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MFS Heritage Planning®

Helping Yourself•Helping Your Parents•Helping Your Children®

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info sheet Nine Steps to Raising Money-Smart Children

There are many things you can do and say to teach your children good money sense. Having once been a child yourself, you can always fall back on stories of how you used to earn, save, and spend money all those years ago. You can fill their heads with sermons on how important it is to be careful and wise with their money. However, the bottom line is that there's no better teacher than experience. The key to teaching your children one of the most important lessons of their lives is to have them learn by doing.

Following are a handful of ways you can encourage your children to save and manage money.
In addition to the short-term benefit — namely, having children who realize that money doesn't grow on trees — you'll be instilling in them a healthy dose of financial responsibility that they can carry with them through adulthood.

Get children interested in money early

When your children are very young (perhaps at age three or four), show them how to tell different coins apart. Then give them a piggy bank they can use to store up their change. A piggy bank (or even a wallet or a purse) is a tangible place to keep their money safe. Using a clear bank is probably best, as this will allow your child to hear, feel, and see the money accumulating. This visual experience is the child's equivalent of an adult reading the daily mutual fund prices in the newspaper or examining a quarterly retirement plan statement.

Once the saving has begun, let children spend money on treats, buying things both when there are just a few coins in the bank and when it's completely filled. This way, they will come to realize that a little bit in the bank buys a small treat, but a full bank enables them to purchase something special. Then, once they're a little older, try playing games to help them understand the difference between "needs" and "wants." When riding past billboards or watching television, for example, ask them to identify whether each product advertised is a "need" or a "want." Tally their score, and when they've accumulated enough points by guessing 10 or more correct answers, treat them to a "want."

Make saving a habit

To get children off on the right foot, make a house rule of saving 10% or more of their income, whether the source of that income is earnings from a neighborhood lemonade stand, their weekly allowance, or a part-time job. If started early enough in the child's awareness of money, your plan shouldn't run into much resistance. However, if you don't set some sort of guidelines, chances are pretty slim that a child will take the initiative and save on his or her own.

For proof, all you have to do is think back to when you were a child. Can you honestly say you would have saved the money you received from a relative on your eighth birthday without a parental directive to do so? Chances are, you would have spent that money at the first candy shop you walked by. Like any positive behavior you try to instill in your child, saving money is a learned skill.

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Open a savings account in a child's name

Like a piggy bank, a bank savings account can show kids how their money can accumulate. It can also introduce them to the concept of how money can make money on its own through compound interest. Start by giving your child a compound interest table (available for the asking at most banks) to let them anticipate how their money may grow.

Be sure to plan regular visits to the bank. Although these days many people find it easier to save via direct deposit, having your young child see you make regular, faithful trips to the bank can shape his or her own saving behavior. And, being able to participate in something a grownup does will make any youngster feel mature and responsible. In case you haven't noticed, children who accompany their parents to the bank invariably want to "fill out" their own deposit slips. Why not do it for real?

Encourage goal setting

Have your kids write down their "want" list, along with a deadline for obtaining the items on the list. For example, your child may want inline skates by the end of the summer, or a mountain bike by next year. Visualizing may give kids the added motivation they need to save.

You might also contribute a matching amount every time they reach a certain dollar amount in savings by themselves. Such a proposition sounds just as appealing to a child as it would to you if your boss told you the company would kick in a dollar for every dollar you saved over $10,000. Not only will such an arrangement make them work harder to reach their goals, it might also prevent them from thinking they'll be old and gray before they save enough for an item on that wish list. After all, a year is an eternity to a young child.

Give regular allowances

Allowances give kids experience with real-life money matters, letting them practice how to save regularly, plan their spending, and be self reliant. Of course, you should determine the amount of allowance you think fits their age and the scope of their responsibilities.

Some parents feel they don't have to pay allowances because they generously hand out money when their kids need it. But surveys have shown that kids who got money from their parents as needed saved less and were broke more often than children who earned allowances, even when the total amounts children in each group received were the same.

