

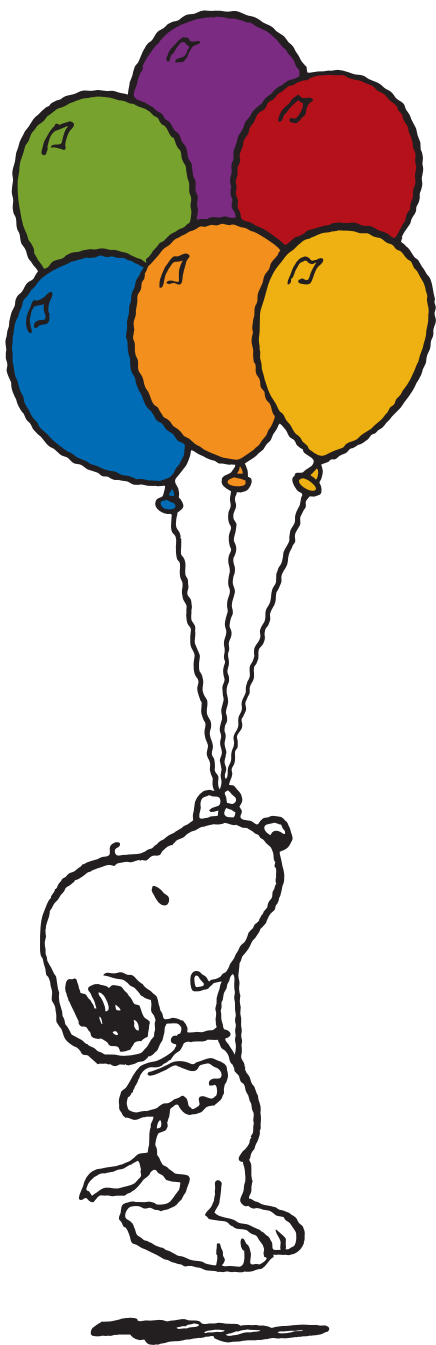
# Helping Your Child Understand Money

**MetLife**<sup>®</sup>

LIFE ADVICE

Teach your child about smart saving





**Life Advice<sup>®</sup>**

MetLife Consumer Education Center

*“But I really need it...”*

*“If Chris has one, why can’t I?”*

*“Why can’t I have just two more dollars?”*

If you’re the parent of a young child, you’re probably used to hearing pleas like these. And you’ve probably wondered what’s the best way to explain why your child can’t have everything he or she wants.

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This Life Advice<sup>®</sup> brochure about Helping Your Child Understand Money was produced by the MetLife Consumer Education Center and reviewed by the Federal Citizen Information Center.

Helping your child learn about money is an important responsibility that will likely have implications throughout your child's life. Unfortunately, there is no universal game plan to teach children about money. The guiding principles are to be candid, consistent, use common sense, and set a good example. You can help your child develop good money habits that will last a lifetime. But first, you need to have a handle on your own attitude about money so you'll practice what you teach.

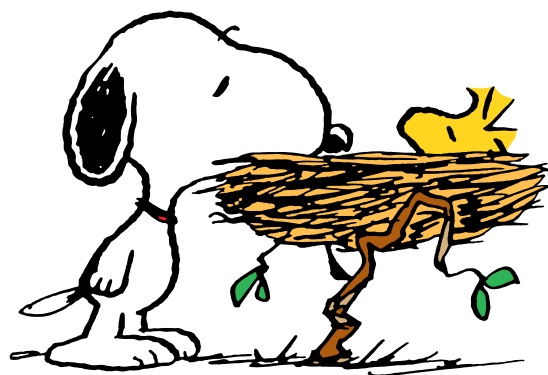
## Money and You

Of all the things money can buy, ask yourself what is most important to you. What financial goals do you have for yourself and your family — this year, in five years, and beyond? Using the checklist of priorities below as a starting point, build a list of your top financial priorities. There's no right or wrong to this exercise — it's just to help you get a handle on what money means to you, so that you can help your child understand your values.

### YOUR TOP PRIORITIES

- |   |   |
|---|---|
| <input type="checkbox"/> Home                     | <input type="checkbox"/> Savings, investments |
| <input type="checkbox"/> Charitable contributions | <input type="checkbox"/> Clothing             |
| <input type="checkbox"/> Education                | <input type="checkbox"/> Vacation             |
| <input type="checkbox"/> Entertainment            | <input type="checkbox"/> Household expenses   |
| <input type="checkbox"/> Car                      | <input type="checkbox"/> Retirement           |
| <input type="checkbox"/> Recreation               | <input type="checkbox"/> Medical              |
| <input type="checkbox"/> Food                     | <input type="checkbox"/> Travel               |

When you've finished your list, you'll likely see that the items with the highest priority are those about which you have little choice (e.g., the rent or the mortgage). As an adult, you recognize that if there's not enough money for everything on the list, the high priority items must come first, even if you very much want lower priority items. You've learned the difference between what you really *need* and what you *want*. Learning the difference between what we choose to spend our money on (e.g., entertainment), as opposed to things we have little choice about, is an important concept for children. While not appropriate for very young children, you can introduce this concept as your child matures.



