

# Raising Kids to Be Money Smart



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## Agenda

- Why it's important to teach kids about money
- Common mistakes parents make with kids and money
- Age based money lessons
- The great allowance debate
- Fun ways to learn good money habits
- Online resources



# Why it's important to teach kids about money





## Why is it important to teach kids understand money?

**“Financial independence is not just about money management. It’s about life management.”**

**~Shoyeon Shim, PhD.**

- Saving money for a longer term goal (i.e., that huge Lego set) teaches delayed gratification and patience.
- Learning that there are limits to what each of us can have in life and you must prioritize what’s important.
- Teaching kids that when you make a decision, you have to live with it.
- Learn that spending money doesn’t necessarily make you happy!

# Common mistakes





## What are we doing wrong?

- Not talking about money in general.
- Giving in to impulse and extravagant purchases.
- No consequences when kids lose or break stuff. Parents just buy a new one.
- Not being transparent about family finances. What are the limits to the family budget for different household costs?
  - “Q: What’s your family’s utility bill?”
  - A: \$10,000.” – Joline Godfrey





## What are we doing wrong?

- Letting kids quit a sports team or activity mid-way through.
- Not teaching the importance of setting aside money for the long term.
- Bailing older or adult children out of financial problems.
- Not taking the time to make financial lessons stick. This is a lifelong process and 2 hours talking about money when your child is 5 or 10 years old isn't enough.



# Age based money lessons





## Age based money lessons

**Ages 3-5: Lesson: You have to wait to buy something you want.**



- The ability to deal with delayed gratification has a lot to do with success for grown-ups. Teach it now!
- Don't buy a child something for herself every time you go to a store.
- Set a goal for a small purchase and put a jar where she can add money she earns to reach the goal.



## Age based money lessons

### . **Ages 6-10: Make choices about where to spend your money.**

Allowance in 3 parts –Spend, Share, Save.

- **Spend** – Let them spend it on whatever stupid thing they want. It's their decision.
- **Share** – Be active in helping give this money away. Don't just let it sit in the piggy bank forever. Use opportunities at church (mission gift) or school (penny harvest) or in the community (Salvation Army Santa). Talk about who their gift will help.
- **Save** – Explain why they are saving (i.e. emergency repair if they break something). Use examples of unexpected expenses the family has had and how having money saved helped you handle them.

Teach consequences for losing stuff. Either have them pay to replace the item or go without.



## Age based money lessons

### **Ages 11-13: Start teaching about compound interest or growing money through investing.**



- Use Investor.gov to show compound interest calculations.
- Set long term goals to save for something more expensive (phone, iPad, etc.).



### **Age 13-14 – Start using a clothing allowance.**

- Twice per year (spring/fall), give a lump sum budget to use for clothes.
- When the money is spent, no more clothes!
- This helps teach longer term budgeting habits, looking for sales, and the cost of clothing.



## Age based money lessons

Ideas for showing the growth of money in a 0% interest rate environment:\*\*



- **Open a custodial brokerage account and invest in stocks** that will interest the child. Avoid brokerage trading fees by investing directly with a company through their direct purchase plans.
- **Be the bank** Allow your kids to lend money to you at an attractive rate so they can understand the idea of compounding interest.
- **Start a matching program** Be a 401(k) provider by matching a certain percentage of their long term savings.
- **Sponsor a goal** For large purchase (bike, car, electronics) agree to add a certain amount (say, 25 – 50%) of what they put away toward that goal.



## Age based money lessons

### **Ages 14-18: Start comparing college costs**



- Use the net price calculator on college websites to see total costs of tuition, fees, room and board.
- In ninth grade, start talking to your kids about how much you are saving for their college and how much you will be able to contribute.
- If loans are going to be needed, explain to kids how much the loan repayment will be in relation to their probable 1<sup>st</sup> job salary, rent, utilities, insurance, and other expenses they will be paying.



## Age based money lessons

### . **Ages 14-18: Earning money and taking more responsibility**

By age 16, kids should have a job or small business (lawn mowing, snow shoveling, babysitting) to earn money.

- This will help them understand how different levels of work translate to money.
- A paycheck with taxes withheld shows that not all money earned is theirs for spending.



Start making kids share in the payment for certain bills.

- Cell phones
- Gas and Car Insurance
- Travel for sports teams or arts programs.





## Age based money lessons

**18+: Teach kids how to use credit cards.**



- Only charge what you can pay off each month.
- Help with interest calculations to see how much is wasted if you overspend on the credit card.

# The great allowance debate

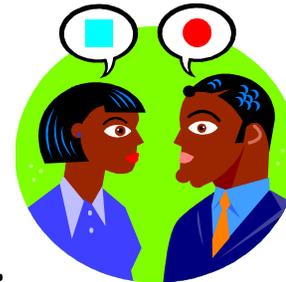




## Allowance: Paid for household chores or not?

Yes, kids should be paid for their chores:

- Tie work to money earned.
- Deduct allowance for poor work product.
- Pay extra for extra chores or doing chores without asking.



No, chores are part of being a contributing family member:

- Chores are part of supporting the household in which you live.
- Mom and Dad don't get paid for doing the dishes or cooking dinner. Why should you?
- On the other hand, maybe work can be rewarded in a non-monetary way such as TV or computer time.

# Fun ways to learn about money





## Fun ways to learn good money habits

- **Make looking for deals like a treasure hunt.** Instead of buying a book or toy the first place you see it, look for sales or deals online.
- **Let kids help decide a few purchases at the grocery store.** Get them to clip coupons and share the savings with them.
- **By age 8, start playing games like Monopoly or Life.** Money is exchanged for homes, stocks, insurance, and college degrees. These games deal out surprise financial setbacks, so it reinforces the idea of saving for an emergency. Also, real cash is used, so this is a good way to learn math facts.
- **Lemonade stands or yard sales.** Yes, these are hard work for parents, but the social aspect of people purchasing directly from kids is really fun and rewarding.



# Online resources





## Lots of help and ideas on the web!

- [Cashcourse.org/prep](http://Cashcourse.org/prep) helps students transition to college as they learn budgeting, saving and setting goals.
- The National Endowment for Financial Education's personal finance site, [smartaboutmoney.org](http://smartaboutmoney.org), offers a searchable library with hundreds of resources, including tips for talking with your kids, exercises and worksheets.
- Ah, the power of waiting before making that impulse purchase! 66% of Americans have made purchases they regret. Check out [spendster.org](http://spendster.org)'s nearly 300 funny videos about the purchases they wish they'd never made.





## Lots of help and ideas on the web!

- [FamZoo.com](http://FamZoo.com) and [ThreeJars.com](http://ThreeJars.com) bring allowances into the digital age, helping parents assign chores and oversee a tween's earning and spending.
- Apps like Toshl Finance ([toshl.com](http://toshl.com)) and Money Strands ([money.strands.com](http://money.strands.com)) help teens track spending and saving goals and alert them when they go over budget.
- Google Joline Godfrey for one of her many websites, blogs, books, or interviews. She is the guru of raising financially responsible kids.

