

Teach Your Child About Money



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I recently asked my five-year-old son Avery if he knew where money comes from. Perhaps I should have asked him before his President's Day lesson, because his answer was, "From the U.S. Mint!" When I asked him how he thinks mommy and daddy get their money, he knew enough to say that it was by helping other people and earning it from our jobs.

Children may not always understand where money comes from, but they realize at a young age that they can use it to buy things they want. So as soon as your child becomes interested in money, start teaching him or her how to handle it wisely. The simple lessons you teach today will give your child a solid foundation for making a lifetime of good financial decisions.

LESSON 1: LEARNING TO HANDLE AN ALLOWANCE

An allowance is often a child's first brush with financial independence. It can be used to teach your child to start saving and budgeting for the things they want. We started this lesson last summer as Avery was helping my husband with yard work. My husband's initial thought was to buy him a toy, but instead I gave Avery the option of getting a small toy now, or to start earning an allowance so he could save enough to buy something bigger that he wanted more. We sat down together as a family to decide what his allowance would be and how he would earn it on a weekly basis.

It's up to you to decide how much to give your child based on your values and family budget, but a rule of thumb used by many parents is that an allowance should equal 50 cents or a dollar for every year of age. To come up with an appropriate amount, you might also consider what your child will need to pay for out of his or her allowance and how much of it will be set aside as savings.

Some parents ask their child to earn an allowance by doing chores around the house, while others give their child an allowance with no strings attached. If you're not sure which approach is better, you might want to compromise. Pay your child a small allowance, and then give them the chance to earn extra money by doing chores that fall outside of their normal household responsibilities. We agreed on two dollars a week for basic chores, with the potential to earn a bonus by doing additional jobs when asked.

Other things to keep in mind:

- Set some parameters. Sit down and talk to your child about the types of purchases you expect him or her to make and how much of the allowance should go into savings.
- Stick to a schedule. Give your child the same amount of money on the same day each week.
- Consider giving an allowance “raise” to reward your child for handling their allowance well.

LESSON 2: OPENING A BANK ACCOUNT

Taking your child to your local bank or credit union to open a savings account — or opening an account online — is a simple way to introduce the idea of saving money. Your child will learn how savings accounts work and will soon enjoy making deposits. We haven’t taken this step with Avery because we’re still helping him visualize how his money grows and what that means. When he has a better understanding of these concepts, we will introduce him to banking.

Many banks and credit unions have programs that provide activities and incentives designed to help children learn financial basics. Here are some ways you can help your child develop good savings habits:

- Help your child understand how interest compounds by showing them how much “free money” has been earned on deposits.
- Offer to match whatever your child saves toward a long-term goal.
- Let your child take a few dollars out of the account occasionally. Young children who see money going into the account but never coming out may quickly lose interest in saving.

LESSON 3: SETTING AND SAVING FOR FINANCIAL GOALS

When your children get money from relatives, you want them to save it for college, but they’d rather spend it now. Let’s face it: children don’t always see the value of putting money away for the future. So how can you get your child excited about setting and saving for financial goals? Here are a few ideas:

- Let your child set, within reason, his or her own goals. This will give your child some incentive to save.
- Encourage your child to divide their money up. For instance, they might save some of it toward a long-term goal, share some of it with a charity and spend some of it right away. Write down each goal and the amount that must be saved each day, week or month to reach it. This will help your child learn the difference between short-term and long-term goals.
- Tape a picture of an item your child wants to a goal chart, money bank or jar. This helps a young child make the connection between setting a goal and saving for it.

We have three “buckets” of money for Avery to fill: spend, save and donate. He decides how much will go into each bucket depending on his goals. Through our lessons, as well as what he has been taught in school, Avery knows that sharing our treasure with others through charitable giving is an important value.

Don’t expect a young child to understand or necessarily commit to long-term goals. Avery hasn’t decided what he is saving for yet, but the possibility of something big has been compelling enough to prevent him from wanting to dip into his savings so far. Young children may lose interest in goals that take longer than a week or two to reach. If your child fails to reach a goal, don’t be overly concerned. Over time your child will learn to become a more disciplined saver.

LESSON 4: BECOMING A SMART CONSUMER

Commercials. Peer pressure. YouTube. Children are constantly pressured to spend money. But they aren’t born knowing how to spend wisely. Your child needs guidance from you to make good buying decisions. Here are a few things you can do to help your child become a smart consumer:

- Take your child shopping. This will encourage your child to save up for something they really want rather than buying something on impulse.
- Just say “no.” You can teach your child to think carefully about purchases by explaining that you will not buy them something every time you go shopping. Instead, suggest that your child examine the items in the store, then decide if they want to put them on a birthday or holiday wish list. We put this into practice during the holidays and when shopping for gifts for other people.
- Show your child how to compare items based on price and quality. For instance, when you go grocery shopping, teach them to find the prices on the items or on the shelves, and explain why you prefer one brand over another.
- Let your child make mistakes. If the toy your child insists on buying breaks or turns out to be less fun than portrayed in a commercial, it will teach your child to make better choices when you’re not there to give advice.

Is it too early to start talking to children about money at the age of five? Our experience is showing that it works. I was impressed when my son shared some of the things he has learned since last summer, including my new favorite: “Don’t buy everything you want now, because you might need to save your quarters for something better.”

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As director of client and advisor experience, Megan is focused on strategic initiatives that ensure HBKS® advisors have the resources they need to deliver on the firm's commitment to helping clients achieve their financial goals. She assists in many areas, including hiring, training, human resources and marketing.

Prior to joining HBKS®, Megan spent 12 years at Vanguard in a variety of leadership positions in both operations and client facing roles, primarily working with institutions and high-net-worth investors. She was on the team that helped develop and launch Vanguard's newest technology-driven advice offering. In 2014 she relocated to the Pittsburgh area to be closer to family and joined TIAA as Director of Wealth Management, leading a team of investment and financial planning professionals providing comprehensive retirement planning and investment advice to affluent clients.

Megan earned her B.A. in English from Cornell University and an Executive M.B.A. from Villanova University.

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