

Who's Teaching Your Child About Money?

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Only you, as a parent, can give your child the financial education they won't get anywhere else. In school your child will learn what money is and how to add and subtract it. Your child's school may include a class about saving money, investing in the stock market, and other money activities. But schools will not provide a continuous day-to-day experience for managing money. You can help your child develop this skill by giving him or her money and real-world practice.

The best place for your child to learn money management is at home. As the parent, you have to manage the process and be as committed to helping your child learn money skills as you are to academics, arts and athletics.

Parents are usually the primary source of their children's financial education, according to a 2001 study by the American Savings Education Council. The study discovered children frequently don't learn what they need to about money at school or anywhere else.

Start by accepting the reality that your child knows more about money than you think and at a much younger age than you might expect. Children can see that money has power long before they understand money in terms of dollars and cents. A toddler shopping with you watches you at the check out counter and you go home with something you didn't have before.

What your child saw was the result of you making a

decision to use money for a particular purpose. The transaction by itself looks very easy to a child—give someone money and get something in return. What your child doesn't see is how this one transaction fits into the bigger picture of all the money that the family has. Your child also doesn't see what is required to get money and keep track of it. Nor does your child see how this one transaction changes the amount of money the family has going forward and how this transaction can affect future decisions.

So, once you start giving a child money he or she will quickly figure out how to spend it—that's the easy part. What is more difficult for a child (or anyone) is learning to manage money and not just in the short term for a fun item now and then.

When we think of children and money, we usually think of allowances. Traditionally the child received a cash stipend and used cash for spending or saving. There are many methods that parents use to give their child experience with money. However, most allowance systems create artificial money situations where the child spends the money mostly for discretionary spending or as directed by parents. The parents are really in control so the child learns to manipulate the system instead of learning how to actually manage the money.

So how does a parent create a more realistic money management system for children to use while still living at home? What do children need to learn about money

Who's Teaching Your Child About Money?

(continued)

management and how responsible can children be?

If parents do what I recommend in setting up a money management system they will find that their children are very capable and can be very responsible. Parents will also discover that money doesn't have to be the catalyst for the traditional struggle between parent and children. The way to do this is to give children real control and real responsibility for real money in real time. First we'll look at what each part means and then how each part works to give children real-world experience managing money.

Give your child real money. It is no surprise to learn that children are spending money—and lots of it. According to The Jump\$tart Coalition for Personal Financial Literacy children's spending has roughly doubled every ten years for the past three decades, and tripled in the 1990s. Teens spent \$175 billion in 2003, a three percent increase from 2002, according to a new study by Teenage Research Unlimited (TRU).

If children and teens are spending that amount of money it's important for them to learn how to keep track of spending using the same types of money you do. This means that your child needs to learn how to manage more than cash as in the traditional cash-then-spend allowance systems.

Look at your own spending. How often do you pay using cash? Is cash used more for incidental and discretionary spending? Is cash ever used for the large

monthly payments like your mortgage or car loan? Most likely your money is spent by writing checks, using credit and debit cards, and setting up and initiating electronic fund transfers. Money is electronically deposited into an account and easily withdrawn at any time from an ATM.

If you are spending using means other than coin and currency then your child needs to learn about those same methods. These methods very likely include checks, credit and debit cards, ATM machines and electronic fund transfers.

Children want to be just like adults and they want to use money in the same ways that adults do. If you watch children play store you'll see them creating their own credit and debit cards, and written accounts and checks because they know that's how people spend money.

Give your child real control. Having control comes with the ability to make mistakes and fix them and go forward. The key to letting children have real control over money is to keep the playing field small enough so the mistakes will also be small. This gives a child hands-on experience making many small mistakes that will teach lessons rather than a few big mistakes later as an adult that can totally destroy one's financial standing.

A child who is responsible for some spending will learn to budget using child-size expenses. This transfer of control shifts day-to-day management to your child. A spending plan is a neatly packaged transfer of control. In effect, you hand your child a list and say, "These

Who's Teaching Your Child About Money?

