

Children and Money: Teaching Children Money Habits for Life

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Introduction

The life-long benefits of teaching children good money habits make it well worth the effort. Children who are not taught these lessons pay the consequences for a life-time. Some parents don't teach children about money because they think they shouldn't talk about money with children, don't have the time, or think they don't have enough money. Parents should take the time to teach children about money regardless of income and should start when children are young. This publication presents some helpful guidelines and suggestions parents may follow. It provides general background and outlines by age group and stage of development. It addresses children's understanding and use of money as well as conflicts about money. It also identifies activities you can use to teach your child about money.

Using a Consistent Approach

Most people have strong feelings and opinions about money, based on childhood experiences and the values and beliefs of their families. Most often, these experiences, values, and beliefs are different for each parent. It is vital for the healthy development of children that parents talk about these feelings and opinions and establish a consistent approach to teaching children about money. These questions can help parents focus their discussion:

- How will we create an open environment in which our family can discuss money issues?
- How should our children receive money? Will we give them allowances or use another method?
- What are our family values and attitudes about money that our children may be observing?
- What do we communicate about money?
- How will we structure learning experience about money?
- How will we deal with our children's differences in handling money? By stage of development, special needs or personality differences?
- How will we respond to the effects of advertising and peer pressure on our children's buying requests?

Teaching Children about Money

Parents should keep these guidelines in mind as they begin the financial socialization of their children:

- Guide and advise, rather than direct and dictate.
- Encourage and praise rather than criticize or rebuke.
- Allow children to learn by mistakes and by successes.
- Be consistent while taking children's differences into account.
- Include all family members in money management discussions, decision making, and activities as appropriate for their age.
- Explain to children what they can and cannot do and the consequences of violating the limits.
- As children get older, increasingly include them in discussions of limits and consequences.
- Expect all family members to perform unpaid, routine household chores based on their abilities.
- Express your desire to have things you can't afford.
- Children need to know that parents say "no" to themselves, too.

Teaching your children about money is more than preparing them for employment or teaching them to save some of the money they earn. It includes helping them understand the positive and negative meanings of money. For example, children need to learn that while it is nice to show someone love by buying a gift, it is just as important to show love through actions and words. Children and parents should talk about their feelings, values, attitudes, and beliefs about money. This helps children understand that conflict about money occurs and needs to be discussed in the family and that compromise is often necessary.

When teaching children about money, parents need to make an effort to think in children's terms, not adult terms. For instance, a young child may ask parents how much money they make, but what they really want to know is not how much parents earn, but why they can't have a certain toy or why parents can't go to school functions. It is important for parents to use examples or activities that match the child's stage of development, not necessarily the child's actual age in years.

It is also important for parents to communicate with children about money matters in very concrete terms. Children want to know how to operate in the adult world. Any time money is earned, moved, spent, donated, shared, borrowed or saved provides an opportunity for parents to teach children how the money world works and what thoughts and feelings go into making money decisions.

Children learn mainly through indirect teaching by observation and example; participation in discussions and group decision-making; direct teaching through planned experiences; and by making their own decisions. Through observation, children learn a great deal more than parents realize. Parents can add to this observational learning through intentionally planned learning activities. As you teach children about money, they can learn about responsibility, family values and attitudes, decision-making, comparison-shopping, setting goals and priorities, and managing money outside the home.

How Children Receive Money

Children may receive money by allowances, by parents doling it out upon request, as gifts on special occasions, or by earning it. There is no right or wrong way to provide children with money, and because each family is in a unique financial situation, deciding whether or not to use an allowance is a family decision.

Many parents feel pressured by their children into giving an allowance because the children's friends are receiving an allowance. There may not be enough money in the family to provide an allowance or parents may not want to provide an allowance. There are many ways besides allowances for parents to provide learning experiences about money.

If you do give an allowance, it can easily be adjusted if your financial situation changes. When parents include children in discussions of family financial problems, they are quite often surprised at how supportive and helpful children can be during these times. The publication, *Children and Money: Allowances and Alternatives*, another Minnesota Extension publication, provides more complete information about this topic. This publication is available at www.extension.umn.edu/family/personal-finance/youth-and-money/

Teaching Money Concepts

Focus children's education about money on the concepts of earning, spending, sharing, borrowing, and saving. Parents can begin to work with the first three concepts when children can talk in sentences. Children need to be a little older to comprehend the concepts of borrowing and sharing. These two concepts require an understanding of math and ability to see things from another's viewpoint. These skills don't fully develop until several years into elementary school.

