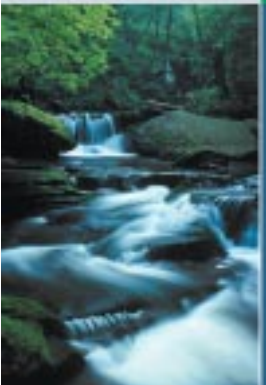


## How To Talk to Your Kids About Money



Your children have seen you do it a million times: take a plastic card from your wallet and “magically” get money from the ATM machine. Or they’ve seen you pick up a shopping cart full of merchandise, swipe your card through the machine and take home your purchases, all without seeming to spend a penny.

► Myvesta is a nonprofit consumer education organization. We provide a wide range of educational materials to assist those in financial need. Visit us on the Web at [Myvesta.org](http://Myvesta.org).



They may have heard you gripe, or even argue, about your bills. They've heard you say that you can't afford something they wanted, and then fumed as you found the money for something else you wanted.

**Children under age six don't generally grasp the concept of money very well.**

All the while, your children are watching, listening and learning about money. But what is it they are learning from you? The better question is, what do you want them to learn from you? What would you *really* like to teach your kids about money?

When it comes to your children and their financial education, there are three important points to understand:

- #1. Your kids *are* learning about money from you, whether you are actively trying to teach them or not.
- #2. Talking with kids about money is as important (and often as uncomfortable!) as talking with them about drugs or sex.
- #3. A positive, strong grounding in managing money is one of the most important lessons your children can ever learn from you. (And you may learn a thing or two while teaching them.)

All right. So you know it is important to talk to your kids about money, but how do you do it?

How you talk with your children about money will depend in part on their ages, as well as their own individual personalities. Consider the guidelines that follow, but remember to tailor them to your kids' levels of development.

## Two to Five Years Old

At this age children don't generally grasp the

concept of money very well. They may beg and plead to buy things they want, but they don't understand the value of a dollar needed to buy it. Still, as they approach school age, you may be able to start teaching them

some financial basics.

You may give them \$1 when you go to the grocery store, for example, and help them pick out a snack that costs less than that. Or you may help them earn the money for a small purchase by doing a chore. (Delayed gratification is a difficult concept at this age, so be prepared to pay up quickly.)

Children at this age also have a difficult time separating fantasy from reality. It's a good idea to talk with them about the products they see advertised on television and elsewhere. Help them understand that products don't always live up to the images presented in ads.

## Six to 10 Years Old

As kids start moving into elementary school you can start working with more financial concepts. At this age they are starting to see the value of money and can start learning how to manage it. More importantly, this is a time when your child may still listen to your guidance rather than relying on the influence of their peers for their spending decisions.

**Children from six to ten are starting to see the value of money and can start learning how to manage it.**

We believe strongly in giving kids allowances so they can

learn how to manage at least some of their own money. (*See our Allowance Tips at the end of this publication.*) You should still set guidelines that reflect your family values, though. At age six, for example, you might set a weekly allowance of \$1 or \$2 a week and require your child to give 10 cents to charity, put 10 cents into long-term savings and allow them to spend the rest.

Start showing your children how to set short-term goals by helping them save for something inexpensive that they can obtain in a few weeks. As they grow older, you can help them save for something larger. (Again, this will depend on his or her age and maturity). You might even offer to match their savings for a larger purchase. For example, you can offer to pay for half the cost of a new scooter if they save the other half.

Don't be shocked if your child asks you some detailed questions about your finances, such as how much money you make. You don't have to tell them, though. (Unless you don't mind if the whole neighborhood knows!)

Listen attentively to the question and try to get at the heart of why they want to know that. A question about your salary, for example, may instead be concern about why they can't have something they want, or why their friends seem to have (or don't have) more than they do. You can discuss your situation without giving the details of your income.

Use real-life situations, like shopping and bill paying, to teach your elementary age kids the value of money. You can allow them to clip coupons, for example, and keep the savings. Or you can have them help you compare prices between generic and brand-name items.

Designate a certain amount you'll pay for birthday gifts for their friends (\$5 or \$10, for example) and let them shop within that limit or use their own money to buy a more expensive present. Offer to pay a certain amount for sneakers, jeans or other "important" items and let them get the cheaper brand or save the difference. Some children will opt for saving their money, while others will splurge for the more expensive goods. Either way, they are learning to make choices.

**Kids from eleven to fifteen years old can start learning about budgeting. It's also the time to stress the importance of saving.**

## Eleven to Fifteen Years Old

When most kids are moving into middle school or junior high they can start learning about budgeting. Ask them to make up a list of items they think their allowance should cover then assign a dollar amount to each.

