

Start Early to Learn About Money

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Consumer Series | Finance

by Lois Illick & Kaye Kasza*

Introduction

Where did you learn about money? Did your parents say ‘Money doesn’t grow on trees!’ or ‘What do you think—I’m made of money?’ We all learn about money from a variety of sources—parents or friends or media. Even though money is just another tool in our lives, we all seem to have strong feelings about it.

This fact sheet has ideas and resources that you can use to help children learn good money habits appropriate for their age to help them become smart money managers. Children are not born knowing how to manage money, but around four years old, they can learn how money works and how they can use it to help in their own lives. An excellent online reference for financial issues is eXtension at www.eXtension.org. The information on the website is kept current and is easy to read.

How Children Learn About Money

Children get their first lesson on money management from the adults around them. By the age of three, children already have a good idea about how you feel about money. How you talk about it and handle it tells them a lot about how to approach money. ‘Do as I say; not as I do’ doesn’t work with children—they absorb knowledge and emotions from others around them without being aware of it. You can actively help them learn what is appropriate for their age. You know your child best and what they can understand. Obviously children of a young age should not be involved with bills, payments and money problems, but they can understand when there isn’t any money for their ‘need.’ They actually need to feel secure, loved and

cared for. They also need to understand that security and love are not always connected to money. Hugs, free entertainment and your presence are their most important needs.

Preschool

Making simple money choices can be learned at an early age and prepares children for much more difficult decisions as they grow. Talking about spending, saving and sharing help a child understand the role that money can play in their lives. By the age of four, a child can understand that money is for ‘trading’ for things they want. They can play ‘store’ at home with play money and household items, or they can learn that money must be given to someone else in order to own something. The item they choose may be more than the money they have in their hand, but you can supplement it at the checkout stand. This also gives them a sense of pride that they can buy and pay for things. This age is a good time for children to learn about saving and sharing, not just spending. They can be the one who puts the money in the red bucket during the holiday, or have a piggy bank that collects some of the coins from your pocket. Preschool is too soon for an allowance, but they can still contribute to the family through simple chores, and learn that sometimes you help simply because others need it. They need to realize that not all work is reimbursed. Having realistic wants within the family is also part of their contribution. ‘If you get the \$20 book, what will you or our family give up?’ is an appropriate question for a preschooler. ‘Thrive by Five’ from the Credit Union National Association is an excellent resource that uses simple words and has activities with topic titles such as ‘Help with Shopping,’ and ‘When Money is Spent, It is Gone.’



Quick Facts

- Managing money is a learned skill that starts in childhood.
- Guiding and talking with a child about purchases is more effective than dictating spending.
- The more age-appropriate practice a child has with money and decisions about spending, the more they will become effective money managers.

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*Lois Illick, Colorado State University Extension, family & consumer science agent, Pueblo County; Kaye Kasza, family & consumer science, & 4-H agent, Bent County. 9/2013

School Age to Pre-Teens

School-age children have already started making decisions about wants; the next step is learning from mistakes, having positive experiences, and understanding the difference between 'wants' and 'needs.' An allowance is a large part of this; it is a child's 'paycheck' that allows him or her to make choices about items. This provides practice in planning spending (which adults call 'budgeting'). As a child gets older he needs to understand what you will and won't pay for and how the allowance can be used. Then the decision making becomes more relevant to real life experience. When the money runs out because of impulse buying, there is an opportunity for you to guide him to the understanding of overspending. Chores are a responsibility to the family. Doing extra chores for money would be like a bonus or a second job to an adult. When he saves for a month for a really large purchase, he gets a great sense of pride and accomplishment. **Warning: Preaching and dictating at this age will only make money an uncomfortable concept and a point of rebellion. Guide, discuss and listen to the child's point of view. They may not yet have the ability to understand all of the concepts.**

Teens

During the teen years youth have more expensive 'needs and wants'; money and decisions become more difficult. At this point talking about cars, gas, insurance, up-to-date clothing, and future education becomes important. Also debit, credit and loans (from parents) can be discussed. This shows them that credit and loans are a way of 'renting' the use of someone else's money. Their own money can be put on a debit card so they learn about controlling spending. Fees for overdrawing will be less of a shock at this age than when they are 20 or 25. Teens are more able to understand the family's financial situation, so being included in family budgeting and decision making is more appropriate. They can understand that there are trade-offs in money decisions that affect everyone.

Continue to reinforce the concept of 'spend, share, save.' Teens can usually find many ways they want to spend money. Help them see that spending impacts sharing and saving. Sharing can also include their time.

A teen can choose to share either time, money or both with others in need. Guide them to establish a long term goal, like college, and then to save for the goal.

Online Learning

Several online resources help children learn money management. The 'Gen I Revolution' game from the Council on Economic Education takes a player through many steps of finance in a fun, exploratory way. www.genirevolution.org

For older teens, the National Endowment for Financial Education (NEFE) has designed a site that helps prepare for college life away from home. www.cashcourse.org/home/

At Spendster.org, using a YouTube video format, pre-teens and teens can see what happens with impulse buys and the amount spent in "funny" stories. It's a fun way to discuss impulse buys. There is a video by a four year old discussing her parents spending. www.spendster.org/

There are more resources that you can use for learning and teaching positive money habits for children listed in the box.

Parents as Educators

Teaching a child about money is a constant process of everyday living, not unlike what we do as adults. It can be an opportunity for the child to study mathematics or discuss the cost of good nutrition while spending time shopping with you. Web-based games and tools can help children understand money, but nothing replaces real life learning and handling of money.

Parents or significant adults in a child's life need to agree on what values are important in handling money and what their stance is on various money-based topics.

Here are some questions from the University of Minnesota Extension that can help parents focus discussions with each other about money and children:

- How should our children receive money? Will we give them allowances?
- What are our family values and attitudes about money that our children may be observing?
- How can we structure learning experiences about money?

For More Information

University of Minnesota Extension

www1.extension.umn.edu/family/youth-and-money/parent-resources/

Credit Union National Association, 'Thrive by Five'

www.creditunion.coop/pre_k/index.html

eXtension

www.extension.org/pages/8623/financial-security--children-and-money

- How should we respond to the effects of advertising and peer pressure on our children's buying requests?

The following ideas can help parents keep in mind *family beliefs and values* as you begin the financial education of your children:

- Guide and advise rather than direct and dictate how money should be used;
- Encourage, guide and praise the child rather than criticize and disapprove of actions taken;
- Allow children to learn by mistakes and by successes;
- As appropriate for their age, include all family members in money management discussions, decision making, and activities;
- Explain to children what they can and cannot do and the consequences of violating the limits;
- As children get older, increasingly include them in discussions of limits and consequences;
- Expect all family members to perform unpaid, routine household chores based on their abilities.

Learning about money early in life helps a child to be a step ahead of those who have not learned how to manage money and will allow that child to be more successful in saving and spending.

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