

## Money and You: Instilling values in your kids - Part I

by *Carrie\_Schwab\_Pomerantz*

A friend of mine, the mother of a 10-year-old, recently asked me for advice. "My husband and I have started to give our daughter an allowance," she said. "But frankly, I don't know how to teach her what money really means. What does she need to know? And what should I do?"

As we talked (and, needless to say, I was full of advice on this topic), I realized she wasn't asking about the nuts and bolts of personal finance, though that is a subject that everyone needs to master. She was asking me about money in the larger sense, or how to teach her daughter what used to be called "the value of a dollar."

In this two-part article, I discuss ways you can instill good financial values in your children. Part I is about spending, saving and working, while part II is about charity and philanthropy. The reality is that they're not going to learn this stuff in school; it's up to you. Be prepared to give them experience with money as they grow up. And remember that you're setting an example for them every day.

### THE VALUE OF EXPERIENCE

My friend was on the right track when she started giving her daughter an allowance - every kid needs hands-on experience with money - but she needs to go a bit further. She should make it clear what her daughter is expected to do with her weekly pocket money, which at that age boils down to two things: discretionary purchases and saving.

Saving for the future comes first, and the earlier the habit starts, the stronger it becomes. Encourage your child to save 10 percent to 20 percent of his or her allowance; you might even offer an incentive to encourage the habit. Some parents offer to match, dollar for dollar, whatever portion of the allowance a child saves. If your kids are very little or the amounts are trivial, a piggy bank is fine; however, once a child has, say, \$100, open a savings account at your bank. Let the child make the deposit and see the amounts add up with interest.

As for spending, let your children be consumers, using it as a learning experience. Teach them to distinguish between needs and wants. Make them save for something that allowance for a week won't cover. And don't be afraid to let them make mistakes. When they're using their own money, most kids learn quickly about being good (albeit small-scale) shoppers.

As your kids get older, their allowances as well as their spending responsibilities should grow. They should be paying when they go to the movies with their friends or go out for a special treat. When they enter the teen years, help them learn to budget their money and encourage them to save for bigger-ticket purchases. This is,

after all, exactly the skills they'll need when they become adults.

Should kids work for their allowance? My own view is that chores around the house are part of life, and that the allowance is a child's share of the family income. I never explicitly linked the two with my three children.

## THE EXAMPLE YOU SET

Giving your kid an allowance and encouraging him or her to learn to save and spend well is an important step toward adult financial realities. But they're also absorbing lessons from you every day. You are their most powerful role model, so be mindful of the example you set. And, whenever possible, explain what you're doing and why (using age-appropriate discretion):

- Teach them to be prudent consumers by comparison shopping and to understand advertising and promotion.

- Point out your own savings, investing goals and strategies. As your kids get older or start earning money on their own, open Roth IRAs or custodial accounts to give them some hands-on experience with investing.

- Use April as an opportunity to talk about taxes, to teach them about our responsibility as citizens, and that gross earnings and take-home pay are very different.

- Help them understand the role of credit cards: Their benefits (ease of use, consumer protection, etc.) and their many dangers (the spiraling cost of revolving debt, expensive fees for missed payments, etc.).

## THE WORLD OF WORK

I also think it's invaluable when kids get a taste of work during their teenage years. As long as the job doesn't interfere with school, there's no better way to learn about the value of a dollar than earning one. And jobs teach kids about the fundamentals of the real world; the importance of responsibility, teamwork and putting forth your best effort.

I realize that most teenage jobs aren't fulfilling in the way that careers are, and you definitely want your child

to find an endeavor they can feel passionate about. Another part of preparing them for the adult working world is to expose them to different jobs and professions. Recognize their interests and, if possible, find ways to educate them about related jobs. For example, teens can do informational interviews with friends who are working in a particular field; older teens and college students can often find internships in companies that interest them. It's not always possible to use Robert Frost's phrase, "to unite my avocation and my vocation," but it's certainly worth trying.

Money isn't the only thing, but preparing our kids to deal with it and respect it is a vital mandate for parents. Accept that mandate and set a good example. Your kids will profit in a way that money can't buy.

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