Negotiate an allowance based on what you want them to pay for and what you will take care of. Put your list in writing to minimize disagreements later.

Many kids this age are able to handle a small part-time job to earn extra money. Instilling an entrepreneurial spirit in your children at an early age is not a bad idea. Help them with their job hunt or visit your local library together for books on small businesses for kids. Then help them as they start advertising, collecting money etc.

Now is also the time to ratchet up the savings habit a notch. If your child earns income, he (or you) can open a Roth-IRA. That allows money to grow tax-free until retirement, when all withdrawals will also be tax-free. A 12-year-old, who puts \$1,000 into an IRA now and leaves it there until retirement, will have over \$200,000 at age 65 (assuming a 10 percent annual return.) Retirement is a long way off, however, so you may want to match any money he puts away.

Don't underestimate your influence as a role model for your children. While their friends heavily influence most kids at this age, they still need your guidance and help for important decisions.

How you handle your money may have a strong impact on their later life. If you are frugal, for example, they may rebel against that frugality. On the other hand, they may develop the same types of habits. It doesn't hurt to talk about the way you handle money

while explaining that there are different approaches and each one can have advantages or disadvantages.

## Sixteen to Eighteen Years Old

This is the time to really let your children test their money management skills. Soon they will be out from under your direct guidance, so it's

**Ages sixteen to eighteen are a time to let your child test their money management skills.**

important to let them make some mistakes. Better to have them fall on their faces when they are still at home and you can help them pick up the pieces, than later on when they are on their own.

At Myvesta we've worked with many people from all walks of life who are facing financial difficulties. The vast majority of them has never learned from their mistakes and has never had training in basic personal finance issues.

Helping your teen open a checking and savings account would be a smart idea. You'd be surprised at how many teens think that as long as they have still have checks; they still have money in their account. Now is the time to show them how checks work and to help them avoid bouncing checks.

Budgeting is vital at this age. You may want to try going to a bi-weekly allowance, to give your kids more time to stretch their money. You may also want to give them a fixed amount for back-to-school shopping and see how far they can make the money go.

## Nineteen Years and Older

If your child is headed off to college, you'll have a whole new set of challenges before you. Many parents are shocked at how easy it is for their kids to get multiple credit cards in school. They also underestimate the amount of spending money their children will "need" when they are away from home.

Avoid letting your child "over borrow" for college. We've seen too many people who do not earn enough to pay for their student loans and living expenses when they graduate. While student loans may seem like "found money," they must be repaid someday.

**Avoid letting your child "over borrow" for college.**

A student who takes out \$40,000 in loans to get a graduate degree in journalism, teaching or social work, for example, is going to find it very difficult to earn enough to pay them back anytime soon. Unlike other types of loans, student loans are not dischargeable in bankruptcy. No matter how little you make when you graduate, you must pay them back. Please help your child borrow cautiously.

It's also important to talk with your young adult about issues like the importance of health insurance and a good credit rating. If they decide to live at home, assign them a fair portion of the rent, utilities, food and household chores so they get at least a somewhat realistic sense of what life will be like on their own.

## Advice for Any Age

**Keep your hands off your child's money**

If they get a gift of money, it belongs to them. Allow them to spend or save it within reason (using your guidelines). DO NOT take your children's money for household purchases and DO NOT borrow it and fail to pay it back. Doing so will teach your children to do the same thing to you or others when they get older.

**Watch how you talk about money**

Try to talk about money in a positive, constructive way. You may want to ask your spouse, or another loved one, to describe to you the way you talk about money. Often we don't even realize what we're saying when we say it. If things are tough, admit it, but

remain positive that they will get better.

### Be patient

If you start while they are young, you have many years to teach your children about money. Even if you start late, however, it's important not to take your own frustrations out on them. Try not to criticize your children's choices or tell them their wants are "dumb." If they make a mistake, empathize and help them understand the lesson they've learned from it. If they do something right, praise them.

### Avoid catastrophic scenarios

Think before saying things like, "If Daddy loses his job, we'll lose our house," or "If your mother leaves me, I'll be out on the street."

First of all, that scenario may or may not be true. But more importantly, your expressions of fear may be taken literally – or greatly exaggerated – by your children. It's your job to play the role of the calm, level adult in front of the children.

### Present a unified front

Some couples argue about money all the time. Whether you are married, divorced or in some variation, it is important that you keep your arguments civil in front of the children and that you decide – together – on basic ground rules. If one of you is trying to get your child to save for a purchase but the other one runs out and buys it, your child will get a very mixed message, to say the least.

### Think twice before rewarding with money

"I'll give you \$20 for every 'A' on the report card." Or "You can have \$5 if you make it through the week without talking back to me." It can be easy to offer financial rewards for good behavior, but doing so may not achieve the long-term effect you really want.

