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Teach Kids to Manage Money

Saving, spending, and giving

BY SAVITA IYER-AHRESTANI

Suzanne Pye and her husband, Michael Mautone, of Westfield, both come from large families where they had just enough to get by. Growing up, they wore hand-me-downs, fixed broken toys, and darned torn socks—notions that seem outdated in today's quick-to-get and quick-to-discard world. But Pye says these practices taught them the value of money and an understanding of needs versus wants. This is the lesson the couple hopes their two daughters will learn and absorb: that money is a resource they must manage properly.

Many parents, particularly those who live in more affluent surroundings, admit to the difficulty of teaching their children proper financial planning. They find it easier to give kids money, or buy them what they want, than educate them about it, says Liz Nickles, senior vice president and chief marketing officer at a New York-based financial company.

Arguably, the pressure of keeping up with the Joneses is strong, and makes it harder for parents to stick to principles. Yet Nickles believes parents must inculcate their children with the three basics of proper financial planning—saving, spending, and giving—at a young age, so children become better-equipped, more financially savvy adults.

"In a world where everything is tied to money—you wouldn't believe, for example, how many college ID cards also function as credit cards—things do not get any easier, so the earlier children are taught the merits of proper financial planning, the better off they will be in the future," Nickles says.

House Ways & Means

How can you instill the importance of financial planning in your children? Nickles believes the key lies in basic, everyday, at-home lessons, such as:

1. This or that?

"I offer my children the choice of an ice cream after soccer, or the cool t-shirt or the cool video game at a later date," says Atsi Sheth, a South Orange mom of two. "I tell them that if they don't buy several small toys, they can, in a few months, get the really big one they want."

Sheth believes this process of choosing will teach her children the merits of saving and delayed gratification. She wants them to understand that money shouldn't be an end in itself, but a means to a worthy end. Whether that consists of eating ice cream, taking a trip, or helping others, children should learn about choice and how to plan and budget for their choices, she says.

2. The allowance

Give children a small allowance for saving or discretionary spending. Jennifer Connelly, a mom of two in Rockaway Township, believes an allowance should be linked to a task and treated as a salary that has to be earned. "Give your children chores and reward them for doing a good job," she says.

3. Just say no

It's hard to avoid the pressure to buy your children what their peers have. But saying "no" periodically is vital, Connelly says, because "every kid needs to learn how to take a 'no' and to take it well."

4. Piggybanking

Whenever Pye's 7-year-old gets money from her relatives, she puts it in her piggybank. "We have a policy that when her piggybank is full, we take her to the bank to cash it in at a change machine," Pye says. "Then a certain amount goes into savings, she gets a certain amount that she is allowed to spend, and we set aside a certain amount that she can donate or spend on others."

Piggybank money also covers special events at school, like Pretzel Day and book fairs, Pye says. "This has helped our daughter understand money as a real thing, as opposed to Mom and Dad giving it to her from an endless supply. It allows her to make choices about what she wants to buy."

5. Involve the children

When Connelly opened bank accounts for her children, she took them along to the bank. The process was exciting for them, she says, and they like to check their accounts online with her and watch their balances grow. "It's all about participation," she says. "I also like to show my children how their bank balance drops when they use some of their money to buy something."

6. Talk about the big stuff

Credit cards. Investing. Saving. These terms should enter a child's lexicon early; don't be afraid to use them.

"We discuss credit cards and budgeting, and we talk about saving for things we want to do as a family," Pye says. "We have a 529 plan for our daughter and we discuss this as a savings/investment plan for her future education."

Connelly's 6-year-old son is also aware of the 529 plan his parents have opened, and how paying into it will fund his future college education. “I explained to him that if we start saving now, he will be fully funded to go to college in 15 years,” she says.

Since we all need and spend money every day, there are endless opportunities to talk to your children—and show them—how to manage it wisely. If you start when your children are young, it will become second nature to discuss the concepts of saving, spending, giving, investing, and more, and without even realizing it, you’ll nurture your child’s future fiscal responsibility.

Savita Iyer-Ahrestani writes about business, parenting, food, and travel for a number of publications. She lives in Westfield, NJ and has two children.