These financial concepts are used here in a very generic sense. Earning refers to how children receive money. Spending refers to the way children decide to use their money. Saving refers to money that the children set aside for some future use. Borrowing means that money can be obtained for use in the present but must be paid back in the future with an additional cost. Sharing means both the idea of sharing what we have with those who are less fortunate and obligations such as paying taxes, which are required of everybody. Providing intentional learning experiences related to these financial concepts can provide children practical skills and knowledge and provide a perspective about money based upon family values and beliefs.

Teaching about Earning

All family members, including children, should be assigned unpaid tasks to encourage responsibility for household operation. Such work should be unrelated to tasks for which children are paid.

When children get a job outside the home discuss the responsibility and financial risks, your expectations about how earnings are used, and the level of support you will provide (i.e., driving them on the paper route when it rains).

Help children set up an earnings record book to keep track of earnings and expenses incurred. Explain the break-even point.

Negotiate and renegotiate the level of support the family is willing to provide children once they begin earning money outside the home.

As children move towards financial self-sufficiency, parents begin to gradually withdraw support. The time devoted to earning money should be taken from children's leisure time, not from time used to study or perform household tasks.

Earning Teaches:

- A sense of freedom and recognition
- Financial independence
- Work standards and habits
- How to evaluate job alternatives
- Relationship of money, time, skills, and energy

Teaching about Spending

Let children make mistakes and learn from the consequences. Make sure children know you've made some mistakes, too.

Explain what quality, availability, and other comparison factors mean. Don't assume they know what these terms mean.

Let your child know you know you can't afford to buy everything you want, either. This could be brought out while window-shopping together.

Explain the bigger financial picture. For example, a movie involves not just the price of admission, but gas for the car, popcorn, pop, time and energy. This will help them be more aware when making financial decisions.

Communicate about money. Include children in family financial decisions and discussions appropriate for their age. This helps them feel valued and tells them that money is not a taboo subject.

Spending Teaches:

- Difference and balance between wants and needs
- Opportunities for comparing alternatives
- Making decisions and taking responsibility for themselves
- Keeping records

Teaching about Borrowing

Never loan children more than they can repay and then end up forgiving the loan. Keep the amount realistic for their financial means.

Draw up a contract for any loan with your child, no matter what age. Charge interest or set up a grace period within which no interest will be charged. Use a loan payment book and explain how it works.

Discuss how to save money to buy something instead of borrowing money to buy it. For example, using money saved with coupons; bringing your lunch to work instead of buying it; or collecting change every day.

Borrowing Teaches:

- Cost of borrowing
- Borrowed money needs to be paid back
- When it is appropriate to borrow
- Consequences of buying now and paying later
- Structure of borrowing
- The idea of credit limits

Teaching about Sharing

Explain that sharing with others includes not only money but resources such as time, materials, or skills.

Use special occasions to remind children about sharing with others who are less fortunate.

Initiate a community service project for which older children can take leadership.

Point out opportunities for children to donate time, energy, and skills to religious and community projects. Let older children choose the project.

Sharing Teaches:

- Good feelings for giver and receiver
- Helps other people
- Doesn't always require public recognition
- Obligations to give money to certain organizations, i.e. taxes to the government
- Giving of yourself rather than giving money or gifts

Teaching about Saving

Explain the difference between planned saving (short-term) for a specific want or need and regular saving (long-term) for unknown items or emergencies. Help children set up short-term saving goals and let them know how long it will take to save a particular amount.

Provide non-monetary rewards to encourage younger children to save. It is hard for a ten-year-old to appreciate the little interest his \$100.00 earned this month in the college fund when s/he couldn't get a special toy. Older children can learn to appreciate the reward of delayed gratification. Praise and encouragement help children learn to save for the long-term.

Motivate saving by annually matching the amount the child save.

Saving Teaches:

- One method to get what you want or need
- The "pay yourself first" idea
- Planning and delayed gratification
- Interrelationship of spending and earning
- Different purposes of planned and regular saving

How are you doing?