Considerable research on motivation has found

**If things are tough, admit it, but remain positive that they will get better.**

that *extrinsic* motivation (rewarding with an outside reward like money or material items) is very short-lived and lasts only as long as the reward lasts.

*Intrinsic* motivation (the rewards that come from the internal satisfaction of achieving a goal) is much more long-lasting.

While it may take considerable effort to find out why your child is not performing to his potential in school, for example, it will be much better to help him develop a desire and the skills he needs to succeed, than to try to bribe him with cash to raise his grades.

### Stop the guilty spending

You work long hours. Your kids have been through enough traumas with the divorce. You want your child to fit in like you never did. Whatever the reason, you may be spending to try to make your children happier/love you/make everything right. In the meantime, you're under extraordinary stress just trying to keep up.

You must understand, this strategy will not work in the long run. The bills will keep piling up and you'll become more stressed or have to work even harder. Your children will sense your stress and respond to it by acting out in different ways. Your children need two things from you more than anything: love and support, not money. If you cannot reduce your spending on your children to a level that matches your budget, please seek professional help. It's only a matter of time before your problems can become very serious.

## Teaching Your Kids About Credit

Like it or not, by the time they turn 18, your children will probably get offers for credit cards. In many cases, they'll be able to obtain cards without your signature or permission,

**Like it or not, by the time they turn 18, your children will probably get offers for credit cards.**

even if you are their main source of income.

Teaching your kids about credit is *not* an option. It's a must. Here's how:

### Let them borrow

If your son or daughter has blown his or her allowance before the weekend and needs cash, consider lending her some from future allowances. But put the loan in writing and charge a small amount of interest. This will teach the principles of borrowing better than any lecture can.

### Set limits

You have credit limits and so should your kids. Try to avoid letting them go into hock to you for months, or years, to come.

### Practice with plastic

Pre-paid credit cards, such as the Visa Buxx card, allow you to "load" a "credit" card with money for your child to spend. When your child reaches high school age, you may want to use one of these cards for the spending portion of their allowance.

### Cosign carefully

Many a parent has regretted cosigning for a credit card, car loan or other loan for their child. The problem is, when you cosign, you are legally responsible for the entire loan if the other person doesn't pay.

With a high-limit credit card, your exposure can be tremendous. Cosign only if you are prepared to make the loan payments if your offspring doesn't, and if you can monitor the account each month to make sure payments are being made on time so your credit rating isn't hurt without your knowledge.

## How to Talk About Tough Times

Many things, from poor decisions to a medical crisis to divorce, can wreak havoc on your family's financial life.

Here's what to do if you are in trouble:

### Don't Try to Hide

Don't continue with unrealistic spending habits just to "protect" your children. They'll find out sooner or later, and later may be much worse if your bills continue to mount.

### Get Help Yourself

You will feel a great deal better about the situation if you have a plan for coping with it. Professional assistance can help a great deal.

### What It Means to Your Child

Your child probably won't notice if you start serving pasta more often or cutting down on the pizza deliveries. But if you have to drop your daughter's ballet lessons or cut your 16-year-old's allowance in half, it will be a lot tougher.

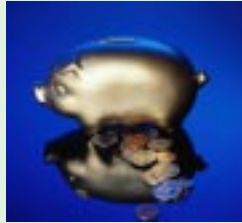
Think carefully about how different changes in your circumstances might affect your child so you can be open and honest with them. If possible, give them choices or alternatives.

### Offer to Help

If your child is old enough to earn her own money, you might offer to help her find a job so she can continue the ballet lessons, for example. If she is younger, you may want to look for alternative options. Can you barter for the lessons? Or can you find another inexpensive activity to take its place?

## Allowance Tips

Choose a payday



Weekly allowances often work best and Sunday nights may be a good time to dole them out. That way, kids won't have the weekend to blow their entire allowances.

### Be faithful

If your employer was frequently late with your paycheck you'd be livid. Your kids need to rely on their allowance just as you rely on your checks. So pay on time each week.

### Plan for safekeeping

Kiddie banks available at stores like ToysRUs have three separate compartments, so your offspring can divvy up the money they receive for short, medium and long-term goals, and/or donations to charity.

### Make it easy

If you want your child to set aside 10 cents of her \$1 allowance for charity, then pay her in coins so she can easily set that dime aside.

## About Myvesta...

Myvesta<sup>sm</sup> is dedicated to helping people create healthy financial lives. The organization provides a wide range of materials to inspire and inform people so they can break down their barriers to financial and personal success. For more information visit [Myvesta.org](http://Myvesta.org) online.

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