## When to Begin

You can start discussing money when your children are quite small, even as young as three years old. The best time to teach children anything is when they express an interest. So, when a child begins asking you to buy candy or toys, be prepared to begin a discussion about money.

Start by demonstrating that money is used as a trading tool. People trade money for items of value and for services. Show your child how money works by allowing the child to make his or her own purchase. For example, give your child the required amount of money for a toy. Let the child hand the money to the cashier, and after you've left the store, talk about how the money bought the item. You might explain that the merchant had what your child wanted — the toy — and that your child had what the merchant wanted — money. You traded money for the toy and both your child and the merchant were happy. It was a fair trade.

Give children clear and consistent information about money, and approach money lessons with openness and honesty. Tell them why they can or cannot have certain items. When you say "no" to a young child's request to spend money, you can explain, "Mommy and Daddy believe you have enough toy trucks for now." Or, if the family has money available for a new toy, you could involve your child in the decision, at a level your child can understand: "Your toy chest is full. If you gave one of your old toys to a friend or charity, there would be enough room for a new truck." If the request is for multiple items, you might say, "You have a choice to make — you must decide between this toy and that toy."

Once a child understands the basic function of money, you can start explaining the bigger picture. Show an older child how money is used to provide for the whole family. Real-world lessons are better than talk. At the grocery store, pick out a generic and name brand of a product your child recognizes. Show your child how to compare them — the price as well as the contents. Allow your child to choose between them. If the child chooses the generic, allow him or her to make an additional purchase with the money saved. If the child chooses the name brand, explain how that choice leaves less money for other purchases.

## Children and Savings

Learning to save money is just as important as learning to spend money wisely. Teach children to save some of the money they receive from allowances, chores, gifts, or work. You might, for example, have them put some of their money into savings and donate some to charity, then allow them to spend the rest.



Very young children can save money in a piggy bank, but as soon as children are old enough, take them to the bank to set up a savings account. Not every financial institution is kid-friendly; don't automatically head to your regular bank. Ask a bank representative the following questions:

- Does your bank prepare information targeted to the youth audience?
- Are there lower minimum deposits for children?
- Are fees waived for children?
- How often is interest paid to the account?

Interest payments are an important benefit of a savings program. Teach your child that the money saved is busy earning interest. For very young children, use two containers and a little change to teach them about interest. Mark one container "S" for savings and the other "I" for interest. When a child puts a quarter in one jar (the savings jar), you put a nickel in the other jar (the interest jar). While this is a generous 20 percent rate of return, young children will probably miss the exaggeration. They will understand, however, that money can work for them, and they'll be inspired to participate in a savings program. For older children, you can use real-world examples. For example, as deposits are made into a savings account, show your child how interest is being earned not only on the deposits — the principal — but also on the interest previously earned.

## Setting Goals

Saving for long-term goals is a money management lesson older children are ready to learn. Start with the fun part: listing your child's personal financial goals. You can make the list on a blank sheet, or you and your child can use the Top Priorities Checklist on this page as a start toward identifying your child's most important financial goals.

TOP PRIORITIES for _____	
<input type="checkbox"/> Phone	<input type="checkbox"/> Clothes
<input type="checkbox"/> Books	<input type="checkbox"/> Charity
<input type="checkbox"/> Music	<input type="checkbox"/> Snacks
<input type="checkbox"/> Movies	<input type="checkbox"/> School Lunch
<input type="checkbox"/> Games	<input type="checkbox"/> Gifts for family
<input type="checkbox"/> Gifts for Friends	<input type="checkbox"/> Other _____
<input type="checkbox"/> Videos	<input type="checkbox"/> Other _____

After discussing your child's general priorities, work with him or her to develop a list of specific needs. This is a good time to introduce the idea that saving is a way to get what you want or need. Explain the difference between planned saving for a short-term goal (e.g., new tennis shoes, birthday gift for Dad), and regular saving for long-term goals (e.g., college), or for unknown items and emergencies.

