



Offered as a public service by
the Office of the State Treasurer

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By starting a dialogue with our children, we can better prepare them for the more in-depth, hands-on experiences they will have with money as they grow older.



Everyday activities such as shopping for groceries can provide a good opportunity to teach your child about comparison shopping and the value of goods and services. Photo courtesy of the State of Vermont, photographer Karen Pike.

Kids & Money: Share Your Knowledge

We pass on many things to our children. Let one of the memorable items our children receive from us be the knowledge and skills to manage their personal finances well. This financial education fact sheet will give you a brief overview of some of the skills and knowledge best taught to children based on their age.*

Teaching Your Toddler

At this age, children are just beginning to develop habits and skills that will last a lifetime. Teaching foundational concepts now will allow children to better understand more complex financial principles as they grow older. One foundational building block is that of money as a medium of exchange. Children learn that money has value because it can be exchanged for other things that are needed or wanted. By playing “store” with your child and exchanging items for coins, you begin to teach this concept. Now is also a good time to teach children equivalency. As soon as you child can count, begin to teach that five pennies equal a nickel, five nickels make a quarter, and four quarters equal a dollar. Finally, teach your child that saving money will get them what they need and want. Pick a savings goal that the child can achieve very quickly—like a box of crayons. To make the savings goal seem real, tape a picture of the crayons to a savings jar and give your child a few coins each day to reach the goal. Once the purchase is made, be sure and praise your child for reaching the savings goal.



Choices & the Elementary Age Child

Starting a weekly allowance for elementary age children will help prepare them to make good choices regarding their money. Many experts caution that for an allowance to be most effective as a tool to teach money management, parents should not use it as a way to punish or reward their child. Parents have differing views regarding whether a child should do work to earn an allowance. Consider giving your child a base allowance, apart from assigned chores, and paying “extra” for big chores. This will provide a steady dollar amount your child can plan

* **Source:** *Simple Steps to Raising a Money-Smart Child*, National Endowment for Financial Education © September 2001. Used with permission.

A Word About Perfection . . .

The sooner the better. Talking with your children about personal money matters can't wait until you have your finances in perfect order. Even the best money managers have room for improvement. Our income, bills, and other financial obligations can change frequently, making it necessary to update our money management approaches. While you may not feel comfortable explaining in-depth to your teenager why you were once overdrawn on your checking account, you can begin to teach your teen how to balance a checkbook. Share what you have learned.



National surveys and consumer trends point to the difficulties adults have in sticking to a budget, saving for the future, and managing personal debt. By starting a dialogue with children about these subjects, we can better prepare them for the more in-depth, hands-on experiences they will have with money as they grow older. The need is great.

In 2008, Vermont high school seniors scored slightly above the national average in the Jump\$tart Coalition for Personal Financial Literacy survey. However, the overall score for Vermont students was 50.3 percent—a failing grade. Looking at younger teens, a 2009 survey of Vermont teen girls found that while 91 percent of the students cited their parents as their primary source for financial information, many did not know how to use basic financial tools. For example, 33 percent of the girls reported having a checking account, but only 22 percent knew how to balance their checkbook. Only 18 percent of the girls knew how to use their bank statement.

So roll up your sleeves and take a deep breath! Your kids are watching you and you can be a valuable guide to them on how to negotiate through our increasingly complex financial world.

for as you discuss such topics as saving and how to shop to get the most value for that money (see money exercises next page). Most children will make mistakes. Spending the entire allowance the first day is typical. Don't bail your child out. Instead, discuss how the allowance might be spent next week. Start teaching your child about interest. For every dollar saved, add a dime at the end of the month. Keep the dimes in a separate jar so the growth is visible. When your children are older, help them open a savings account and establish short, medium, and long-term savings goals. Finally, introduce your child to where money comes from. Take your child to your bank or credit union to make a deposit. Explain that the ATM you use is simply using the money you've already placed in the bank. When you pay with a credit card, explain the card is permission for the store to charge your credit card account. Make sure your child understands that you must pay the money back. When you pay bills, show the statement to your child and say something like, "Remember the t-shirt we bought for \$10? Here it is on the list of things I have to pay for now."

