

Raising Money Smart Kids Teaching Children to Save Share and Spend Responsibly

As parents, daily life offers us ample opportunity to teach our children about money. Kids are fascinated by how many pennies are in a dollar, or how much candy they can really buy for 75 cents. But teaching them the *value* of money and the importance of saving – now that’s another story. Children (and many adults) tend to live in the moment, so encouraging them to save for a rainy day can be challenging, though not impossible. Experts agree that setting the right example and instilling good money management habits while kids are still young is the first step towards raising financially literate adults.

Allowance Basics: The 10-10-80 Rule

As soon as children are old enough to handle small amounts of money (typically around first or second grade) they should be allowed some of their own cash to manage. Once you’ve established the amount, frequency and guidelines of allowances in your home, sit with your children to discuss a plan for saving, sharing and spending. A good rule of thumb is the 10-10-80 allocation: 10% to savings; 10% to charity/church; and 80% to keep and/or spend.

Like many of us grown ups, most children will not be initially thrilled at the idea of saving 10% of their money. But teaching them that saving isn’t what we do with money that’s leftover, rather, it’s what we set aside right off the top, can establish a positive money management pattern that will carry them into adulthood. It helps to give young children a reason to save by identifying some long term goals they may have. Keep in mind long term for a 7-year old could be three-weeks from now – kids will be more excited when the achievement of their goal is somewhat in sight. Inspire their desire to save by brainstorming about big ticket items the child has been wanting – a computer game, microscope, etc. Then sit down and figure out a savings plan that will help them achieve their goal. If your child wants a new scooter for example, help him make a plan to save for it. If you believe in paying your child for odd jobs and chores, help him come up with income producing ideas to accomplish his goal. Not only will this help instill a lesson on the value of money, it will also make the purchased item more meaningful once it is finally obtained.

You can also teach your children about the magic of compound interest by offering to add interest to their savings for each week or month they leave it untouched. Watching their money grow will do more to motivate them than any number of lectures on the subject.

(Saving \$5 a week at 6 percent interest compounded quarterly will total about \$266 after a year, \$1,503 after 5 years, and \$3,527 after 10 years!)

Teaching children to share begins in pre-school. By the grade school years, it's a concept that is fairly well ingrained so applying it to the financial arena may not be as difficult as you may think. Encourage your children to set aside 10% of their allowance for charity – they can tithe to your local house of worship or you can sit down together to identify charitable causes to give to. Allow them to contribute to organizations that help families and children within your community, and also allow them to participate in food, clothing and toy drives. Be sure to track their contributions in a notebook you review at the end of the year so they can see the many ways their generosity impacted others. Pint-size philanthropy pays off in later years by establishing a healthy attitude towards money and the many good things it can accomplish – not just purchase.

The Money Journal: A Lesson in Record Keeping

Tracking how much you spend and what you spend it on is key to keeping your financial affairs in order. Sit down with your children and create a money journal – a simple notebook will do fine or a general ledger type journal found at office supplies stores will also work well. Let the child create column heads for each page including the date, amount earned, amount spent, along with columns for saving and giving and balance.

Sample entry:

<u>Date</u>	<u>Income/Allowance</u>	<u>Save</u>	<u>Give</u>	<u>Spent</u>	<u>Balance</u>
10/1	\$5.00	.50	.50	\$2.50	\$1.50

Sit with your child to fill in the columns each week and use the time as an opportunity to discuss their feelings about their money. Were they disappointed with any purchases they made? How does it feel to watch the savings column grow? What are they hoping to purchase with their savings? If they've already established some savings goals, the journal will act as a guide for them to track their progress.

Make Planned Spending a Habit

Children are impulsive by nature. If they see a new game or toy, they want it...now. And once they begin earning an allowance some of those "wants" may become easily attainable. But as many of us have learned the hard way, habitual impulse shopping can be costly later in life, since the price tags for grown up toys can take months or even years to pay off.

Encourage common sense shopping habits by offering your children spending choices. For

example, if your child has decided to spend \$15 on a new video game, sit with them and think of two other items they could also purchase for \$15. Compare the relative value, enjoyment and desirability of each item. Some questions to ask: What do I like about it? What don't I like about it? How long will I want to play with it? What's the best price for it? Encourage him to weigh his spending decisions and use the time as an opportunity to share examples of smart and foolish spending decisions from your own life. And finally, teach children to practice the 24-hour rule. Have them sleep on any major purchasing decision and if they still feel strongly about the original choice, let them buy it and live with the consequences. Experience is still the best teacher.

Lead by Example.

At the end of the day, children are going to learn more from what we do than what we say. The best way to teach our children good money management habits is to practice them ourselves. Walk the talk by sticking to an established savings plan and budget; pay off debts in a timely manner; live within your budget and resist impulse shopping; give to charitable causes that are meaningful to you; help protect your family's future with adequate insurance coverage; and finally, maintain a teachable attitude yourself. Speaking with a qualified financial professional about your own financial situation can help you make wise money management choices that you can pass on for generations to come.

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