



How to Teach Your Kids About Money

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When I was just out of college, my mom wrote a letter to my younger sisters and me filled with financial lessons she had learned over the years. She explained how she and my dad had earned less than a combined \$40,000 when they got married but managed to save \$10,000 during that first year, which let them buy a small house. Eventually, their frugal ways helped them pay for all of our college tuitions. She recommended saving as much as possible, avoiding credit-card debt, budgeting, and diversifying investments.

My mom is hardly alone in trying to pass on financial know-how to her kids. In fact, teaching children about money is a growing concern among parents. And for good reason. Amid what could be considered a nationwide crisis in financial literacy, as illustrated by burgeoning consumer debt and paltry savings rates, parental guidance might be one of the few ways to reverse those trends.

Home study. It's also one of the most effective. While much research suggests that financial literacy programs in schools have little effect on students' later behavior, Lewis Mandell, a finance professor at the University of Washington, has found a strong connection between motivation and financial literacy. That suggests parents who persuade their kids that money management matters probably help them make smarter choices as adults. While Mandell recommends that teachers also promote motivation, he says that with such a personal and emotional subject, parents can probably better get through to their children.

Many parents, though, avoid the topic altogether. A recent Charles Schwab survey found that only 1 in 5 parents frequently involves teens in family budgeting and spending decisions. Just over half of parents teach their teens how to save on a regular basis. With the financial world increasingly complicated—many parents themselves may not understand the inner workings of credit cards and retirement accounts—kids can easily leave for college knowing less about financial matters than about their school meal plan.

Alarm over such ignorance has stimulated a handful of new ventures designed to help parents teach kids. Money Savvy Generation, a company cofounded by former financial services professional Susan Beacham, uses a piggy bank with four compartments—save, spend, donate, and invest—to teach kids how to budget. "You're teaching them to stop, pause, and reflect, and this is the first step toward teaching them to delay gratification," she says. Having everyone in the family, including adults, draw a picture of his or her

goals, from pet gerbils to European vacations, also helps kids visualize the benefits of saving, Beacham adds.

Sometimes, starting that thought process can take less than 30 seconds. I recently overheard a teacher on a school field trip ask her student, who had expressed interest in a pricey car, "What job are you going to do so you can buy that car?"

Both Beacham and Mandell put their own children in charge of money from allowances or gifts so that they could learn how to take responsibility for it. "It's about teaching them a habit that will stick," says Beacham, whose teenage daughters purchased school lunches and clothing with their allowances. Mandell's daughter, now 35, learned to diversify investments when she purchased Pepsi stock and then watched it fall 40 percent.

Those hands-on lessons are powerful. While I had trouble recalling the specific points of my mom's letter until she recently re-sent it to me, I do remember when the technology mutual fund I purchased in the late 1990s plunged in price. I've kept my short-term savings in bonds ever since.

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