

Raising Money-Smart Kids

Today's kids are probably the most money-conscious generation ever. But just because they know and think about cash constantly, it doesn't mean they manage it well. Here's how parents can change that.

Story by S. Kay Bell

ATTENTION PARENTS: TEACH YOUR CHILDREN SOUND money lessons or you'll be giving them cash the rest of their (and your) lives.

Psychologists and financial experts say our financial attitudes are formed early, primarily by observing how our families deal with money. So, even if you haven't talked to your kids about cash, they've already made some assumptions.

"Money is terribly emotional," said Nancy L. Granovsky, a Regents Fellow and family economics specialist with Texas Cooperative Extension at Texas A&M University in College Station. "Does your child see it as easy come, easy go; as a source of argument; or as a sense of deprivation?"

It's not easy overcoming initial fiscal indoctrinations, but it is possible. Here are some things that money management experts and parents say work.

Start Talking

As with most money issues, the first step is the hardest: Talk to your children about money.

This conversation, of course, requires a hard look at your own money management skills. Do you have a budget? Do you follow it? Are you using your credit cards for convenience or overusing them?

Words will ring hollow if a child hears one thing and then watches you repeatedly do the opposite. But once you're confident that you're setting a good financial example, then it's time to specifically address your children's nascent money skills.

Allocating Allowance

An allowance is usually a child's introduction to money management. Some parents start giving children as young as age 3 regular pay for easy chores, such as putting away their toys.

Whenever it starts, an allowance is a good way to help a child build basic fiscal skills. By getting cash regularly for agreed-upon actions, rather than "on demand," children become responsible for spending decisions. They learn to plan ahead and make purchasing choices.

The key is to set the ground rules and stick to them. In addition to determining the amount, agree on what the child's money will cover. Is it only for discretionary items, such as entertainment? Or will the youngster be expected to use some of his or her money for school activities and similar necessities?

Granovsky, who also is chair of the Texas chapter of Jump\$Start, the national financial literacy program for young people, said that when a child starts receiving an allowance, it's also a good time to start a savings habit. "The allowance should come with some stipulation that some of it be saved in a savings account with a credit union or bank," she said.

How much of an allowance, how soon, how it will be spent and how much will be saved depend on each family's circumstances. But once the agreement is made, be consistent in administering and enforcing the terms.

Earning Income

As your child grows up, they will get opportunities to supplement their allowances with money earned from lawn mowing, babysitting and eventually, jobs in areas such as retail sales or restaurant staff.

Kids are usually quite eager to work, seeing a "real" job as a chance for greater earnings, meaning greater independence. In addition to thoroughly vetting any employer for potential safety issues, parents need to discuss the downsides of the working world with their kids.

Studies regularly find that teens who work more than 20 hours a week are likely to suffer some drop-off in their academic efforts. A job could also negatively impact a child's social development, especially if it requires the youngster clock-in while classmates are attending school dances or athletic events.

There are, however, a couple of positives to a pre-teen or teenage job. In addition to learning what employers expect, kids will discover how taxes impact earnings.

A job also offers the opportunity to participate in long-term money management. Since the teen is earning income, they can put up to \$4,000 (or as much as is earned if it's

See RAISING MONEY-SMART KIDS on page 36

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Texas JumpStart

www.txjumpstart.org
979.845.3850

The Texas A&M University System Texas Cooperative Extension Family and Consumer Sciences

<http://fcs.tamu.edu/>
979.845.3850

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<http://wiseupwomen.org>
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RAISING MONEY-SMART KIDS from page 35

less than that) into a retirement account. Granovsky recommends a Roth IRA, since earnings and eventual distributions are tax-free.

"As an incentive, mom and dad might match what the child sets aside as long as the total amount doesn't exceed Roth limits," she said. "That way, they're on their way toward a rock solid financial status at a very early age."

James Davis, an Austin real estate investor, isn't worrying about jobs for his two sons right now. Instead, he's personally teaching his 10- and 12-year-old about the power of residual income. Sometimes referred to as passive or recurring income, this is money you collect after you've made an initial investment or effort.

To demonstrate the principle, Davis' sons are in charge of restocking a vending machine he owns, although, as any parent knows, dad does most of the work. But that's OK. According to Davis, his sons have learned how the machine produces substantially more income from the sales versus what they pay for the items they reload. And the older son is already urging Davis to expand.

Managing Young Money

The Davis boys' money lessons don't end when they get their residual income. "They make \$20 to \$30 a week [from the vending machine] and they get an allowance," said Davis. "They need to take some responsibility for that money."

Davis cited a recent outing to a Round Rock Express baseball game: He bought dinner, but when one of his sons wanted a snack, the youngster had to buy the cotton candy. Davis did, however, meet him halfway on the purchase of a baseball cap.

A voracious consumer of financial information, Davis also has adapted various money management programs to meet his family's needs. He found Michael Searls' color-coded system of particular use. Searls, president and founder of Summit Financial Products, suggests kids divide their money into a "red" account to be spent any way the child wishes; a "yellow" account for short-term goals, such as a new video game; and "green" for long-term savings, such as a college fund.

Since delayed gratification is a difficult concept for children to grasp,

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saving for longer-term goals is the most difficult. Davis has merged the yellow and green accounts into one to get the boys to think about overall goals. The next step, he said, is to teach them about investing in stocks and real estate. Davis also wants his boys to earmark something for charity.

Granovsky is a big fan of cash, since it's tangible and finite, a concept easier for children to grasp. "If you give a child a dollar as 20 nickels, when those 20 nickels are gone, he knows he is out of money," she said.

Too many children don't learn that lesson, and get a false impression of an endless supply of funding if the only transactions they see are via credit or debit cards.

Accounting for Credit

Growing reliance on credit cards also presents a further challenge to parents trying to raise financially-savvy children.

"There's nothing inherently wrong in utilizing credit cards. The trouble is in learning to manage them prudently," said Granovsky.

Children need to see their parents manage credit cards, she said, and see them paying bills. Parents now get some help in the credit management area from the school system. Dealing with credit cards is part of a new Texas public school requirement, which went into effect September 2006. (The National Endowment for Financial Education, www.nefe.org for more info.)

"It means that parents should be asking their kids what they learned at school about money," Granovsky said. ★

The ABCs of Financial Education

Texas law HB 492 was signed into law in 2005 and beginning with the 2006-07 academic year, requires schools to incorporate instruction in personal financial literacy into any course meeting a requirement for an economics credit. It calls for 12 required topics:

1. Understanding interest and avoiding and eliminating credit card debt.
2. Renting or buying a home (rights and responsibilities).
3. Managing money to move from renting to home ownership.
4. Starting a small business.
5. Investing in the stock market and other options.
6. Beginning a savings program and planning for retirement.
7. Understanding bankruptcy.
8. Understanding the types of bank accounts and their benefits.
9. Balancing a checkbook.
10. Knowing the types of loans and becoming a low-risk borrower.
11. Understanding insurance.
12. Knowing the value of charitable giving.

More information about the high school financial planning program is available at the National Endowment for Financial Education website (<http://www.nefe.org/>).

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