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Life + Money

## The One Important Gift You Forgot to Give Your Kids



By Judy Koutsky, The Fiscal Times

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**C**hildren learn financial responsibility, or irresponsibility, starting at a young age by watching their parents. If you are overspending, deep in credit card debt or constantly have overdraft fees -- that projects a message to your kids. Being a financial role model starts as early as preschool and continues at least until the time your kids

leave for college. Here, tips to teach your kids the importance of fiscal responsibility at any age.

### **For Preschoolers**

Parents can implement a very basic money management system when their kids are as young as 3 years old.

R. Joseph Ritter, Jr. a certified financial planner at Zacchaeus Financial Counseling, a non-profit specializing in financial planning for low-income households, recommends dividing a [piggy\(<http://www.amazon.com/Moonjar-Classic-Moneybox-Spend-Share/dp/0972428216/>\)](http://www.amazon.com/Moonjar-Classic-Moneybox-Spend-Share/dp/0972428216/) bank into three compartments. “One compartment is for giving, one for saving and one for spending,” he says. “As the child deposits money into the piggy bank, it is divided three equal ways. As money accumulates, you can help them decide what charitable causes they want to support.” Charities like Toys for Tots appeal to younger kids, or if your child is an animal lover, the Humane Society may be a good option.

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Set goals for the spending and saving slots, such as a new bike or special toy. “Keep them involved and allow them to be part of the decision-making process. Let them physically handle the money when it comes time to give it away or pay for an item,” encourages Ritter.

Another fun way kids can learn about the importance of managing money is by having them help clip coupons (using safety scissors) and then have them present the coupons at the supermarket, financial literacy expert Mary Johnson suggests. Kids will take pride and ownership in this project and it will teach them how to spend wisely.

Preschool kids also love to play pretend. You can play “store” and have kids buy things with real coins, says Marie Phillips a financial blogger and author of *Choose Wealth: Be a Millionaire by Midlife*. “Be cognizant of attention spans and mental capabilities and keep instruction light and fun. Cover basic things like knowing that money is used to buy things, that coins and currency are kinds of money and then teach them the different denominations.” You can then put price tags on various items — bikes, balls and stickers — and explain why some things cost more than others.

### **For Kids of Elementary School Age**

By this point, your child can have a little more latitude with the spending category, but she also needs more guidance from you. “Paying the child for extra chores teaches them the value of work and productivity, and they can learn how to responsibly handle the money they earn,” says Ritter.

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Kids around age 6 or older can learn to be responsible with money by being allowed to manage some of the spending parents are doing on their behalf. One great place to start is with school lunches. "Give a child a little less than they would need to pay for lunch every day and allow them to choose which days they will buy lunch at school and which days they will make and bring a lunch from home," says Tracie Shroyer, author of *Investing in Your 401(k) Kid: From Zero to Little Financial Genius in Five Easy Steps*.

At this age, it's also good to have kids open a savings account. "Set regular times for adding

to their savings, like when they receive cash presents or if they make a profit from a lemonade stand," says Phillips.

#### **For Preteens**

As your kids get older, you can help them distinguish between wants and needs. One good way to do this is to work together on a clothing budget. "It is amazing how quickly kids will stop 'needing' expensive designer clothing when their budget allows only one such purchase every few months," says Shroyer.

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It's also important to have open conversations about money with your preteens. Pay bills with your kids nearby and ask them for ideas on how to save money on household expenses like electricity or heat. "Also encourage them to save for a major goal and track their progress," says Johnson.

Discuss the difference between a credit and debit card and encourage the use of the debit.

#### **For High Schoolers**

As your kids get older, increase their financial responsibility. A few good ways to do this, according to Johnson, include:

- Have them do the weekly grocery shopping with a set budget.
- Have them research options for financing a car and make sure they have a financial stake in the vehicle, either by paying for some of it in cash, co-signing a loan, or taking on insurance costs.
- Have them consider a school's affordability in their college research.

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At any age, it's important to teach kids to not buy things impulsively. "When considering a major purchase, don't hide the discussion from your kids. It is good for them to understand why, or why not, you decided to purchase the item and the thought process that went into it," says Shroyer. "Sharing the decision-making process of choosing whether to take a week's vacation or buy a plasma television — or foregoing both to pay the orthodontist — can give kids a clearer picture for their future," adds consumer finance expert Andrew Houser.

Remember, modeling good financial behavior isn't necessarily about setting up complex scenarios in which you can teach your kids about money. It's about using the daily situations in which you find yourself to discuss money and financial choices with your kids. "They are watching you," says Shroyer. "Use the time you spend with them to make sure you are modeling good financial behaviors. It just might help you change a few of your own bad habits."

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