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**teaching your
children about
money**

Teaching your Children about Money.

Money is a sensitive subject, and talking to children about it isn't always easy. But handling money responsibly is one of the most important life lessons that you, as a parent, can teach your children. The information you provide *and* the example you set can have a huge impact on their future. Young people who have positive guidance and attitudes about money will be prepared for success as responsible adults who contribute to their communities and avoid the lifelong traps of materialism and debt.

At each stage of life, your children watch everything you do and learn from the example you set. Here's what they need to observe and know in three major stages of childhood.

1. Make it fun. pre- and elementary school age

Children love to play "grown-up," and you can use that to teach them how money works. At a young age, show them coins and bills of different denominations and how to make change by using them. Then play a game of "cashier" so they can practice making change. When they grasp how

that's done in making purchases, they'll be ready for some real-world encounters with money.

- Take them shopping with you, and allow them to hand over money to the sales clerk and count the change.
- Go with them to the grocery store and show them how you compare prices on the items you select.
- Take them along when you go to your bank. If a local bank offers tours for children, let your children go to learn how banks work.

These activities are not only fun for children; they let them see that handling money is an important part of life, and an adult-like privilege.

In money matters, you are a powerful role model for your children.

Most children want to acquire things like dolls, trains, books, video games. Don't try to satisfy your children simply by buying them objects they desire. Instead, use those desires to teach them the grown-up way to get what they want.

Give your children a weekly allowance, perhaps as pay for household chores.

Talk to them about the choices people make about money—saving, spending, and donating it—and help your children decide *how much of their allowance to save.*

Allow your children to spend some of their money on something they want. When they understand that "this toy costs one week's allowance and that toy costs two weeks' allowance," they'll master a basic money concept and give better consideration to their buying decisions.

Get your children their own piggy banks and encourage them to deposit allowances and gifts of money.

Open a savings account at a local bank for each child. (Some banks, such as Citibank, Bank of America and Republic Bank of New York, have low initial deposit plans designed for young savers.)

As your children make deposits, show them their bank statements and explain how the *interest they earn makes their money grow.*

As a birthday or holiday gift, make a deposit to your child's savings account. Explain how it will provide money for them in the future.

You may want to open a mutual fund investment for your child. Some investments, like American Century Giftrust Fund, must be opened by age 11 because it has a 10-year minimum.

As you teach your children about money, always remember that they're watching your own moves closely. Every decision you make sets a powerful example for them.

2. Learning by experience. junior high/middle school age

At this age, children should be encouraged to take more responsibility. That goes for money matters, too. In addition to an allowance, your children may earn extra money by baby-sitting or doing errands for neighbors. Urge them to spend those sums wisely, and always to save a portion. By guiding and advising them instead of dictating how their money should be saved and spent, you can instill a sense of *financial empowerment* in your children.

- Suggest options. If they want an expensive item like a bike, offer to *share the cost.* If they earn a portion of the price tag, say 50 percent or 75 percent, offer to pay the rest (assuming you aren't in debt and your budget allows for it).
- To reach a modest goal, like buying a special video game or having pocket money for a trip, have your children set up a *separate savings account or piggy bank.* Encourage them to deposit loose change or small bills several months ahead of the trip, and then let them spend it as they wish while traveling (or buy that video game). They'll learn the value of saving even small amounts.

Now that your children have had a savings account for a few years, show them how to create a savings plan.

- Help them set *modest, attainable savings goals.* If, for example, they have \$20 in weekly earnings and allowance, suggest they save \$5 to \$10, but certainly no less than 10 percent.
- Teach them *basic financial concepts* like the *power of compound interest* on a savings account. If you put \$50 a month in a savings account from your child's birth until age 18, and make no deposits thereafter, the sum will grow to \$183,470 by age 65, assuming 5 percent interest compounded monthly.
- Show children how a *checking account* works. Let them look at your checkbook, and talk about the importance of balancing it every month to catch any errors.

Discuss your own financial goals with your children. Let them know that knowledge is power in money matters, and that money is not something to fear. Share any