(continued)

expenses are your responsibility.” The money for this task is ultimately yours, of course, but the day-to-day control of it passes to the child.

This will force your child to think about how and when to make the purchases. Buying the items teaches your child about costs and value. And because the funds are part of the total in the home account, your child has to manage the money as part of a larger whole. This creates a more realistic mix that includes spending for both wants and needs, e.g. when money is spent, the amount is noticeably reduced, so decisions about spending have a real effect that the child can see.

Your child is not legally responsible for spending as a minor so it's to your advantage to allow as many mistakes as possible so he or she can learn the difference between good choices and bad choices. It's also up to you to set the guidelines and enlarge the playing field as your child gets older. In this way your child learns to manage an increasing amount of money over time.

Having real control also means that the child has absolute control over all the funds. While parents want to instill good habits such as saving or making contributions a child quickly figures out what the real money is. Some parents may set rules about how allowances are used; 25% for savings, 25% for “college fund”, 10% to church, 40% for child's “fund and entertainment”. To a child it is only the money that is left that is his or hers to spend with the rest of the money

being “spent” by the parent. The child feels there was no control over that money so to him or her it doesn't exist.

If you want a child to really understand the concept of saving or contributing then a more effective system would give the child an entire amount of money with guidelines and incentives for using the money in those ways, but without “commands” for how to use it. The big difference is that the child makes the actual decision and required action. This puts the control in the hands of the child.

Give your child real responsibility. Letting a child spend money for only fun items will never give experience in balancing necessary spending with discretionary spending. Any child can take money to a store and buy a toy. Nothing is learned other than the money is gone and the child has a new toy.

One of the keys to managing money as an adult is to pay the bills and have money to use for discretionary spending. To help your child learn this skill, you would transfer responsibility for paying some expenses to your child. An example would be school supplies. Put your child in charge of a fund for buying certain supplies for the school year and replacing supplies as needed. This makes your child aware of the cost of the supplies in the first place and the cost of replacements when items are used up or lost.

The money for this is part of the allowance and not “extra” money. Once the fund is empty the money is

Who's Teaching Your Child About Money?

(continued)

gone. Both parent and child have distinct responsibilities for making this work. If a child spends the fund too quickly it is up to the child to “cover the difference” with other money in the child’s control. Likewise the parent must refrain from giving the child money “to help out” and defeating the idea of giving the child control.

When you make your child responsible for managing both money for necessary and discretionary spending you provide valuable experience learning a necessary life skill. Even though you are ultimately responsible for providing funds and opportunities to manage the funds, the decision-making activity remains the same: Should I buy the more expensive pencils or the generic brand? When the money in question is in the child’s control the decision takes on great importance, much more so than when a child tries to convince you to buy something.

Make the money system work in real time. In order to offer a real-world experience the money has to be part of a stream of funds that have both a past and a future.

Children and adults look at their money supply quite differently. In terms of time, when children receive money they see the possibilities for the future. Adults receive money and know that it often pays for choices made in the past.

Most likely you are already giving your children money to spend. However, spending money is not the same as managing money. Your child can learn money

management skills by having control of money and responsibility for some expenses over a period of time. Because there are no rules for giving money to children, you will create your own. You will set limits and guidelines based on your comfort level and your child’s age and maturity.

Though you are still responsible for basic support of your child, within the total amount there is some money that you can shift to your child to control for certain expenses. In essence, you can provide an “almost-free” financial education for your child.

One of your jobs as a parent is to help your child make the transition to the adult world of money. When a parent controls all expenditures, a great learning experience will be missed. By shifting some control to your child, you can take advantage of this golden opportunity. Deciding how much money you want your child to control is entirely up to you. The dollar amount is not as important as establishing a long-term relationship of trust between you and your child. It is this trust that gives your child freedom to manage money, make mistakes and gain experience.

Only you can give your child experience managing money before he or she becomes an adult. By letting your child learn and make small mistakes now you will help your child develop skills to better manage finances as an adult.