NATIONAL ENDOWMENT FOR FINANCIAL EDUCATION

TEACH YOUR KIDS FINANCIAL SKILLS EARLY, AND THE LESSONS CAN LAST A LIFETIME

Children Can Learn About Money at Nearly Any Age

ENGLEWOOD, COLORADO—There is no such thing as "too soon" when it comes to teaching children how to manage money, according to the president of a Colorado-based nonprofit foundation dedicated to helping Americans understand and control their own finances. "By starting early, and introducing the most basic ideas, you can help your child develop financial skills that will last a lifetime," says William L. Anthes, Ph.D., president and CEO of the National Endowment for Financial Education® (NEFE®).

Anthes outlines an approach that includes specific activities for children at various points in their development, with a special emphasis on the youngest learners. "Even toddlers can handle the concept of coins and currency. With ongoing reinforcement and information, children develop a strong sense of confidence in handling money, which can be invaluable in the long term."

Virtually all the financial issues a child needs to understand fit within six general categories: earning money, goal setting, budgeting, saving and investing, using credit wisely and protecting what has been accumulated. The details within each category can be learned gradually, as a child is ready to absorb them. It also is important to present information in a logical and relevant way. Anthes suggests the following discussions and exercises for parents to use with their children as they move from early childhood to adolescence.

Ages 2 to 4

Small children are capable of absorbing great amounts of information. Take advantage of youthful curiosity to instill fundamental financial lessons.

- "A very young child can begin learning about transactions simply by watching you buy items at the grocery story," Anthes explains. "Consider letting your child hand money to a clerk to pay for a small purchase. Although it is too early to explain counting change, it is a perfect time to begin instilling a sense of respect for the value of money."

- Most children will be anxious to start saving coins in a container. Anthes recommends that parents use a clear jar or bottle to establish a makeshift bank. "Only use a piggy bank if it is transparent," he says. "At 4 years old, a child can't understand what he or she can't see."

- While pre-kindergarten children may not be able to count, many are ready to learn. Consider explaining the concept of equivalency; i.e., five pennies equal a nickel, two nickels equal a dime, etc. When the child is interested, play a game of store with him or her. Using change from the jar or from your own wallet, pretend to buy items from your child such as an apple, an orange or a box of cereal. Then switch roles, and have him or her buy items from you.

Ages 5 to 7

A child in this age range is ready to deal with small amounts of cash and to begin appreciating the concept of credit.

- As children approach school age, they should be allowed to handle money on a regular basis so they can become comfortable with cash. Depending on your circumstances, it may be time to start providing a small allowance. The amount may correspond to a child's age, say $6 a week for a 6-year-old and so forth. Or, you could establish what you would like your child to pay for, and give him or her an allowance that will cover expected expenditures. "Be sure to present the money at the same time each week, and be willing to let the child use it without restriction," Anthes says. "For example, a child may initially spend the entire allowance immediately after he or she receives it. Be ready to point out the mistake, but don't bail the child out. Allow him or her to learn from the decision." Anthes explains that many experts advise against using an allowance as a method of punishment or reward for children of any age, and recommend instead that the allowance be used as a tool to help teach money management.

- By the time a child is 6 or 7, he or she is able to grasp the concept of shopping for value. "A child who is used to getting an allowance is especially receptive to the idea of looking for the best price before purchasing. Discuss how to take advantage of sales and other ways to get the best quality for the lowest cost," says Anthes. "Help him or her compare prices on toys or food."

- In addition, this is the time to begin a discussion about credit and ATM cards. Your child has undoubtedly noticed the widespread use of "plastic" to purchase everything from candy to cars, not to mention the rather confounding process of using a card to extract cash from machines. "Children need to learn as soon as possible that cards represent money," Anthes says. "When you use a credit card, explain to your child that you will receive a bill for the purchase, and let the child watch when you pay the bill. At an ATM machine, show your child the receipt for withdrawal and explain that the money has been taken from your bank account."

Ages 8 to 10

As your child matures, he or she will be increasingly interested in where money comes from, where it goes—and how to save it.

- When it seems appropriate, explain how you earn money and how your child might generate his or her own money. Suggest some small tasks around the house or the neighborhood that might provide your child with some income.

- "Also describe how you spend your money," Anthes advises. "For instance, go over your family's major monthly expenses, like housing, food and transportation, and explain how much they cost. Consider letting your child help you pay the bills once a month."

- Once your child understands about income and expenses, he or she is likely to be amenable to a discussion of the difference between wants and needs. "Working with your child, draw up two lists, one showing things family members need, and the other showing things they want," Anthes suggests. "Then help your child draw up lists of his or her own, emphasizing that regardless of how important it may seem to have a particular toy or expensive piece of clothing, those things are wants, not needs. Consider illustrating the lists with pictures from magazines, and post them in the kitchen or in your child's room, where he or she can add to the lists as needed."

- With wants and needs clarified, a child is ready to prioritize and to save for those things that seem most important. Suggest—but do not require—that your child set aside at least 10 percent of an allowance or earnings. "Help the child calculate how much he or she will have to save monthly in order to be able to afford something special, like a new bike or a pair of designer sneakers," Anthes says. "The goal is to create a savings habit, not to enforce a household rule."

Arrange for a trip to a youth-friendly bank or credit union where your child can open a savings account with no minimum balance and low or no fees. Anthes says, "Explain savings rates or, better yet, meet with a bank representative who can tell your child about various savings options, such as money market accounts and certificates of deposit."

Ages 11 to 13

Preteens face tremendous pressure to follow fads and keep pace with their peers. While parents should resist the temptation to control their child's spending decisions, they should continue to provide insight and advice—as well as a strong role model.

- Consider, based on your circumstances, increasing your child's allowance as he or she gets older. Also, Anthes says, decrease the frequency of payments; e.g., rather than presenting the allowance weekly, give out the money every two weeks and eventually once a month. "That way, children will gradually learn to pace their spending in order to make the money last until more is available. If you choose to advance your child money for any reason, keep records. Always be consistent."

- As a child's allowance grows, so does the opportunity for saving. "Introduce your child to the concept of compound interest," Anthes advises. "Show him or her how much $50 can grow at various rates of interest, then follow the same process for $100. When they learn about the potential of their money, children are inspired to save for the long term."

- Help your child create a budget. Using the family budget as an example, draw up a plan that incorporates income and expenses. According to Anthes, "This will be a first step for a young person who may not immediately understand the comprehensive nature of a budget. Be patient with your preteen. You are helping to create a firm foundation for later financial decisions."

- Some middle school children may be ready to learn about investment options and the value of diversifying to minimize risk. However, such complex information should be presented only when both parents and children are amenable and prepared. "When the time is right, introduce your child to the basics of long-range investing using relevant Web sites and publications. Consider buying a few shares of stock for your child to increase his or her interest in the concept," Anthes says.

Teenage Years and Beyond

The young person who enters high school with a good understanding of money management is more likely to be self-assured about financial issues and better able than most of his or her fellow students to deal with the pressure of materialism. "Encourage your child to keep learning. Advise him or her to take advantage of every available financial class, field trip or seminar," Anthes says.

"If they continue the pattern of financial education begun early in their lives, young people will enter adulthood as savvy, sophisticated money managers with all the tools they need to effectively plan and control their financial future."

For more detailed information on financial education activities for children, order a free copy of *Simple Steps to Raising a Money-Smart Child* from the National Endowment for Financial Education, 5299 DTC Blvd., Suite 1300, Greenwood Village, CO 80111. You may also download an electronic version of the brochure from the Multimedia Access portion of the NEFE Web site, at http://www.nefe.org/.