Help your child establish his or her own financial goals and a budget to help meet those goals. The purpose of this exercise is to demonstrate the need to save for future goals. Once your child has identified clear goals, it's time to set up a budget for meeting the goals. Use the Personal Budget on page 3 as a worksheet.

Ideally, you want the difference between income and expenses to be a positive figure representing (as yet) unbudgeted money. It's more likely, however, that your child will list so many things that his or her income won't come close to paying for it all. If that happens, and the bottom line is a negative figure, it is a good time to start talking about the concept of *trade-offs* and the importance of living within one's income. Help your child decide which expenses to postpone or eliminate in order to have money for higher priorities. For example, your child may decide to wait on a music purchase to have money for a special outfit, or to spend less on snacks to afford a new video game.

**PERSONAL BUDGET for \_\_\_\_\_**

**MONTHLY SOURCES OF INCOME**

Allowance \$ \_\_\_\_\_

Jobs/Chores \$ \_\_\_\_\_

Gifts \$ \_\_\_\_\_

Other \$ \_\_\_\_\_

Total Income \$ \_\_\_\_\_

**MONTHLY EXPENSES**

Savings \$ _____	Clothes \$ _____
Charity \$ _____	Gifts \$ _____
Books \$ _____	Videos \$ _____
Music \$ _____	Phone \$ _____
Movies \$ _____	Snacks \$ _____
Games \$ _____	Other \$ _____

**Total Expenses** \$ \_\_\_\_\_

**Total Income** \$ \_\_\_\_\_

**(Minus) Total Expenses** \$ \_\_\_\_\_

**Difference = BALANCE** \$ \_\_\_\_\_

If you have more than one child, tailor money management lessons to the age and needs of the individual child. Treat each child separately, determining, with his or her input, a fair price for chores or allowance.

When children are old enough, they may earn money from a newspaper route, babysitting, or mowing lawns. Encouraging children to take on occasional odd jobs will help them better understand how money is earned. In addition, a child can build a sense of responsibility and self-discipline — traits that can last a lifetime.

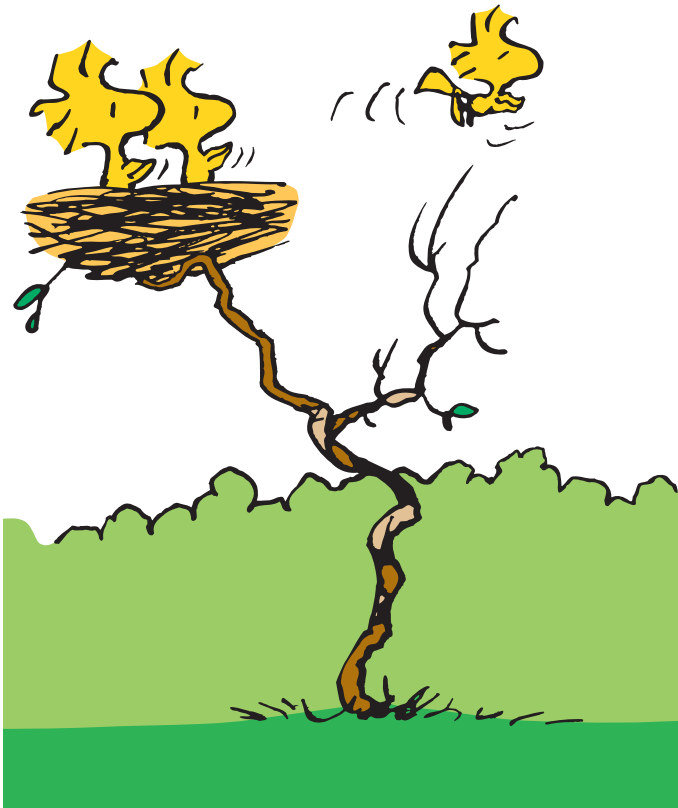
Children tend to get bored with ideas quickly, so encourage your children to take *short-term* jobs around the neighborhood, on weekends or during vacations. With an end in sight, they can get out gracefully if they lose interest. Or, with the end in sight, you can encourage them to “stick it out” or see it through.

An older child may get a part-time job after school or during summer vacation, providing a more regular stream of income. Use this opportunity to talk with your child about savings and checking accounts, and about using credit wisely. It's always important to set a good example for your children; they are more likely to follow your suggestions when you provide pointers on the importance of saving ATM receipts and balancing a checkbook. Make it a goal to help your child understand the importance of personal financial planning before your child is ready to leave home for college.

