Introducing Kids to Money

Money gives people -- both young and old -- decision-making opportunities. Educating, motivating, and empowering children to become regular savers and investors will enable them to keep more of the money they earn and do more with the money they spend. Everyday spending decisions can have a far more negative impact on children's financial futures than any investment decisions they may ever make. Here are 15 simple ways to help educate children about personal finance and managing money:

1. **As soon as children can count, introduce them to money.** Take an active role in providing them with information. Observation and repetition are two important ways children learn.
2. **Communicate with children as they grow about your values concerning money** --- how to save it, how to make it grow, and most importantly, how to spend it wisely.
3. **Help children learn the differences between needs, wants, and wishes.** This will prepare them for making good spending decisions in the future.
4. **Setting goals is fundamental to learning the value of money and saving.** Young or old, people rarely reach goals they haven't set. Nearly every toy or other item children ask their parents to buy them can become the object of a goal-setting session. Such goal-setting helps children learn to become responsible for themselves.
5. **Introduce children to the value of saving versus spending.** Explain and demonstrate the concept of earning interest income on savings. Consider paying interest on money children save at home; children can help calculate the interest and see how fast money accumulates through the power of compound interest. Later on, they also will realize that the quickest way to a good credit rating is a history of regular, successful savings. Some parents even offer to match what children save on their own.

Allowance and Spending Decisions

6. **When giving children an allowance, give them the money in denominations that encourage saving.** If the amount is $5, give them 5-1-dollar bills and encourage that at least one dollar be set aside in savings. (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!)
7. **Take children to a credit union or bank to open their own savings accounts.** Beginning the regular savings habit early is one of the keys to savings success. Remember, don't refuse them when they want to withdraw a portion of their savings for a purchase--This may discourage them from saving at all. You can also introduce children to U.S. savings bonds. Bonds are still a good value, costing one-half their face value and earning interest that in some instances will be tax-free if used for a college education. Perhaps more importantly, when given as a gift, bonds will not be spent immediately, reinforcing saving and goal-setting lessons.
8. **Keeping good records of money saved, invested, or spent is another important skill young people must learn.** To make it easy, use 12 envelopes, 1 for each month, with a larger envelope to hold all the envelopes for the year. Establish this system for each child. Encourage children to place receipts from all purchases in the envelopes and keep notes on what they do with their money.
9. **Use regular shopping trips as opportunities to teach children the value of money.** Going to the grocery store is often a child's first spending experience. About a third of our take-home pay is spent on grocery and household items. Spending smarter at the grocery store (using coupons, shopping sales, comparing unit prices) can save more than $1,800 a year for a family of four. To help young people understand this lesson, demonstrate how to plan economical meals, avoid waste, and use leftovers efficiently. When you take children to other kinds of stores, explain how to plan purchases in advance and make unit-price comparisons. Show them how to check for value, quality, repair ability, warranty, and other consumer concerns. Spending money can be fun and very productive when spending is well-planned. Unplanned spending, as a rule, usually results in 20-30 percent of our money being wasted because we obtain poor value with our purchases.

10. **Allow young people to make spending decisions.** Whether good or poor, they will learn from their spending choices. You can then initiate an open discussion of spending pros and cons before more spending takes place. Encourage them to use common sense when buying. This means doing research before making major purchases, waiting for the right time to buy, and using the "spending-by-choice" technique. This technique involves selecting at least three other things the money could be spent on setting aside money for one of the items, and then making a choice of which item to purchase.

Buying Smart

11. **Show children how to evaluate TV, radio, and print ads for products.** Will a product really perform and do what the commercials say? Is a price offered truly a sale price? Are alternative products available that will do a better job, perhaps for less cost, or offer better value? Remind them that if something sounds too good to be true, it usually is.
12. **Alert children to the dangers of borrowing and paying interest.** If you charge interest on small loans you make to them, they will learn quickly how expensive it is to rent someone else's money for a specified period of time. For instance, paying for a $499 TV over 18 months at $31.85 a month at 18.8 percent interest means the buyer really pays about $575.
13. **When using a credit card at a restaurant, take the opportunity to teach children about how credit cards work.** Explain to children how to verify the charges, how to calculate the tip, and how to guard against credit card fraud.
14. **Be cautious about making credit cards available to young people, even when they are entering college.** Credit cards have a message: "spend!" Some students report using the cards for cash advances and also to meet every day needs, instead of for emergencies (as originally planned). Many of those same students find themselves having to cut back on classes to fit in part-time jobs just to pay for their credit card purchases.
15. **Establish a regular schedule for family discussions about finances. This is especially helpful to younger children--it can be the time when they tote up their savings and receive interest.** Other discussion topics should include the difference between cash, checks, and credit cards; wise spending habits; how to avoid the use of credit; and the advantages of saving and investment growth. With teenagers, it's also useful to discuss what's happening with the national and local economies, how to economize at home, and alternatives to spending money. All of this information will be important as they take on more responsibility for their own financial well-being.

More Resources:

https://www.familyeducation.com/printables/parenting-tools-printables/money-jar-labels-kids

https://www.familyeducation.com/life/teaching-kids-save/9-fun-ways-teach-your-children-about-saving-money

https://www.familyeducation.com/printables/play-money

https://www.moneycrashers.com/kids-educational-websites-learning-money/