Teaching Kids Money Smarts

"The Great Recession has truly changed peoples' attitudes towards money and parents are in need of help." Thus observes award winning author John Lanza, our guest blogger today, who gives us ways to teach kids the value of money.

Just as New Years kicks off the "goal-setting season," a powerful way to teach kids the value of money is setting goals. I've seen goal-setting work first hand with my kids. I've also seen how frivolous spending increases when a savings goal is absent. Teaching your kids to set goals, not just monetary ones, is an essential life skill.

To get started, kids must receive some type of steady stream of money – an allowance. I use David McCurrach's *Allowance Magic* as a guide. David's short workbook makes a strong case with which most money experts and I agree –- **that parents should not tie chores to allowance**. Because most parents were given an allowance tied to chores when they were kids, they believe that they should do the same. Times change and just as we've learned that a five-point harness beats a single-point one for car seats used when we were kids (see Drs. Kardos and Lai's carseat safety post), we money experts realize that **allowance is a tool to teach kids to become comfortable with money**.

It's okay to pay your children for "above-and-beyond" chores as noted kids money expert, Karyn Hodgens, author of *Raised for Richness*, calls them. Clearing the table, for example, is a chore they must do because it's a family requirement, but mowing the lawn might be an "above-and-beyond" chore for which they could be paid. For more on the allowance/chores debate, I highly recommend Karyn's piece on Motivation Theory.

Learning to be money smart is largely about learning to make choices. Therefore, allowance distributions should be split into three parts. One of the first things parents should do when creating an allowance system is to set up a system of three jars –- one for **sharing** (charity), one for **saving** and one for **spending smart**. You can certainly create your own jars or simplify the process and purchase them from companies, such as my own, that provide inexpensive three-jar systems (www.themoneymammals.com).
So here's what my wife and I do. We give our seven-year-old six dollars per week. She is required to **save** two dollars and to put one

dollar into her **share** jar. She can do what she wants with the other three dollars. To encourage saving, we "match" any additional dollar put into the save jar with a quarter, a novel idea straight out of *Allowance Magic*. The matching program, along with pasting a picture of a specific, achievable goal on the save jar, truly helps influence the saving behavior you want to encourage in kids. To set an achievable goal, consider the horizon with which a young child can cope. Four to eight weeks for a five- or six-year-old is a good starting point.

One of the most difficult aspects of giving your kids money is relinquishing control of the money to them, within reason. Just remember that your purpose for an allowance system is to teach your kids to be money smart. They need some autonomy to make decisions and they will, inevitably, make mistakes. Learning from small mistakes now will help prevent devastating choices years down the road. Though I'm not a big fan of those $104 American Girl dolls (with tax), that's what my oldest wanted. Saving six months for it taught her a valuable lesson that she wouldn't have learned had I nixed the idea.

We parents have an opportunity to raise a money smart generation and I hope some of the pointers in this article are helpful.

John Lanza

John Lanza is the Chief Mammal at Snigglezoo Entertainment and is the Creator of The Money Mammals DVD that helps kids learn to "Share & Save & Spend Smart Too." John also runs The Money Mammals Saving Money Is Fun Kids Club and blogs, tweets and writes often about youth financial literacy. His new children's book, "Joe the Monkey Saves for a Goal" was just awarded a Dr. Toy Best Pick of 2010. Find out more at www.themoneymammals.com.

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