**Learning About Earnings**

In deciding how to provide your child with an allowance, make sure both parents in a two-parent household agree beforehand. An allowance may be based on the performance of chores, or it may be given with no strings attached. In some families, it's a combination of both. What's important is consistency. If you believe children should earn an allowance, stick to the rules you set up and don't apologize. Likewise, if you feel a certain amount is enough, and your child complains that other kids get more, explain to your child how you're doing what is right for your family. Here are some additional tips on setting allowances:

- Start by determining who gets what, when, and from whom.
- Write down the rules — or use illustrations for young children.
- Pay on time, and have rules for advances. Be sure the child understands that an advance must be paid back, or withheld from future allowances.
- If the allowance is tied to the performance of chores, decide in advance what the penalties will be if the child does not complete the chores.
- Don't withhold money as punishment for *unrelated acts*.
- Stick to the rules.



If your child could save just one dollar a day, he or she would have \$365 in a year. If this money is invested at a 4 percent return, compounded daily, the table on this page shows how it will grow.\*

	Savings	Savings + 4% Interest
One Year	\$365	\$372
Five Years	\$1,825	\$1,929
Ten Years	\$3,650	\$4,487
Thirty Years	\$10,950	\$21,169

\*Returns mentioned are hypothetical, and are not intended to reflect any actual investments.

Of course, young children can't save a dollar a day, but an older child, if he or she has a part-time or summer job, may be able to. The chart could give them an incentive to do so.

## Investment Issues

By the time you begin explaining money and finances to your child, you're probably already saving for his or her education. Even though you'll continue making decisions about those investments for years, get your child involved early.

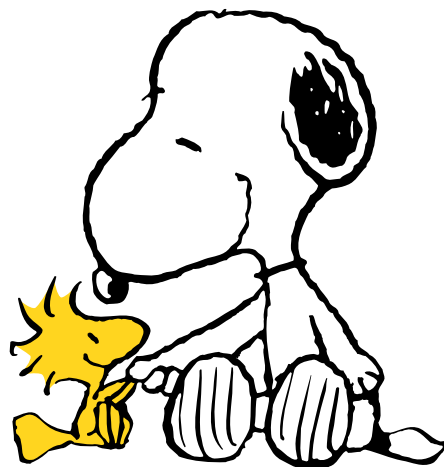
Consider a family game to stimulate your child's interest in investing. Encourage family members to pick a stock for a company with which they are familiar, such as a fast-food restaurant chain or a company that makes sneakers. Give out play money so that everyone can make an initial "purchase" with \$1,000. Track the stocks for three months. When the game is over, discuss how research about the choice of stocks might have helped everyone make better investments. The prize might be a family night at a movie chosen by the person whose stock has the greatest market value.

As your child grows up, you can gradually introduce him or her to a variety of investment options, such as stocks, bonds and mutual funds. To help your child understand these options, or to brush up yourself, check out the sources in "For More Information" on page 5.

## Privacy Issues

Every parent has a family horror story about children repeating in public something they heard at home. Before you begin talking about your family's finances, stress to your child that such information is private. In addition, explain that not everybody has the same amount of money. The financial circumstances of your family may vary greatly from those of your child's friends. Some friends will have more, others less. Encourage your child to be sensitive to these differences and only discuss money in general terms. Let your child know that it's *not* OK to make judgements about others based on their financial circumstances.

Helping your child understand money requires some time and effort, but it can be a rewarding responsibility—one that enhances his or her chances for success. Each family has its own set of values and opportunities. Select the financial lessons you want to share, and help set your child on the path to future financial security.



## For More Information

### References

*Dollars and Sense for Kids*

by Janet Bodnar

Published by Dearborn Trade . . . . . \$17.95 (paperback)

ISBN: 1-419-51013-4

*Kiplinger's Money-Smart Kids (Abridged)*

by Janet Bodnar

Produced by Audio Literature . . . . . \$12.95

ISBN: 0-787-10442-6

*Kids and Money: Giving Them the Savvy to Succeed Financially*

by Jayne A. Pearl

Published by Bloomberg Press. . . . . \$15.95

ISBN: 1-576-60064-5

*Neale S. Godfrey's Ultimate Kid's Money Book*

by Neale S. Godfrey

Published by Aladdin (Reprint Edition). . . . . \$9.99

ISBN: 0-689-81489-5

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### Fun Facts About Dollars

For a free brochure that tells the story of money, the history of the printed dollar, and more, call 202-874-3019, or write:

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### Websites

[www.kidsbank.com](http://www.kidsbank.com)

KidsBank.com™ is a tutorial website sponsored by Sovereign Bank that shows where money comes from and how a bank operates

[www.moneyopolis.org](http://www.moneyopolis.org)

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[www.jumpstartclearinghouse.org](http://www.jumpstartclearinghouse.org)

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