Raising a Money Smart Kid

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There are so many important things we want to teach our children, including how to get along with others, honesty, how to eat right and be healthy. Add to the list – how to be money-smart. “Don’t they learn how to manage money from just watching me?” you may ask. The answer is “yes” and “no.” Yes - observing parents is the main way children learn money attitudes and skills. So it’s good to review your behaviors and how they influence what they learn. However, research tells us that simply watching what adults do is not enough to help them develop healthy financial habits. It’s best if we actively help them through activities that teach skills about earning, saving, spending, sharing, and borrowing. In order to do this effectively, it’s best to use age-appropriate activities. Here are some examples.

Ages 2-4 – Introduce them to coins and bills as the way we purchase items we need and want. Help them count out one-dollar bills. Play the “need or want” game by naming items and have them tell you whether it’s something they can live without or not. Resist the urge to splurge with lots of “stuff” and ask family members to also limit what they give. Read storybooks that have a money theme, like Caps for Sale or Mama Bear Gets a Job, and talk about the money topic.

Age 5-7 - This is a good time to start an allowance so your child has money to experience the pleasure of making good choices and the consequences of making poor ones. Set up three transparent money containers or wallets that are labeled by purpose - spending, saving, and sharing. They divide money they receive among the containers. Find pictures of how they want to use the money and tape them to the outside of the container. They can see how money is increasing or decreasing as they save or spend. Help your child set short, concrete savings goals. Add “interest” from the “Bank of Mom and Dad” to the savings container.

Age 8-10 – Start now to protect your child against young adult “premature affluence” – the feeling that they only have to pay for the extras in life. Continue talking about the difference between needs and wants and show them how you take care of the family’s needs and wants by using a budget. Review the allowance amounts periodically to see if they can handle more
responsibilities with money. Are there extra jobs around the house you are willing to pay them to do? Savings goals can be for longer periods of time. They can understand the concept of putting money in the bank for safe-keeping and to earn interest, so open a savings account with them and review the monthly statement with them.

**Age 11-13** – This is a time when peers and marketing really begin to influence their spending choices. Watch television ads with your child and critique whether they are advertising a want or a need and what techniques are used to influence the audience to buy a product. Discuss the difference between designer and generic brands. Teach him how to shop around for the best price and quality. Change from a weekly allowance to bi-weekly or monthly to learn longer-term management. Encourage your child to earn additional income through informal neighborhood jobs. Add a fourth money container for investing for long-term goals. Help them buy a stock of a favorite company and experience what happens with their investment.

**Age 14-21** – If your teen gets a job outside the home, help her understand her paycheck. Decide on family rules for how many hours she can work so that it doesn’t negatively affect schoolwork. Help him write his own spending and saving plan, including shopping and paying for auto insurance. Open a joint parent-teen account at your bank or credit union and show him how to keep a debit card register so he doesn’t overdraft. Include your teen in conversations about the family’s financial goals and financial difficulties and explore solutions with them. Play the stock market game. Show teens your retirement plan and explain how you manage risk. Discuss different forms of “plastic” money, especially credit cards. Help your young adult establish a positive credit history while you can still monitor their use of an installment loan or credit card.