

## **Raising Money-Smart Children**

*by Sylvia W. Lee*

“Do you think money grows on trees?” How often did you hear that as a child? It’s even more commonplace for young children today to have the misconception that money can be readily produced. They see their parents walk up to an automatic teller machine, insert a card, press a few buttons, and retrieve the green bills that magically appear!

Lifetime attitudes about managing money are formed at a young age. It’s important for parents to give their children a financial education—how to earn, spend, borrow, invest, and donate to charities. According to experts, many children are not taught essential money skills. A recent survey by the Joint Council of Economic Education found “appalling ignorance of monetary concepts among high school students...”

Parents who were never taught to manage money and picked up whatever they know through trial and error may not manage money well themselves. Lacking this guidance makes teaching their children to have good money sense even more difficult.

How can parents teach their children financial management skills? The following ideas are suggested by a number of financial experts:

**\$ Separate feelings** of self-esteem, power, competition, authority, etc. from the concept of money; for example, many authorities suggest that children not be paid for good grades or behavior. Neither should they be penalized for poor grades or inappropriate actions by having an allowance reduced or taken away. These associations lead children to believe that money is a way to manipulate behavior. In addition, refrain from saying, “When I was your age, I couldn’t afford to...because my family didn’t have the money.” Such statements create feelings of guilt about lessons, trips, special events, and educational activities the child is about to enjoy.

**¢ Provide an allowance** as their share of the family’s resources is a valuable way for children to learn about money. One of the cardinal rules followed by some experts is to keep allowances separate from chores on a one-to-one basis. As contributing members of the family, children have the responsibility for doing chores without receiving payment for them. For another point of view, [click here](#).

**\$ Be consistent.** If the agreement is that allowances are received weekly on Wednesday or the first of the month, keep to it. After all, how would you feel if you received your paycheck when your employer remembered to give it to you or when it was convenient to pay you?

**¢ Respect** that it is their children’s money once they receive their allowance. The only way children are going to learn to manage money is to make mistakes with

it. They will not learn to save, for example, by hearing, “Here’s two dollars, and you have to put half of it in the bank.” That teaches them to obey their parents at that particular time on that issue.

Instead, parents can teach their children to save by offering realistic incentives; for example, “We will match every dollar you put in the bank and save until you’ve graduated from high school.”

Or if the child wants to purchase a pair of designer jeans or running shoes, parents can offer their child a compromise instead of a refusal: “We will give you the money for a pair of regular jeans or running shoes, and you can work for or save the remainder of the price to buy what you want.”

**\$ Offer an allowance** as early as ages three to five, or as soon as children can handle money without putting it in their mouths, but by the time they are in elementary school, provide an allowance. Negotiate the amount with the child depending on the financial situation of the family and what the allowance is to be used for—necessities or treats.

“It may be necessary to first have children keep a record of money spent over a two- to four-week period to determine exactly what they are spending and how much money is really needed,” suggests Alice Mills Morrow, family economics professor emeritus at Oregon State University.

For young children, experts recommend that allowances be related to an event like the weekly shopping or the purchase of a gift rather than to a specific day. Children can be given an occasional 50 cents or a dollar to spend, and instead of saying, “This is your allowance,” parents can say, “This is the day you get a treat.”

This provides parents with an opportunity to discuss how choices are weighed and decisions made. Children can learn to inspect purchases, compare prices and quality, and shop at reliable stores. Then the choice can be made among three or four items.

Let the child give the cashier the money in exchange for the item to learn about the value of coins and become familiar with actually handling money. The child should also carry the treat out of the store. Be prepared for your child to have difficulty in grasping abstractions such as the notion of value; for example, a young child almost always thinks that larger coins are worth more than smaller ones.

**¢ Begin with an allowance** of 50 cents or \$1 a week, according to one school of thought, when children are six or seven years old and discuss what can be done with the money. Increase their allowance as well as responsibilities on an annual basis (such as on the child’s birthday) and provide opportunities to earn extra

money by doing additional chores. Help them open a savings account by the time they are 10 years old. They can learn about interest, depositing and withdrawing, and cumulative balances.

By the time they reach middle school, invite them to be an active part of family budget conferences and talk about long range goals such as a car, college, a trip, etc. Parents can help their high school students attain more independence by helping them open a checking account with an ATM card, and possibly giving them a family credit card providing they pay their own bills. They can be encouraged to get outside jobs and be included in decisions about paying for their long-range goal and where to invest their money.

The objective is to have children who can manage a year's expenses on their own by the time they graduate from high school—children who, as adults, will have good judgment about money. It's a lot less painful to make a mistake about a dollar when you're 8 years old than to make a mistake with a thousand when you're 25.

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