



14%

Portion of  
Americans who use  
cash for everyday  
purchases

LIFE SKILLS

# How to Raise a Money-Smart Kid

Finances may seem like a grown-up topic, but it's not too early to start teaching your child the value of a buck.

WRITTEN BY DIANA KELLY

Show your kids what money looks like and use it in front of them on a regular basis.

Y

ou might think your children are too young to think about finances, but chances are, they're old enough to handle it—and you're not discussing it enough. One of the biggest mistakes parents can make when it comes to raising money-savvy kids is to not bring it up at all.

"As a parent, you have to realize that you're training your child to become a great adult," says Rachel Cruze, coauthor of *Smart Money Smart Kids*. "In order to be successful, they have to know how to handle money, and the best place for them to learn that is from the home. Don't be afraid or intimidated by it." Here's how to get the conversation started.

## Our Cashless Society

When most of us were growing up, bills arrived in the mail and were paid by mailing back with a check. Your parents may have gone to a bank and deposited their paychecks. Credit cards weren't widely accepted, or maybe they were used just for emergencies. We watched cash changing hands daily.

Today, many of us use little to no cash most of the time. "Many parents now do everything with credit or debit cards and pay bills online. Kids sometimes don't even get to see money," says Cruze.

That's too bad, because the fewer opportunities your children have to see how money is both received and given, the harder it is for them to appreciate its value. "Cash transactions create teachable moments," says Cruze. For example: You head to the supermarket to buy your weekly groceries, pay in cash and maybe even get some change—all of which your child sees at the checkout. Now think about when you simply swipe your credit card. Whether it's for two items or 20, it all looks the same. So it's difficult for your child to understand how much money you are spending.

Then there's the fact that paying virtually rather than physically can also do harm to your family's budget. A 2008 paper published in the *Journal of Experimental Psychology: Applied* found that people tend to overspend when using a credit card versus cash. "It's more difficult to part with money when you're physically counting out the bills. And that helps you make better, more careful decisions," notes Beth Kobliner, author of *Making Your Kid a*

*Money Genius (Even If You're Not)*.

Still not ready to give up your Apple Pay? That doesn't mean you can't turn the moment into a money lesson. If they're old enough, explain to your kids what's happening when you swipe your credit card or pay with your phone, suggests Cruze. "Let them know, 'This isn't just magic money,'" Cruze says. "Make sure they see the bank in person and tell them, 'There's a bank that we pass on the way home. That's where our money is.' Have conversations and be much more intentional about it."

The cash lesson is especially important when it's your kids who are getting the money. "I really encourage parents to make an effort to use cash with kids—especially if you are giving them an allowance," says Kobliner. "There are apps out there that will let you pay an allowance to your kid in digital tokens or 'beans.' But giving your kids cash is the simplest and smartest way to go. It's tangible and real in a way that you don't get with any other form of money."

## Start Young

We should start talking to our kids about money as soon as possible, says Kobliner. Kids are able to grasp basic money concepts like value and exchange by age 3.

"This sounds very young to a lot of people, but a 3-year-old understands the cause and effect of working and getting paid," adds Cruze. "By this age, kids might ask questions about money. Don't shy away from that as a parent. Dig into the conversation when your

## Should You Give An Allowance?

When it's safe for them to handle it, allow preschoolers to use coins or paper money to play 'store' or 'bank' at home. You can also ask your child to help you pick out items at the real grocery store. Even kids as young as 3 years old might be ready for an allowance to help gain an understanding of the value of money. That amount can grow as they do (experts generally recommend a dollar per age). But try not to link an allowance to chores.

"Chores should be tasks that kids do because they are motivated to help, not because their allowance depends on it. Because what happens when they decide it's not worth that dollar to do it?" asks Kobliner.

If you want to pay extra for tasks around the house, consider doing so for 'special' jobs like cleaning out the garage. "But there's really no right or wrong way to do an allowance. If you find a system that works, keep doing it."

kids bring up the topic of money."

In fact, good money habits start early. "Research has shown that many good habits associated with money-management skills are really solidified by age 7," notes Kobliner. Of course, if your kids are already past that age, don't stress out—there are plenty of learning opportunities for older kids too. "Take advantage of everyday teachable moments, like going to the grocery store with your fourth grader or encouraging your middle schooler to save some of her babysitting money."



Encourage your child to split her money into saving, spending and donating to worthy causes.

says Koblner. Other teachable money moments could be showing your child how you check the receipt after purchasing something before you leave the store, to make sure you weren't charged incorrectly for something. Or you could explain to your child why you prioritize certain items over others when you shop. You might explain why you bought the yogurt that's on sale but then splurged for an item like organic chicken.