Middle School Children & Budgets

Peer pressure for children this age can be an enormous force for enticing your child to spend. Share with your child the major spending categories in your family budget that include food, shelter, clothing and transportation and how your income shapes the amount of money you can spend for each area. Explain that if you overspend in one area, you must spend less in another. Just one item, rising gas prices for example, can impact your

entire budget. Discuss the pressure that advertising and friends exert on your child to buy the "latest and greatest" items and how to prepare for this. A spending diary (see exercise at right) can help children identify where their money is being spent. Now is also a good time to revisit the topic of compound interest and savings. Compound interest occurs when money in an interest bearing account earns interest on the previous interest paid. For

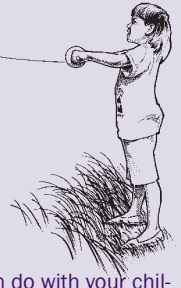
example, if a savings account with \$100 earned 10% monthly interest, the account would have \$110 in it at month's end. Then, as interest is calculated on the second month, it is based on \$110, not the original \$100. At the end of the second month the person would have earned an additional \$11 in interest and now have \$121 in the account.

Preparing High Schoolers for the Real World

If your child has already learned about goal setting, saving, credit, and basic budgeting, good! If not, start the teen years by communicating these skills. Encourage your child to take any personal finance instruction offered in school. Have fun with your teenager by searching and visiting quality personal finance web sites. Use your teen's first job as a teachable moment to review subjects like taxes, insurance, and setting up and balancing a checking account. Debit cards give your teen a chance to learn about keeping track of expenses paid from an account and also allows you to review how these cards are different from a credit card. When teenagers go to college, many are bombarded with credit card offers. Take several of the offers your teen receives and evaluate the offers together. You can discuss that credit card purchases are loans for which the teen must pay the credit card company interest for using the company's money. The best way to avoid paying interest is to pay off the balance each month. Compare interest rates, annual fees, late fees, and grace periods. For your teen's first credit card, consider getting one that allows you to establish a ceiling on the card, such as \$500. This is also a good time to talk to your teen about insurance. Teens need to understand that insurance is a way of managing risk. Discuss with them how much they think a major illness or car accident might cost. Insurance can protect them from financial loss resulting from occurrences beyond their control.

Money Exercises

Almost every financial skill your child needs will fit under one of these topics: setting goals, earning money, spending money wisely, understanding the time value of money (saving and investing), using credit responsibly, and protecting assets. Below are some exercises you can do with your children to engage them in discussions related to these topics.



The Change Jar: The Value of Money

This is a great exercise for younger children. Help your child locate a clear jar. Place the jar in a location that is easily viewed by the child. (You can screw the lid on tightly if there's a danger that an especially young child will be tempted to put any coins in his or her mouth!) Make a game of locating spare change around your house and place what is found in the jar. As you place the coins in the jar have your child tell you what kind of coin it is. You can point out that five pennies equal one nickel, that a dime is worth 10 pennies or two nickels, etc. Next, talk about what the child might do with the money in the jar once it is filled. Determine something the child could quickly save for to provide positive reinforcement for the action of saving and planning.

Coupon Clipping: How to Stretch Your Dollars

Take a current grocery store flyer and direct your child to circle items you would most likely purchase at that store. Discuss the amount of money you will save by buying an item on sale vs. full price. Demonstrate how to organize a shopping list by planning meals ahead and buying just what is on the list. Discuss the difference between a "want" and a "need" item. Include on your list items the child has identified from the store flyer. Take your child with you to the store. As you shop, compare the prices on the store flyer to the prices on the shelf. Total up the amount of money saved thanks to your child's work in identifying sales and other discounts. Consider giving your child a portion of the money as an incentive for continuing to find ways to stretch your dollars. If you have more than one child, assign each one a different store flyer to examine and reward them accordingly.

Spending Diary: How to Track Expenses

This activity is for an older child or teen. Explain that a study on how teens spend their money revealed that the top five items they purchased were clothes, food, soft drinks, candy, and CDs or recorded music. Ask your child to estimate the average cost of a soda from a vending machine (\$1.25). Have the child estimate the number of sodas he or she buys per week. For example, if your child purchases a soda three times a week, explain that the long-term cost of that purchase is \$15 per four weeks or \$195 a year. Ask, "What else could you purchase for \$195?" On a piece of paper write the following headings across the top: date, item, and amount. Give your child a set amount of money once a week for a four-week period. The child "earns" the money by keeping track of how he or she spends it. As you give your child the money each week, collect the tracking page and have a brief discussion about how it is going. Help the child start a new tracking page. At the end of four weeks, sit down with your child and examine the spending records. Discuss the spending trends. Calculate the impact of continuing the buying pattern observed and look at how money might be saved for long-term purchases.

MORE RESOURCES



Check out their program for high school students.

www.NEFE.org

The VT Jump\$tart Coalition can connect you to a clearinghouse of ideas for teaching your kids.

www.VTjumpstart.org

The Treasurer's Office can connect you to more information on kids and money.

www.MoneyEd.Vermont.org