

Kids and Money: The Best Habits Start Early

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Money management does not have to be intimidating or laced with the mystique of a foreign language, as many adults view it. You can help your children establish better financial habits by starting to teach them about spending, saving and investing while they are still young. No matter how much or little money you have, the same basic lessons apply.

Providing a financial education may require some serious thought and self-education by parents, but is likely to pay off handsomely for the entire family in the long run. When you consider the key role that money plays in our lives and relationships, and the powerful emotional reactions it can engender, it is frightening to realize how we avoid this subject. In many families the very mention of money is taboo, which only heightens discomfort, procrastination and incompetence regarding money.

Instead, families need to make communication about money a priority. Teaching kids about money has to do with sharing values as well as information and allowing children those experiences, which will result in independent, fiscally responsible adults. Start with an awareness of the meaning of money to you personally. What is important about money to you and why? The entire family can share in this discussion and in addressing issues like coping with a parent being laid off work and deciding about significant purchases. Particularly during a financial crisis, the entire family's support is needed. Of course, explanations should be age-appropriate where children are involved.

As preschoolers, children can begin to learn about comparison shopping when they accompany you on routine shopping trips. They can enjoy counting and identifying coins, make decisions about small purchases and start piggy banking. Experts advise starting a regular allowance around age 5 to 7. Allowance should not be used as a means of control by linking it to chores (they are expected anyway) or withdrawing it as punishment. Using money coercively usually backfires. Freedom to spend the allowance without strings attached helps children learn to handle money on their own. Parents need to be comfortable with the amount and timing of giving an allowance. In some families, it is set at one dollar per year of age per month. In others, the amount is negotiated with the kids. There is no right answer, but consistency is critical here.

School age children can be given opportunities to earn extra money. They can participate in family discussions about money and benefit from learning where their parents' money comes from: employment, investments, inheritance, etc. The use of checkbooks and credit cards merits explanation; they are a method of payment and do not represent an endless supply of the green stuff!

By ages 10 to 11, opening a savings account can offer valuable lessons in how money works, from the discipline of saving to the compounding of interest. Anytime a minor opens a bank account, a parent is legally responsible for it. Time for the money to grow is a key element in succeeding financially. Let's look at a hypothetical example: If an 18 year old saved just \$1 per day every day until 65 (a total of \$17,000) and invested it aggressively earning 15% per year, he or she would have \$2 million on which to retire!

Teenagers are good candidates for learning more about wise consumerism. They can research special purchases in which they are interested and participate in planning and shopping for meals and wardrobes. This is also a good time to engage kids in longer-term financial goals such as saving for a college education.

Naturally, high schoolers will want more money and part-time work is the obvious solution. Work should not interfere with school. Each additional year of education represents the potential for thousands of dollars of extra earnings per year! Kids don't have to work a lot of hours to benefit from this experience. Besides having additional money, they gain a sense of earning power and all the responsibilities that go with holding a job.

Credit cards may be appropriate for particularly mature high school students, but parents should be aware this can become a very expensive lesson on budgeting. A checking account from which a teen can pay his or her own bills may be preferable.

College-bound students who are receiving a lump sum to cover tuition and living expenses for the semester will need to do some serious month to month budgeting. Even with the best planning effort, many will run out of money before the end of the term! Practice makes perfect. By addressing these basic concepts of financial planning at the various stages of childhood, a solid foundation can be established for smarter choices about money throughout life.

These planning measures are invaluable: identify your goals, live within your means, spend wisely, and save and invest regularly.