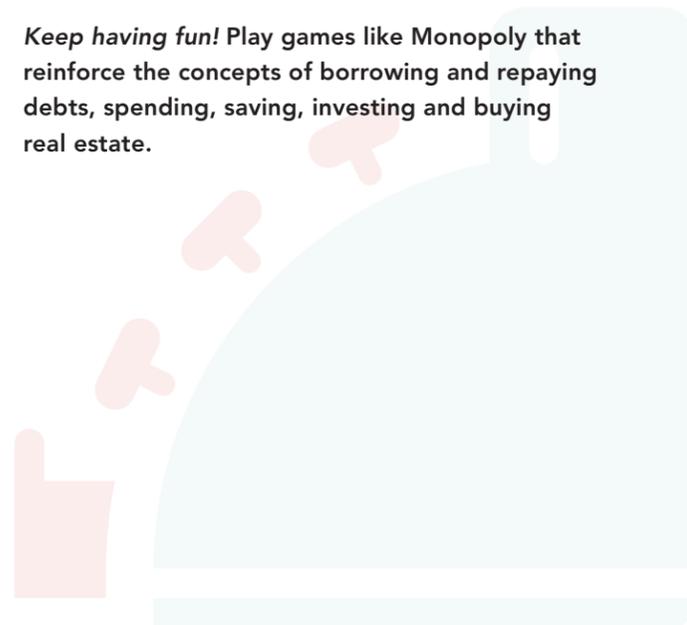
Teaching children to live within their means is a lasting gift.

lessons you've learned—about establishing a budget to pay off debt, for example, or setting financial goals to help you remain debt-free. Tell them how empowered you feel because you're in control of your financial situation today. Remember that the financial example you set is the most powerful lesson you can offer your children.

Talk to them about your family's *values and goals.* Is higher education something you want for your children? Discuss how working to earn extra money and regular savings can make college possible. Does owning your own home matter a lot to you? Let children know that saving for such solid goals can have big rewards. Help them to see that having material things is not a value in itself, but that a stable financial future, free from stress and worry, is. Teaching them to live within their means will be a lifelong gift for your children.

Encourage children to *look at financial publications.* One, *Brass Magazine,* is published especially for young people. Some parents recommend David Chilton's book *The Wealthy Barber* (Three Rivers Press); ask your local librarian for suggestions, too. This will help them become familiar with concepts like investing in stocks, bonds and mutual funds; risk and return on investments; and understanding their own level of risk tolerance. Teach them that *investing early in life* can help them to prepare for a *secure future.*

Keep having fun! Play games like Monopoly that reinforce the concepts of borrowing and repaying debts, spending, saving, investing and buying real estate.



3. Putting lessons to work. high school age

Teenagers may take on **part-time jobs** to make their own purchases and step up savings for college. Encourage their efforts to save for college expenses, as long as those efforts don't interfere with academic performance.

Children need to *master the basics* now, developing a weekly budget and learning to stick with it. In these and other money matters, you are still their most important role model.

Encourage your children to clarify their values about money. This can be challenging if their peers are spending big sums on flashy goods. Help your children understand that using their money wisely from now on will lead to financial independence and financial security, not just a collection of material objects that won't hold their value. Teens should become familiar with more advanced concepts such as investing in mutual funds, buying a home and saving for retirement. One book that's helpful at this stage is *The Wall Street Journal Guide to Starting Your Financial Life*.

Make sure that both your sons and daughters understand the real cost of having a baby. Raising a child to age 18, in today's dollars, requires more than \$250,000. Let them know how important it is to wait until they are financially stable—preferably finished with their education and established in a job before having a child.

Both boys and girls need to know the real costs of having a baby.

Spend time investigating student loans with your college-bound children. Be sure they know that this kind of debt will incur interest and must be repaid after graduation, but that it is a much better kind of debt than credit-card borrowing. Combine this discussion with one about financial responsibility and the hazards of using credit cards for purchases. Help children understand the pluses and minuses of compound interest, which can work in their favor on savings and investments and to their detriment on credit card debt.

With a secured credit card, teens can build a good FICO score.

Teach them about the importance of building a good credit record; explain how credit and FICO scores work, and how those scores can impact other aspects of their financial life. Illustrate the discussion with any materials that have helped you to understand and improve your own FICO scores.

Now's a good time to have your child set up a secured credit card. These are cards that require a cash prepayment and set spending limits equal to what's deposited. Typically \$300 to \$500 is required for a secured card. Your child should charge one or two items a month and *pay the balance in full*. Secured cards show children that credit is not "free," and using them wisely to make necessary purchases will help them build a good FICO score. Find a bank or credit union card issuer that does not charge a monthly or annual fee, and decline any insurance.

You can guide your child to start investing modestly now. If your state doesn't allow children under 18 to invest on their own, you can establish an account in a mutual fund designed for children, such as Stein Roe's Young Investor Fund or USAA First Start Growth Fund. Some credit unions and local banks also offer savings and investment plans for children.

Ask your child to "pay it forward" now by helping younger siblings, relatives and friends to understand how money works by sharing the knowledge they've gained from you. With the early start you've given your child, he or she will now be on the road to becoming a financially responsible adult—and a role model for other children.

For more information about Bottomless Closet programs, call 212-563-2499 or visit www.bottomlessclosetnyc.org.