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How to Teach Your Children About Money

www.SearcyFinancial.com

To send a child off into the "real world" without teaching him or her how to be smart about money is to set that child up for failure. So when is the right time to begin teaching your children about money? Put a one-dollar bill in your left hand and a $100 bill in your right hand. Then ask your child which one he or she wants. Children who are knowledgeable enough to know that the $100 bill is the one to go for are ready to start learning about money.

Here are seven simple steps you can take to get your children started on their journey to financial success:

1. Explain where money comes from.

The first thing you need to explain to a young child about money is where it comes from. Many kids actually think that money comes from an ATM and that you can get more of it anytime you want. Take out a dollar bill and some other change, and explain how the US Government manufactures currency. Then explain what it represents, how you earn it by working or investing, and how you spend it to pay for your home, clothes, and food.

The older your children are, the more detailed you can (and should) be about where your money goes. If your kids are over the age of ten, don't hesitate to tell them in excruciating detail exactly what happens to your paycheck – how much goes to taxes and social security, mortgage payments, insurance, utilities, car payments, phone bills, and all other necessities of life. Most children have no idea about their family finances. Explain how money is a really good thing when it is used respectfully, how it can help you lead a better life and help others, but that it is not a measure of your worth as a human being. Be honest with your children… and be positive.

2. Teach them the miracle of compound interest.

Show your children what can happen to a dollar when you invest it, instead of spending it. Here's what happens if you save a dollar a day and then put it to work for you.

$1 a day at 10% = $1 million in 56 years

$1 a day at 15% = $1 million in 40 years

$1 a day at 20% = $1 million in 32 years

Note that the point here is not investment returns; rather, it is the power of compound interest. Kids and teenagers get excited by it. When you show them what compounding does, they won't react the way many adults do and look for reasons why it can't work. On the contrary, they will realize that the dollar they've been wasting on a candy bar could make them rich. Most children will want to save.

3. Make their weekly allowance a teaching tool.

One of the best ways to teach children about money is to give them an allowance. This does not mean simply handing over a specified amount of money with no strings attached. Your child's weekly allowance should be based upon three principles: they should earn it, they should value it, and they should use it to help others.

Nelson Rockefeller once explained how his father, the legendary John D. Rockefeller, taught him about money. As Nelson Rockefeller told it, he and his five brothers were each given 25 cents a week. "If we wanted more money we had to work for it," he said. What's more, he added, "All of us had to keep a record of where our money went. We were required to give 10 percent to charity, save 10 percent, and then account for how we spent or saved the other 80 percent." There is an amazingly powerful, yet simple lesson from one of the wealthiest families in US history. It comes down to this: *to earn an allowance you have to work.*

- **10 percent** of your allowance goes to charity.
- **10 percent** of your allowance goes to savings.
- **80 percent** of your allowance can be spent but you have to track each expenditure.

If you've already been giving your children an allowance with no rules, be honest with them and tell them that the rules have changed – from now on, you intend to handle their allowance in a way that will teach them how to be financially responsible. They'll get it.

THE TIME VALUE OF MONEY

Invest Now Rather Than Later

LUCY *Investing at Age 14 (10% Annual Return)*			SUSAN *Investing at Age 19 (10% Annual Return)*			KIM *Investing at Age 27 (10% Annual Return)*		
AGE	INVESTMENT	TOTAL VALUE	AGE	INVESTMENT	TOTAL VALUE	AGE	INVESTMENT	TOTAL VALUE
14	$2,000	$2,200	19	$2,000	2,200	19	0	0
15	2,000	4,620	20	2,000	4,620	20	0	0
16	2,000	7,282	21	2,000	7,282	21	0	0
17	2,000	10,210	22	2,000	10,210	22	0	0
18	2,000	13,431	23	2,000	13,431	23	0	0
19	0	14,774	24	2,000	16,974	24	0	0
20	0	16,252	25	2,000	20,871	25	0	0
21	0	17,877	26	2,000	25,158	26	0	0
22	0	19,665	27	0	27,674	27	$2,000	2,200
23	0	21,631	28	0	30,442	28	2,000	4,620
24	0	23,794	29	0	33,486	29	2,000	7,282
25	0	26,174	30	0	36,834	30	2,000	10,210
26	0	28,791	31	0	40,518	31	2,000	13,431
27	0	31,670	32	0	44,570	32	2,000	16,974
28	0	34,837	33	0	48,027	33	2,000	20,871
29	0	38,321	34	0	53,929	34	2,000	25,158
30	0	42,153	35	0	59,322	35	2,000	29,874
31	0	46,368	36	0	65,256	36	2,000	35,072
32	0	51,005	37	0	71,780	37	2,000	40,768
33	0	56,106	38	0	78,958	38	2,000	47,045
34	0	61,716	39	0	86,854	39	2,000	53,949
35	0	67,888	40	0	95,540	40	2,000	61,544
36	0	74,676	41	0	105,094	41	2,000	69,899
37	0	82,144	42	0	115,603	42	2,000	79,089
38	0	90,359	43	0	127,163	43	2,000	89,198
39	0	99,394	44	0	139,880	44	2,000	100,318
40	0	109,334	45	0	153,868	45	2,000	112,550
41	0	120,267	46	0	169,255	46	2,000	126,005
42	0	132.294	47	0	188,180	47	2,000	140,805
43	0	145,523	48	0	204,798	48	2,000	157,086
44	0	160,076	49	0	226,278	49	2,000	174,094
45	0	176,083	50	0	247,806	50	2,000	194,694
46	0	193,692	51	0	272,586	51	2.000	216,363
47	0	213,061	52	0	299,845	52	2,000	240,199
48	0	234,367	53	0	329,830	53	2,000	266,419
49	0	257,803	54	0	362,813	54	2,000	295,261
50	0	283,358	55	0	399,094	55	2,000	326,988
51	0	311,942	56	0	439,003	56	2,000	361,886
52	0	343,136	57	0	482,904	57	2,000	400,275
53	0	377,450	58	0	531,194	58	2,000	442.503
54	0	415,195	59	0	584,314	59	2,000	488,953
55	0	456,715	60	0	642,745	60	2,000	540,048
56	0	502,386	61	0	707,020	61	2,000	596,253
57	0	552,625	62	0	777,722	62	2,000	658,078
58	0	607,887	63	0	855,494	63	2,000	726,086
59	0	668,676	64	0	941,043	64	2,000	800,895
60	0	735,543	65	0	1,035,148	65	2,000	883,185
61	0	809,098						
62	0	890,007						
63	0	979,008						
64	0	1,076.909						
65	0	1,184,600						

