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Money In Our Children’s Hands

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Children learn about and use money continuously. How children use money will affect not only their economic stability and security throughout life, but also how they live and feel about their lives.

Children are not born with “money sense” but learn about money by what they see, hear and experience. Parents and other adults can help children learn about and develop money management skills by planning and providing children with positive learning experiences.

How Children Develop Their Understanding About Money

Whether parents realize it or not, children’s attitudes and values about money are influenced by how parents spend, borrow, save, share, invest and protect themselves with money.

Preschoolers may view all money as having the same value. But they soon learn that money can be exchanged for things when they are allowed to pay the salesclerk for an item.

Grade-school-age children are old enough to understand basic math and can apply math concepts to small purchases. They begin to understand that money is a limited resource and that they cannot have all the things that all their friends have.

Preteens (age 10 to 12) realize that money can be exchanged for something they want. The experience of buying and paying for things helps them learn the value of money, how to make change, and to be responsible for the safe handling of money. Children of this age learn the meaning of money and reasons for spending, saving and sharing money.

Teenagers want to decide how to spend their money and are usually eager to earn more money. Teenagers who have had positive experiences in using money should be able to make long-range plans for spending, saving, sharing and borrowing. They also understand the need for protection through insurance. With guidance, teens can manage checking and savings accounts, use credit and keep records. Participation in family financial decisions can help them learn about family financial goals and responsibilities.

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Guides for Parents, Other Adult Caregivers and Role Models

It is important that parents know how to help children understand and master money management skills. It is equally important that parents provide positive learning experiences as the child grows. Parents who want to help children learn about money should consult books, magazines and other publications for information. Knowing what experts and others recommend will increase their knowledge and confidence.

Parents can begin to develop their child’s money management skills by:

- Guiding and supervising rather than directing and dictating how money is saved and spent.
- Praising rather than criticizing, complementing their positive efforts, and not overcriticizing their mistakes, since mistakes are part of learning.
- Not using money to reward or punish for such things as grades or behavior, or to pay for regular family chores. Routine work in their rooms or with laundry, meals and cleaning is expected of all family members.
- Letting children learn from mistakes as well as successes. Discuss mistakes and share ways to improve money management in the future.
- Being consistent and most of all, fair.
- Conducting a family meeting or council — get family members to discuss and agree on short and long-term family goals. Discuss finances.
- Setting a good example by manage family income, keeping financial records, and living within your means.
- Demonstrating a balance of spending, saving and sharing family income.
- Using credit wisely.
- Knowing and practicing consumer rights and responsibilities.

Since children learn by doing, it is important that parents provide opportunities and guidance that will develop experience, knowledge and skills in money management.

Preschoolers

Parents guide preschoolers by letting them:

- Choose between two or three items. It’s important to allow children the opportunity to choose yet limit their choices.
- Shop with a parent and pay for one item. Keep a separate coin purse for their money.
- Learn that family members work to pay for food, clothing, housing, and other necessities.

- Share money with a friend, contribute to church or other organizations.
- Do routine family chores without pay.

Grade schoolers

Parents guide grade schoolers by:

- Opening a savings account (if not previously done).
- Giving them a small, regular allowance. Plan how to save and spend this allowance together.
- Allowing them the opportunity to earn extra money by going additional chores. Begin with simple, short tasks.

Preteens

Parents guide preteens by:

- Providing an allowance to meet actual needs, plus a little extra for personal use, to share and to save.
- Involving them in decisions regarding their allowance.
- Supervising them as little as possible.
- Encourage them to seek small employment opportunities such as garden work, mowing the lawn or child care when they are able.

Teens

Parents can encourage teenagers to:

- Earn and save for long-range goals important to them.
- Better understand the relationships between the proportion of family income that is used for spending, borrowing, saving, protecting through insurance, investing and sharing.
- Become involved in the family bookkeeping and record keeping systems when possible and developing their own.
- Learn about the purposes, services and charges of banks, credit unions, loan companies, and other financial institutions.
- Open and manage a checking account.
- Know the real costs of credit.

Positive learning experiences increase children's money management knowledge and skills.

Allowances

Allowances and earnings are effective tools that can be used in positive ways.

Having an allowance, and living within it, is one of the best experiences children can have. Help them, as soon as they are able, to differentiate between the coins. This may be as early as age four or five. By the time children are six or seven they may be able to handle a basic allowance to cover their needs, plus some for personal use, saving and sharing.

When preteen children are able to list their needs and rank them in importance, they can help determine their allowance needs. They learn that income first covers needs, that money is a limited resource, and that the family's financial situation affects the amount each member can use. After guidelines for using allowances are set, children will want to decide how they will spend it.

Parents who do not feel they can "afford" an allowance will find that the money they have been doling out upon request and for special occasions is probably more than a predetermined allowance would amount to. Parents need to provide their children with the money management experience that an allowance offers.

Rather than reward or payment, or even a share of family income, the allowance's real purpose is as a teaching tool to provide money management experiences for children.

Earnings

Earning gives children a sense of freedom and recognition and leads to financial independence. Parents can help children establish excellence in work standards before they work away from home and help them find work suitable for their age and skills. (Stop a child's earnings if it interferes with school or other things important to the child and family.)

Money Management Skills

Children grow in their ability to spend, save, share and borrow as they use money for each of these purposes. Children can learn about keeping money records, using savings and checking accounts, borrowing and using credit as they develop their money management skills. Set limits on what children have to spend, and make adjustments as they grow older, as their needs change, and as they have opportunities to earn more. Preteens and teens may ask to borrow against their allowances. Borrowing should be addressed in a business-like manner so that children deduct such advances from future allowances and pay interest on the amounts borrowed.

Family Financial Management

Parents can help children understand money matters by letting them take part in regular discussions about using family income.

A family money management meeting or council can help children realize:

- The difference between needs and wants.
- That resources, including money, are limited.
- That planning helps the family use money more effectively.
- That family members should agree on how income will be used, set financial goals and plan how to reach them, and work together as a team.
- That all members contribute to the economic well-being of the family by a combination of work (both inside and outside the home) and effective use of family resources (time, money and energy) to achieve needs and wants.
- That children are an important part of the family and their opinion is taken into consideration when making family decisions.

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