While you'll naturally decide for yourself when to start allowances and how much to offer your children, consider the following guidelines:

- Don't grant too much independence by telling them they can spend their allowances on whatever they wish. Make them save at least some of it, and then advise them to spend the rest wisely.
- Don't take away allowances as punishment. Allowances are an educational tool, not a disciplinary one.
- Carefully consider raise requests, and discuss with a child why he or she is making such a request. Spare yourself weekly petitions for raises by telling your children they can only ask for raises twice a year, and then stick to your rule.
- Don't reveal too much about your own finances when justifying reasons not to grant a raise in allowance. Simply explain that your own budget is limited, and that there is no extra money for a higher allowance.
- Don't be too generous. Too much money in a child's hands can breed careless spending habits.

Help plan a budget

Have your children write down what they'll buy during the week and how much each item costs. Then write down their weekly incomes. If they don't match up, they'll have to prioritize their "needs" and their "wants." To give younger children practice making tough decisions, allow them just one special treat — which they pick out themselves — at the grocery store. Having to face 10 or more aisles knowing they can choose something from only one helps children understand that spending means making choices. Just as you know fixing a leaky roof might mean postponing your Caribbean vacation, your children will realize that opting for an action figure during a store visit means they won't be able to enjoy a candy bar on the way home.

Encourage money-earning ventures

To help your children earn money beyond their weekly allowances, suggest to them that they find creative ways to make money. Encourage them to do special household chores, or to seek jobs in the neighborhood such as raking, mowing, pet sitting, or shoveling snow.

Many people in your neighborhood — particularly elderly residents — would love to have a "regular" person doing things for them they can no longer do. This is a perfect opportunity for your child to earn some money and to do something for someone in need. Even though by the teen years, many children begin earning money on their own by working part-time jobs, continue to encourage that entrepreneurial spirit. To supplement his or her income and help pay car insurance, for example, a teen might consider starting a car pool to and from school and charging passengers a nominal fee each week.

Show them the effects of inflation

To show your children how prices have risen over the years, take them to the library to look up ads — for movie tickets, bikes, sneakers — in the newspaper archives (try finding the year they were born). In addition to being a trip down "memory lane" for you, it can serve as both a financial awakening and a history lesson for your children.

Once armed with the knowledge that things will almost certainly rise in cost, your children can use their math skills to see how much items they're saving for will cost in the future. For example, a bike that costs $150 today might cost $180 in five years, with 4% inflation. If they're old enough, let them know there are ways to keep ahead of rising prices, such as investing in mutual funds, which have historically grown faster than inflation over time (although past performance is no guarantee of future results).

Of course, you should also tell them of the risks involved in investing. Let them know that the value of mutual funds fluctuates over time, and that they have just as good a chance of losing money as they do of earning money. This will a) discourage them from thinking that investing is a sure thing, and b) encourage wise spending.

While investing may not hold any interest for them at this point in their lives, it's important that they know such financial opportunities exist.

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Most importantly, give them a head start

The money habits your children learn — and witness from mom and dad — will certainly carry over into adulthood. While you may be proud of the 12-year-old who saves enough to buy a $400 bike, you might be even prouder of the 22-year-old who can move into her first apartment without having to ask mom and dad for a loan, or the 32-year-old who can draw on his savings and investments to put a 30% downpayment on his first home. When those financial successes come, your son or daughter might even turn to you and say, "Thanks, I owe it all to you."

Resources for Further Information

http://www.iclubcentral.com/
The National Association of Investors Corporation (NAIC)
Find out how your child can join or start an investment club

Karlitz, Gail; Honig, Debbie; and Lewis, Stephen. **Growing Money: A Complete Investing Guide for Kids.** Price Stern Sloan Publishing, 1999, 128 p., $6.99.

Godfrey, Neale S. **Neale S. Godfrey's Ultimate Kids' Money Book.** Simon & Schuster, 1998, 128 p., $18.

Otfinoski, Steven. **The Kid's Guide to Money : Earning It, Saving It, Spending It, Growing It, Sharing It.** Scholastic Trade, 1996, 128 p., $4.95.

This material is not intended to replace the advice of a qualified attorney, tax adviser, investment professional, or insurance agent. Before making any financial commitment regarding the issues discussed here, consult with the appropriate professional.

Contact your investment professional for more information or to construct a personalized Heritage Planning Profile to help your parents, your children, or yourself.

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