


15 TIPS FOR TEACHING KIDS ABOUT SENSIBLE SPENDING

Have you talked to your children about the value of money and the importance of managing it wisely? All parents hope their children will grow up to make prudent use of their money, yet few actually spend time talking to them about how to accomplish these goals. According to the American Institute of CPAs, parents are more likely to have talked with their children about good manners, smart eating habits, the importance of good grades, the dangers of drugs and alcohol and the risks of smoking than about sensible spending. If you're not sure how to get started, here's some advice:

- 1. Don't wait.** (Suggested for ages 4 +) Even young children are able to understand what it means to build—or save—toward a goal, such as a toy or trip to an amusement park, especially if such an item tops their wish list. Parents can help by encouraging their children to set aside money they receive for birthdays or holidays to save up for a special purchase. Older children can save money earned from afterschool or weekend jobs, and parents can give younger kids small jobs to help them earn money.
- 2. Make it fun.** There are lots of apps available to help your kids learn the joy of earning, saving and spending. Some options include Greenlight, PiggyBot, Allowance+ and Bankaroo. If you don't want to use apps, help your children create colorful charts that monitor their progress or illustrate the chores they can do around the house to earn money. By working and contributing to the family unit, they will begin to understand how money works and its value. Suggest your child draw a picture of what he or she is saving for and use it to decorate the piggy bank or jar holding the savings.
- 3. Turn it into a family project.** Talk to your children about the steps you take to save toward long-term goals or to cut down on your expenses. You can involve them by giving them a grocery list and asking them to find coupons for items on it. Take them to the store and comparison shop, even if you have a coupon. Figure out how much was saved and reward them with a portion of the savings. See it through to the end by involving them in the final transactions to make the experience even more tangible.
- 4. Understand their priorities.** Long-term objectives, such as saving for college, likely won't mean as much to your child as more immediate goals, such as a new bike or the latest video game console. So, while it's a good idea to show them their college savings account statement and discuss how and why you contribute to it, remember that they will get more excited about shorter-term rewards.
- 5. Repeat often.** Dealing with financial issues is part of everyday life for adults, which means there are a lot of teachable moments available. Talk to your children about how you manage your money, including your efforts to save for short-term goals, like the family's annual holiday budget, and long-term objectives, like college or retirement. Point out some of the ways you save money each day, such as bringing a brown-bag lunch to work or carpooling with coworkers. This kind of dialogue helps introduce them to good habits that will last a lifetime.
- 6. Teach restraint.** Encourage them to make and be responsible for their own decisions while explaining the rewards, enjoyment or consequences of those decisions. Develop a budget (suggested for ages 8+). Coach and give them opportunities to make decisions on how to spend a portion of their savings. Teach them to save up for a "big" want. Set up jars for giving, saving and spending. Discuss terms such as loan, debt and interest.
- 7. Don't underestimate their ability to understand.** Discuss taxes, investment, credit scores, stock and 401k savings. Use the 401k concept with the child's savings plan, offering a match as an employer does for their employees as an incentive for the child to save (suggested for ages 10+).
- 8. Keep records.** Keeping a record of discussions will help you remember and clarify details of what was discussed and will aid in implementation, monitoring and establishing next steps in helping your child become a financially responsible adult.
- 9. Stand your ground.** Of course, your children won't have much motivation to save if you buy them a toy whenever they ask or pull money out of your wallet whenever they want to meet friends for pizza. Although it can be hard to say no, keep in mind that by doing so, you are helping them learn how to budget and about the value of delayed gratification, as well as how to be content and embody the spirit of gratitude.
- 10. Play a money game with your child.** If you have change lying around in a cup or piggy bank, dump it out on a table and let the young child play with the money (with supervision if they are very young). Let them build stacks, roll the coins, etc. Teach counting and equivalencies (e.g., "How many pennies does it take to make a nickel?"). This is also a great activity if you have lots of change and want to do a money or basic math program for young groups.
- 11. Set up a savings account for your child.** Take them with you to the bank. Let them participate in the paperwork process of setting up the account. Let them make regular deposits into their accounts. Review the bank statements with them. As they mature, they will understand them more and be able to do it on their own.

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- 12. Set up a Roth IRA for you child.** If they have earned income (even if it is a small allowance or money from doing house chores that you pay them) keep track of the earned money and you may “match” that amount in a small Roth IRA. This will help your child learn about retirement and give the money longer to grow. It sets the habit of saving for retirement early. Some brokerage firms will let you begin a Roth IRA with a very small amount of money.
- 13. Let your child sit with you once or twice while you pay bills.** Kids need to understand that while it is not an exciting project, it is vital. If they see the bill and watch you pay it, it will be a more tangible experience for them. It is also an opportunity to discuss what is necessary to keep a household running.
- 14. Play games.** There are many money-based/cash flow board games and online games that teach a variety of financial lessons, including entrepreneurship, income, expenses, etc.
- 15. Do a lemonade stand including a budget and financial statement.** Help your kids add up all the costs and subtract them from the revenues made selling the lemonade. Have them go to the grocery store with you and keep track of the costs. After selling the lemonade, have them write down how much money they collected (their revenues) minus all of their costs (expenses) and the difference is the profit they made. This is also a great way to teach about capital (e.g., “How much money did we need to start with to go to the grocery store?”). After they have written the revenues minus expenses, they have created a financial statement similar to what businesses use for reporting and tax purposes. You can also talk about fixed costs (the cost of the parent-provided table, the land (your house), etc. They can do it with a friend and you can talk about business partnerships (splitting profits, disagreements, working together, sharing expenses, etc.).