research for a major purchase—for example, a bicycle or the family washing machine. Compare prices, research brands, watch for sales, look in second-hand shops. Be specific about what you want, weigh assembling and installing it yourself versus paying for assembly or installation, talk with other consumers, use library resources, consider test drives, evaluate the ongoing need for service, consider paying by credit, and, of course, consider how badly you really want to buy it.
- Give college students a budget and let them have any money remaining at graduation.
- Urge teenagers to use their own credit card for practice in paying off a balance in full each month.
- Institute consequences: Don't replace lost coins. Develop ways for children to earn money to help pay for broken windows, etc. Be explicit about who pays for car insurance with teen drivers, before and after an accident.
- Consider buying each child the first high-quality bicycle or stereo set, but leave the responsibility for subsequent bicycle or stereo purchases to the child.
- Share with children the times that you make choices—for example, family travel versus a bigger house. Kids don't have to know the family income to understand some of the

trade-offs each family makes.

Learning to Save and Invest

- Consider a generous parental matching program to make the growth of savings more visible to the child and to encourage the sense that "we're in this together."
- Have a family "vacation jar" or "new car bank" to which everyone can contribute; or if the money is kept at the bank, make a "thermometer" to measure progress toward the goal.
- Build a mock portfolio of stocks or mutual funds, complete with scaled-down profit and losses provided by parents or grandparents.
- Give small regular gifts to a mutual fund or direct stock investment in the child's name to give direct experience with stock market and long-term savings.
- Ask kids to calculate how long it takes to repay a \$1,000 credit card balance if you only pay \$50 each month.
- Ask children to identify companies or products that, because of their appeal to young people, would be good candidates for stock purchases. Offer to share the profit from following these recommendations if your child or grandchild helps you decide when to sell.
- Ask kids to help you develop a list of stocks to sell short. Pretend that you did sell short. Track the potential gains and losses over a specific period. If you would have made money, go out for ice cream. Talk about how much you could have lost.
- Show your 401(k) plan statement to your child. Discuss the allocation decision.
- Provide a portfolio for your child/grandchild to manage: Create a \$10,000 portfolio by providing \$5,000 of your own funds and a \$5,000 loan for your child/grandchild. Give the child authority to manage the portfolio. Consider paying a management fee and also charging interest on the loan.
- Solicit stock suggestions from the whole family to consider for your portfolio. Ask kids to help track the prices of shares that you purchase.
- Start an investment club among family members or create a parent/child group of you and a few friends. (Contact the National Association of Investors Corp. (313/543-0612) for information on starting an investment club and also on their low cost investment plan for persons interested in buying only a few shares of a company's stock.
- Buy shares in a company that offers perks that may be of interest to kids. For example, William Wrigley Jr. Co. sends a 100-stick box of gum each year to shareholders. Kellogg sends coupons for some of its kid-pleasing food products, while Anheuser-Busch gives discounted admissions to its theme parks and Tandy gives discounts for its Radio Shack products.
- Offer to help organize a special grandparent (or parent)/child financial program for your local AAIL chapter.
- Show your children some of the literature sent by mutual funds to your home. The educational material on the trade-

off between risk and return, and the power of diversification and compounding are often presented in an accessible and engaging format.

- Take your child with you the next time you purchase a certificate of deposit, make a direct purchase of a U.S. Treasury bill, or visit your stockbroker.
- Add a visit to a stock exchange to a family vacation.

Family Dinner Conversations

- What increased responsibility should kids in our family get each year?
- When are kids in our family expected to be financially independent? When did each parent become financially independent?
- What would each family member do with \$1 million? What does each family member think the government should do with an extra \$1 million?
- What can money not buy?
- What are some of the different attitudes about money within our own family?
- Who controls spending of allowances, and why?
- When the parents were growing up, how much financial help did they get from their parents—for example, in going to school or setting up an apartment? What are the pros and cons of parents helping older children?
- What makes someone a saver, a spendthrift, or indifferent to money?
- What are some mistakes that parents made in earlier years with respect to money? Which mistakes should a parent

not let a child make?

- What are luxuries? What are necessities to us that would be luxuries to others? What would we do if hit with some kind of financial hardship? What are our back-up resources?

Families who have tried these ideas tend to have two important results. The first is the realization that letting children make mistakes is not only OK, but it is the main goal.

At first, letting children order junk from a catalog, make inappropriate impulse purchases, or spend their whole allowance on candy can feel strange. But remember the lessons from sports coaches: "Give your child the gift of failure. Stress process, not outcome. Teach coping skills. Reframe adversity; provide a perspective. Use simulation daily." Veering off a budget at age 10 is good protection against real money problems later on in life. Mistakes also provide a good opportunity to share one of your bloopers, reinforcing the notion that "we're all in this together."

The second important result is a refreshing shift in the relationship between parent and child. Children who have clear and gradually expanding boundaries within which they are free to manage money tend to stop begging for more money or more treats. Children who know they have a piece of turf to manage in their own way try hard to figure out how best to use their resources.

So, heave a sigh of relief (and beam with pride) as you realize that your child has moved away from begging for treats toward standing in front of the candy display, shifting feet and biting lips, trying to weigh just how attractive that candy really is.



Further Reading

Books and games on the topic of financial literacy for families are becoming very popular. Here are a few already on the market that may interest you.

Board Games

The Allowance Game
Let's Go Shopping
Monopoly
Life

Software

Money Works (MECC, 800/685-6322)
The Oregon Trail (MECC, 800/685-6322)

Books

Kiplinger's Money Smart Kids (and parents, too!), by Janet Bodnar (National Book Network, 800/462-6420)

It's My Money: A Kid's Guide to the Green Stuff, by Ann Banks (Penguin USA Trade, 800/253-6476)

The Berenstain Bears' Trouble With Money, by Stan & Jan Berenstain (Random House, 800/733-3000)

The Totally Awesome Money Book for Kids and their Parents, by Adrienne G. Berg and Arthur Berg Bochner, her 11-year old son (Newmarket Press, 800/669-3903)

The Wealthy Barber, by David Chilton (Prima Publishing, 800/665-3913)

Buying Stocks Without a Broker, by Charles B. Carlson (McGraw-Hill, 800/262-4729)

The Kids Money Book, by Neale S. Godfrey (Checkerboard Press, 414/639-8182)

It Doesn't Grow on Trees, by Jean Ross Peterson (Better Way Books, 800/289-0963)

Pamphlets

Children Learn Money Management Series, by Audrey G. Guthrie, West Virginia University, Room 305, Stewart Hall, P.O. Box 6031, Morgantown, W.V. 26506-6031, 304/293-2694 ext. 437

Young Investor Parents Guide, Liberty Financial Young Investor Program, Liberty Financial Companies, Inc., 600 Atlantic Ave., Boston, Mass. 02210, 800/403-KIDS

Newsletters

The Young Investor, P.O. Box 150661, Fort Worth, Texas 76108