### Put It Into Practice

Keep looking for ways to teach your kids about handling money in daily transactions. "If you're going shopping with your kid and she wants something that you know is

going to blow your budget, use it as an opportunity to talk about financial trade-offs. Explain that she could buy the trendy shoes everyone wants or get two T-shirts, a pair of jeans and less-trendy shoes for the same amount," says Koblner.

And keep up the dialogue. "Kids understand more information than their parents give them credit for," notes Cruze. "And if you're not the one talking and teaching them about money, who will be? The car dealer they meet when they're 25 years old and trying to buy a brand-new car? Or the bank? Or the credit card company? If it's under your control, you have an advantage as the parent to really lift them up and help them understand the best choices they can make."

## 4 Money Mistakes To Stop Making

You're probably guilty of a few of these bad money habits.

### 1

#### Fighting in front of your kids

A study of college kids found that those who had seen their parents argue about money were more likely to misuse credit cards. Keep your arguments behind closed doors.

### 2

#### Cosigning on a credit card

Your kid should sign up for a credit card only if and when she has enough money to pay it off herself, advises Koblner.

### 3

#### Hiding your mistakes

"Humanize the topic," suggests Cruze. "You might share, 'I took out a credit card in college and racked up all these bills, and I regret it to this day.'"

### 4

#### Becoming a human ATM

Plenty of kids tell their parents, "I need \$10," and all too often, the parent's reaction is, "Sure, here you go," says Cruze. "They should know that eventually they'll need to work for it. Teach them you have to go to work in order to make money to survive. Understanding that money comes from work—and not just you—is a huge foundation point for them."

## Money Smarts At Every Age

### \* Toddlers and Preschoolers

Teach toddlers by giving them a few coins for doing extra chores, like helping you put the groceries away (but not for their regular chores). "Tell them, 'You just were a big help.' Then pay them instantly with physical money to understand the concept of working and getting paid," she says.

When they're 5, you can start more structured money lessons, adds Cruze. "I tell people to use three envelopes and label them: giving, saving and spending. Now, when the child gets paid, he can divide the money into those categories and start saving up for something he wants."

This helps your child learn to be patient, says Cruze. "Developing a sense of delayed gratification is bedrock when it comes to key money skills like saving and working for a living. Talk about things you wait for: a turn at the swings, your birthday. Explain that we also need to wait to buy things."

### \* Elementary Schoolers

"Now is a good time to talk about the importance of saving and why a bank is the safest place for your money," notes Kobliner. If you haven't already, open a savings account at your neighborhood bank (a real brick-and-mortar one, not the virtual version). A savings account can help teach your child about interest,

fees and other important financial concepts. Look for a bank that limits fees and pays relatively higher interest rates (similar to a version you would expect to open for yourself).

If your kid is starting to spend a lot of time online or shop virtually, consider warning him or her about cybertheft. "This is a good time to stress how dangerous it can be to share personal information with strangers," advises Kobliner.

### \* Middle Schoolers

Get your pre-teen children involved with saving up for something special. "You can offer to match their savings if they want something a little more expensive," suggests Cruze. For example: If a game costs \$40, have them save \$20 and then offer the rest as a reward for their hard work.

"The older they are and the more they do, the more you can pay them." Don't forget to emphasize the concept of saving for the future. Teach them to save \$0.25 of every dollar they earn or receive, advises Cruze. You can even turn this into a financial lesson. "Talk about how compound interest works in an investment account." And middle schoolers should learn that a credit card is a loan that you have to pay off, not magic, invisible money.

### \* High Schoolers

Sit your teen down and discuss the family's financial plan for college. "This stage is all about stressing why going to college is an important financial choice," says Kobliner. Research shows you'll earn \$1 million more over your lifetime if you finish college than you if you don't.

You should have a pretty good gauge of where you're at financially by the time your child is a freshman—and where you'll be in four years, says Cruze. "Let them know if you've started a college fund. Be honest with your kids about how much, if any, you can help with college. Tell them that it's their job to get good grades and find scholarships. Let them know if their expensive, out-of-state school or private 'dream college' may not be a reality. Help them make a choice that's smart for the family and for their future," she adds. This will help them make better decisions to emotionally and financially prepare for what's ahead.

79%  
Segment of Americans  
who prefer to pay  
with a credit or debit  
card over cash.

## When Hard Times Hit

Hiding financial trouble—like losing your job—from kids generally isn't a good idea. "Be truthful but age-appropriate about money troubles when talking to your kids. Even if you have to cut back on spending, emphasize that you will get through this together as a family—and avoid language that is going to cause them worry or

stress," advises Kobliner.

If your budget is tight, tell younger children that you're going to be cooking at home as a family more, rather than going out to eat. You can show your children how you browse for online coupons and deals when buying something online to save money. If your finances mean you have to cut

out things like a big family vacation, give your children a heads-up and let them know that you'll still be doing fun, free activities around town. You can share more information about your financial situation with older children when it's appropriate—especially when you're talking about planning for college, Kobliner adds.