Here is an exercise that may help you evaluate what you are or are not doing to teach your children money habits for life. “Yes” answers indicate ways you are helping your child learn money management skills. “No” answers could mean you may need to help them more. These are general questions for all children. The stage of development of the child will dictate how involved you get with the topics presented in the questions. Use the developmental chart, which follows to guide you in deciding about the level of involvement.

Yes	No	
		Do each of my children have some money to manage without my interference?
		Have I helped my children set up a spending and saving plan?
		Do I avoid using money, as a reward or punishment?
		Do each of my children do some regular household chores?
		Do I set a good example by being truthful about money matters?
		Do I give my children more financial responsibilities as they get older?
		Am I a good money manager, giving my children a good example to follow?
		Do I allow my children to make their own decisions about money when there are alternatives?
		Do I praise my children if they have made wise decisions with their money?
		Do I help my children find ways to earn extra money that is age appropriate and suits their abilities and skills?
		Do I allow my children to make mistakes related to money and help them to understand the consequences?
		Do I sometimes verbalize my own desire to acquire more goods and services than my income can handle so that my children know that I say “no” to myself, too?

Stages of Development

The following section outlines, by stage of development, children’s understanding and use of money as well as conflicts about money. Activities and concepts parents can use when teaching children about money are also included. Depending on your family situation and your child’s stage of development, some ideas or activities may be more useful than others. They may stimulate additional activities that fit with your family’s values about money. Activities appropriate for your child are those listed for his/her stage as well as activities listed for younger children. Children are unique individuals who develop at their own rate. In general, however, as children grow older they should be included to a greater extent, in discussions of limits and consequences.

Preschoolers

Developmental Characteristics

- Understand the idea of saving when they can see and touch the amount.
- See money as a way to get things they want.
- See all money as having the same value.
- May think coins have more value than paper money.
- Understand the concept of borrowing by borrowing something and returning it (e.g., a book from the library or a video from a store).
- Know everyone must do unpaid routine family tasks.
- Need opportunities to make limited choices.
- Understand what is theirs and what belongs to others.
- Imitate much of what they see adults do.
- Choose between two or three items to be purchased.
- Can't differentiate between reality (a commercial) and fantasy (a TV program).
- Can't see things from the viewpoint of another person.

Suggested Teaching Activities for Parents

- Play grocery store or bank with play money.
- Borrow or rent something they need to return.
- Separate coins into piles by color and size and discuss their value.
- Let child pay for one item when you shop or put money in the parking meter.
- Teach children that family members work to pay for food and clothes. Let the child visit your workplace.
- Have children do routine chores without pay, such as setting the table or putting toys away.
- Put savings in a jar, pay interest, and let children hold the interest amount in their hands.
- Read stories about money matters and responsibility.
- Provide two or three alternatives from which you help them make a choice, (i.e., breakfast cereal).
- Discuss products advertised in TV commercials.
- Teach desirable money habits by your example.

Early Elementary

Developmental Characteristics

- Know what money is but may not correctly name coins and bills.
- Imitate parents' spending habits.
- May not understand that they have to pay for things that they take off the shelf at the store.
- Need to get information about money in a concrete way.
- Can save for something they want if saving time is short and the item is specific.
- May not realize cash and check are both money.
- They often think obtaining cash with debit or credit cards are like magic and that money is free rather than earned.
- Doesn't understand the relationship between cost and how much they have to spend; may ask how much they can buy with a given amount of money.
- Cannot be expected to say no to spending impulses.
- Can discuss money matters with more sophistication than their actual level of understanding.

Suggested Teaching Activities for Parents

- Open a savings account at a financial institution that accommodates children. Explain interest and how the institution works.
- Explain sales receipts and bills for expenses you pay for them such as clothing and dentist.
- Establish a spending plan including wants, prices, earnings, and money to save, share, and spend. Use color-coding to indicate these categories.
- Compare prices while shopping for something they want.
- Have children clip coupons and give them the amount saved.
- Post and discuss a family wants list to show that not all wants can be purchased.
- Provide an allowance if you choose to do so.
- Have children bring lunch money to school.
- Have children contribute some of their money to religious and other groups of your choice.
- Discuss the difference between needs and wants as you window-shop.

