Teaching your kids to be money-savvy

By Lynne Ticknor, M.A. • Bankrate.com

Children between the ages of 5 and 14 have direct purchasing power of more than $40 billion a year and influence $146 billion worth of purchases. Yet, few children are taught, either in school or at home, about managing money.

With schools forced to make tough choices on which "noncore" subjects to include in curriculums, parents are often left to teach financial skills on their own. For parents, many of whom don't feel confident in their own money-management prowess, teaching their kids how to manage money can be an intimidating task.

But don't put off addressing the issue. One point on which all of the experts agree is that parents must be willing to allow children to make mistakes in their purchasing decisions if they want to teach financial responsibility. It's much better to let children make, and learn from, those mistakes early with small amounts of money than later in life when they can find themselves in serious financial trouble.

"One of the biggest mistakes parents make is not allowing their children to have control over their own money," says Susan Beacham, founder of the Money Savvy Generation, an educational money-management organization in Lake Bluff, Ill.

Here are some strategies for teaching kids of all ages about money.

3 years and under

Most experts agree that the sooner parents start teaching their children about money, the better. "I would encourage starting earlier than you even thought you would," says Beacham.

Even at age 3, you can begin giving children an allowance. What usually happens? They play with it, they forget where they put it or they lose it. That's OK. Children are learning that money is of value and needs to be kept in a safe place so that they know where it is when they want to use it.

Ages 4-5

In today's consumption-driven society, teaching children to save and invest is a challenge. To teach children the important savings-related concept of delayed gratification, try using a technique known as "one now, two later." The technique is based on a study conducted at Stanford University that identified a correlation between delayed gratification and lifelong success.

In the study, a researcher gave 4-year-olds a marshmallow. The researcher then told them that if they could wait to eat the marshmallow until he returned from running a 15-20 minute errand, he would give them an additional marshmallow. When the same children were studied 14 years later, the children who were able to wait to receive the second marshmallow before eating the first one were more positive, self-motivated, persistent in the face of difficulty and able to delay gratification in pursuit of their goals. Researchers also found that the self-discipline required to delay gratification can be taught by parents and teachers.

At this age, pay particular attention to the message you are sending your children about money. Children are excellent observers and will mimic the attitudes, behavior and language that they see their parents and other adults use.

Julie Lovett, a mom in Fort Worth, Texas, was surprised one day when her daughter, Amanda, was pretending to sell pies. Lovett asked her how much a chocolate pie cost. Amanda, age 4, promptly responded, "Five dollars -- but we take debit cards if you don't have cash."

Lovett was shocked that her daughter knew what a debit card was! "I don't know where she learned about debit cards. Maybe she hears the store cashiers asking, 'Will that be debit or credit?'" Lovett says.

Ages 6-8

With the help of parents, children in elementary school can begin to differentiate between something they desire and something they need.

Kathy Griffin, founder of Money U, the online campus for personal finance, currently being field-tested and scheduled to be released in early 2006, agrees that parents must play an active role in helping children understand the difference between wants and needs.

Begin by having discussions about advertising on television.

"When children express a want, you can have any number of conversations starting with 'Why do you want that?' and helping them correct their language so that they understand the difference between wants and needs," Griffin says.

Griffin also advocates working with your child to develop a savings plan so that they can save for things they want.

"The effort they have to put toward acquiring something that they just 'have to have' often helps them decide that the object isn't so necessary after all," Griffin says.

Children at this age can also learn to develop and stick to a budget. It should be a gradual process that gives them control over their expenses and helps them build financial confidence. "By the time your child is in second or third grade, they are probably able to manage their own lunch money," Griffin says.

Then you can suggest that friends' birthday presents, charitable contributions and maybe school supplies become part of their responsibility. They can learn to pay for these expenses by using their allowance, which will need to be increased to pay for the additional expenses.

Ages 9-12

By the time children are preteens, they begin to develop a sense of social responsibility. Emphasize the concept of donating money. Your child can decide where they will donate money and can personally see the positive benefits of their donation

The Dzurays of Columbia, Md., have used the topic of financial responsibility to instill a sense of gratitude and charity in their two young children. Hadley Dzuray, age 9, is planning to organize her own separate tables at the family's garage sale to sell her belongings.

"She's already decided that she is going to donate all the money to the Johns Hopkins Children's Center," says her mother, Jodi Dzuray. She has made donations to the hospital in the past, and Johns Hopkins seems to be her charity of choice -- and for good reason. Her younger brother, Jon, was diagnosed several years ago with leukemia. Jon is now cured after receiving a bone marrow transplant from Hadley.

Beacham, also known nationally as "Mrs. Money," agrees that this is the perfect age to really grab children's attention about social goodwill and giving back to the community. "It's like teaching children good hygiene. If we get them to start thinking about others at a young age, just like we teach them how to brush their teeth and pick out their clothes, it will become a way of life for them," she says.

Ages 13-18

Some teenagers are mature enough to handle more advanced money-management strategies. For example, Griffin taught her son Evan, now a student at UCLA, and daughter Elise, a high school junior, how to budget for clothing, spending money, school supplies and other necessaries for an entire year's time through the use of a Visa Buxx card. Visa Buxx works in stores like a regular credit card, but it's actually a prepaid card.

Parents decide how much money should be loaded onto the card and can use the Visa Buxx Web site to monitor their teen's spending habits. This offers teens financial independence within the safe and structured limits imposed by parents.

"We agreed on how much money should be put on their card and what types of expenses they would be responsible for," Griffin says. Griffin's son used his Visa Buxx card until he left for college and now uses a debit card. The process was seamless for him because of his prior experience with successfully managing his Visa Buxx. "Now he has both a debit and a credit card and manages them successfully, but I'm not sure that all kids at his age are ready for that," Griffin says.

As society becomes more consumer driven and children are bombarded with endless advertising, teaching money management has become a critical part of parenting today. Using some of these techniques will help your child learn how to manage money and become a more financially responsible adult.

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