HELPING CHILDREN DEVELOP FINANCIAL RESPONSIBILITY

By Nancy Morrow

We have probably heard a story like this one from friends or relatives. A college freshman gets a credit card "just for emergencies." Maybe a little homesick or stressed out or even just savoring new-found freedom, the student shops or goes out with friends too much. The result: a bill he or she can't pay, and because there isn't enough money each month, the balance just keeps going up. By the time the parents discover this state of affairs, the student's debt has spiraled out of control.

What can we do to make sure this won't be our own child's story? How can we make sure that our children will be ready, when the time comes, to handle adult financial responsibilities?

Teaching By Example

No matter what we tell children about money, our own behavior speaks louder than any words. Ask yourself a few questions. Are you saving money for future needs like education and retirement? Is your spending consistent with your income? Do you follow a budget? Or has credit allowed you to live beyond your means? Does your family engage in much "recreational" shopping? Is anxiety about money a source of tension in your home? How you answer these questions has a direct bearing on the attitudes about money that your children take into adulthood.

Spending Limits, Spending Choices

Most experts agree that childhood lessons about financial responsibility should begin as early as possible. Even children as young as three or four years old should know that the money we spend almost always comes from the work we do – *not*, as most precocious toddlers will tell you, from the "money machine." We should also make it clear to children that basic needs must come before luxuries. Helping small children understand such concepts as goal setting, prioritizing, and decision making may be easier than you think.

Preschoolers are obviously too young to handle money on their own, but they can be given small amounts of "spending money" (say $2 or $3) from time to time, perhaps on a special occasion or as a reward for achieving some special goal. Help the child to chose items in the specified price range and pay for them. Let her "save" any change for the next occasion. Try not to interfere in the decision-making process, even if you think the choice is bad. Your child will learn something about the value of material possessions, especially when the purchase turns out to be a mistake.

As soon as the child is old enough to understand the concept of giving gifts, allow him to participate in decisions about presents for friends, relatives, and siblings. Make it clear that there is always a "budget" or "price limit" to consider. You will almost certainly have to contend with the child's disappointment when he realizes that you aren't getting anything for him, but those sorts of issues are better confronted than avoided all together. Even as you teach these lessons, you don't want to make children anxious about money. Rather than simply telling a young child, "We don't have money for that," which may make him fear silently that there isn't enough money for food or clothing or housing, you may want to explain spending decisions in terms of choices: "That isn't something in our budget right now."

Managing an Allowance

School-age children even as young as six may be ready for the responsibilities of an allowance. As for the amount, the most common rule of thumb seems to be $1 for every year of the child's age. Occasionally, parents link payment of the allowance to chores or even to certain kinds of behavior. Some child care experts disagree with this practice, arguing that it makes the allowance little more than a bride, paying children to do things that they should anyway. Other parents prefer to link the allowance to the child's reasonable "needs" for entertainment or personal spending. Either way, an allowance sets clear spending limits and helps take the burden off you when children ask, "Can you buy this for me?"

While some parents allow children complete freedom in spending choices associated with an allowance, others use it as an opportunity to teach some basic principles of financial planning. To do this, you will want to establish at least three distinct "funds": one for short-term needs or desires, one for long-term spending goals (such as a new bicycle or computer game), and one for savings or "investment," which cannot be touched. Some families also use the allowance as an occasion to teach their children about sharing with those less fortunate. You may suggest that your child designate a portion of her or his allowance to give to a children's charity or other worthwhile cause. As soon as your children understand number concepts and basic addition and subtraction, you can help them keep a ledger or account book recording the amounts in each of their "funds."

Once money in the "investment fund" accumulates, help your child to establish a savings account at a bank, savings and loan, or credit union. Involve your child fully in the process. You might want to do some research ahead of time to find an account representative who will treat your child as a customer in his own right, giving him a feeling of independence and maturity. Some institutions even have special accounts designed just for kids. Make sure that children understand, in as much detail as they can understand, what happens to money deposited in a bank. Help your child understand that money in savings is for their important future needs, like education, just as you have money put aside for your retirement.

As children mature, you will want to make it clear to them which things you will provide for them and which they will need to earn or save for on their own. Try to hold to these guidelines once you have established them. As your children approach adolescence, you will want to help them understand that choosing one thing often means giving up another. For example, if your child wants to use money for his "long-term goals fund" to buy a video game, that may mean giving up trip to Water World with a friend. Even if you can afford to provide your child with both, resist the temptation, because doing so teaches children that they don't really need to make hard choices --- that they can, to reverse the old aphorism, have their cake and eat it too. As the money in the child's bank account grows, perhaps with the addition of gifts from grandparents or other relatives, you might want to discuss the possibility of other types of "investments." A few mutual funds have been created just for children. Such funds include stocks from companies that make products that kids know and use. Savings bonds can also be a useful investment tool for children.

When Children Work

If older children begin to earn money outside the home, whether that means babysitting and mowing lawns or working for a local merchant, try to encourage them to allocate this earned income into different "funds," just as they did with their allowance. But you will want to give older children, especially those who have taken the initiative to earn their own money, more freedom --- including the freedom to make mistakes --- than you gave them when they were younger. While somewhat risky, this approach gives you a chance to see if your child has really assimilated the lessons that your earlier efforts were designed to teach. And of course, if what a child earns makes a critical difference in your own planning for college or other activities, make that clear to him or her. At this point, you will also want to explain the concept of taxes to your child and make sure that he or she files any relevant tax documents.

Once children reach high school, and especially if they begin earning any substantial amount of money, they may be ready to open a checking account. Teach your child how to keep a running account balance, how to reconcile a monthly statement, and how to avoid the consequences of bouncing a check.

Even if an adolescent doesn't have a job, it might be a good practice, for when he or she goes off to college, to open a checking account, into which you deposit a monthly allowance. This allowance should cover a broad range of expenses: everything from school lunches and other incidentals, to clothing, to entertainment --- all based on a budget that you develop together. Urge your child to keep a record of cash expenses and get her to agree to meet with you regularly to discuss any issues or problems that arise in managing this account.

The goal of developing financial responsibility is not to make money a central issue in children's lives, but to give them the tools and inner resources they will need, if we want to insure that money will not become an issue for them as adults. If a child seems excessively concerned about earning or saving money, make sure that this concern isn't a reflection of a more deeply rooted but unspoken fear. And find ways to make them see money not as an end in itself but as a means to comfort and security.

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