Middle Elementary

Developmental Characteristics

May want to spend on trendy items for peer approval.
Show more interest in having money.
Capable of long-term (one year or next summer) planning for spending or saving.
Understand to some extent how much money will buy.
Often tries to figure out ways of earning money.
Understand the difference between needs and wants.
Understand that money is limited.
Need guidance to understand the value of things (e.g. the amount one pays for shoes).
Concerned about fairness in how siblings are treated.
Can use math skills to keep track of expenses.
Need to feel an important part of the family and know that their opinion counts when making family decisions.

Suggested Teaching Activities for Parents

Find extra tasks children can perform to earn money in addition to money they receive from parents.
Establish rules and include interest in the plan for borrowing from parents.
Teach children to check prices in newspapers or catalogs before buying.
Have children figure out expenses for their projects.
If you give allowances, include children in discussing allowance amounts and the items for which the allowance pays.
Help establish the amount and the “why” to save.
Plan how to share the cost of an item they cannot afford from their earnings.
Play Monopoly® or Pay Day® games.
Read books and magazines for youth consumers found in the local library.
Allow children to purchase something you think they won't like and discuss the consequences without blaming.

Early Teens

Developmental Characteristics

Want to make earning and spending decisions without consulting parents.
May be dissatisfied with household income and what it provides.
May borrow from friends to satisfy money needs.
May request to use parents' credit cards if their peers are doing so.
Can begin to earn and save for long-term goals.
Understand that planning allows the family to set financial goals and work together to reach them.
Begin to deal with abstract concepts.
Begin to set goals and make plans to reach goals.
Understand the trade-offs and consequences of their money management decisions.
Still need help in establishing limits.
Often test values with others.
Can see things from the viewpoint of another person.

Suggested Teaching Activities for Parents

Compare the checking and savings account options of different financial institutions.
Open a checking account and help them balance it.
Develop a management system for online account.
Allow participation in family financial discussions about what to buy, how to save more, how to cut expenses, and groups to which the family will contribute.
Permit development and management of their own business enterprises.
Help them understand the use of cash and credit.
Encourage a spending and saving plan to meet daily needs and future goals.
Avoid comparing siblings to each other or to other children.
Encourage and praise both planned savings for a particular item and regular savings for emergencies.
Clarify what parents pay for and what children pay for from allowance or earnings.
Allow children to have discretionary money (money with which they may do what they please) so they can make decisions and learn from mistakes. Help children return an item or write a letter of complaint about an unsatisfactory item.
Match the amount children save.

Middle/Late Teens

Developmental Characteristics

Desire independence, but is often somewhat financially dependent.

May make impossible financial demands often because of insecurities.

Their school, social life, and activities are costly.

Peers often have more influence than parents.

Need to have money to manage.

May want to use credit for a major purchase.

Need to experience the good and bad consequences of spending actions.

Often continues to need help distinguishing wants and needs when making purchasing decisions.

Understand they can substitute time and energy for money, i.e., performing a task for someone in lieu of a purchased gift.

Understand differences between gross and net income and the importance of employment benefits.

Suggested Teaching Activities for Parents

Decide whether allowance should be continued if child has a job.

Let children do the family grocery shopping.

Involve children in planning and budgeting for the family vacation.

Help children complete income tax forms if they're employed.

Discuss how children's earnings are distributed between expenditures and savings and clarify who pays for what.

Before children apply for jobs, discuss work hours with regard to study time and household responsibilities.

Explain auto insurance to children.

Tell children where important family financial documents are.

Discuss ways to deal with risk of potential financial loss (i.e. savings, insurance, determining risk ahead of time).

Help children identify gifts that require an investment of both their money and their time.

Compute miles per gallon on the family car.

Involve children in getting information for a long-term financing arrangement (e.g. car, education, etc.).

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2. Saving Money by Mary Firestone, 2005
3. Goods and Services by Janeen R. Adil, 2006
4. The History of Money by Roberta Basel, 2006
5. Supply and Demand by Janeen R. Adil, 2006
6. Earning Money by Mary Firestone, 2005

7. Spending Money by Mary Firestone, 2005
8. What is Money? by Mary Firestone 2005
9. What do Banks Do?, 2006
10. Scarcity by Janeen R. Adil, 2006
11. Checks, Credit, and Debit Cards, Roberta Basel, 2006

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