SEE THE DIFFERENCE

SEE THE DIFFERENCE

Total invested = $10,000.
Earnings beyond investment = $1,174,600.

Total invested = $16,000.
Earnings beyond investment = $1,019,148.

Total Investment = $78,000.
Earnings beyond investment = $805,185.

Lucy earns $1,174,600 **Susan earns $1,019,148** **Kim earns $ 805,185**

Lucy invested $68,000 less than Kim and has $369,415 more!
START INVESTING EARLY!

4. Teach them about retirement accounts.

The best time to open a retirement account is when your child is a teenager. As soon as your child has earned income, encourage them to open a retirement account and to begin saving for their future. You can show them this chart and explain why it's important to start saving early.

If they're interested, but don't feel like their small contributions will make that big of a difference, consider matching their investment. Tell your teenager that for every dollar they contribute to their IRA (or Roth IRA), you'll contribute a dollar.

Getting teenagers to own retirement accounts is both a smart financial strategy and a phenomenal teaching tool. By doing it, you accomplish two things. You teach your children about saving at a young age and you get them in the habit of "paying themselves first".

5. Teach them to use credit cards responsibly.

Credit card companies aren't stupid. They know that if they can get their cards into your children's hands, they will use them often, while making only minimum monthly payments. Thus, they will stay in debt and pay expensive finance charges for years, if not decades.

Sooner or later, your children are going to get a credit card and they are going to use it. Just how they use the card will depend largely on how they were raised. Many children are never told anything more about credit cards than, "It's important to pay your cards on time." Unless you show your children the bills and explain to them the stress that credit card debt can cause, they will not realize the implications of their purchasing decisions.

Explain to your children what happens if you run up a credit card balance and don't pay it off. Explain how brutal it is to have to continue paying 18 percent interest on purchases that have long since lost their shine. Share with them how if they don't pay their cards on time each and every month, they can literally damage their credit so badly that even years later they won't be able to get a mortgage to buy a house. All it takes is one little credit card with a $500 balance you forgot to pay off. In addition to emphasizing the importance of paying off their balances, help them understand that multiple credit cards are a disaster waiting to happen. All they really need is one card for use in case of emergencies. They should not have more than two.

6. Teach them to go for their dreams.

Although this step has very little to do with money, it has a lot to do with life. One of the greatest gifts we can give the children in our lives is the feeling that they are unique. We need to literally douse our children with love to keep reinforcing the feeling that they are special.

When children are really young, they have no fear. They don't worry about not knowing how to do something, they just storm right ahead and try it anyway. One of the biggest mistakes we make with our kids is inadvertently teaching them not to try because they may fail. If anything we should reward failure rather than discourage it. If a child fails when trying something new, they will learn faster.

You can be a cheerleader for your children and still enforce discipline. Urge your child to try new things and always "go for it." Encourage them to take risks and think outside the box. Due to the structure of our educational system, they probably won't get these messages at school. The people who get ahead in life are the ones who know how to communicate, how to think outside the box and persuade others to do the same. We need to raise our children to think bigger and more creatively than we ourselves did. We need to be their cheerleader, and let them know it is okay to fail, as long as they've given it their all.

7. Use the internet to teach your kids about money.

www.msgen.com This website offers hands-on products (such as segmented piggy banks and an organizer designed for teens) to help parents teach their children the "how-to" of good money management. This is a great site for hands-on learners.

www.JumpStart.org The Jump Start Coalition is a non-profit organization dedicated to promoting financial literacy.

www.KidsAndMoney.com This website guides children (and their parents) through the financial milestones: allowance, saving, banking, investing, budgeting, credit cards, first jobs and getting to and through college.

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