

How to Teach Your Child About Budgeting



How to Teach Your Child About Budgeting

As a parent it is your primary responsibility to equip your children with life skills. Learning how to properly manage a budget is one of life's most valued skills; both spending and saving habits can be taught early on. If you show them an appropriate balance between the two, you can save them many years of financial difficulty.



Steps

1. **Be a role model.**

Allow your child to see you budget, comparison shop, and save. Bring them to the bank and let them watch you put money in a savings account. Explain to them what you are doing while you are doing it.

2. **Invite them to participate.**

1. Ask your child to help you find and read the unit price numbers at the grocery store in order to find the best bargains. You can also give them a budget and ask them to come up with a grocery shopping list. Have them look in the kitchen cabinets and refrigerator to figure out what the family will need for the coming week, then review the list together with them before going to the grocery store. While shopping, hand them a calculator to see how close you are to your budget as you add more items to the shopping cart.
2. Encourage them to look for coupons and sales in weekly fliers.
3. Review the family budget with your children, especially if you're also trying to teach them to help cut down on expenses by doing things like turning off lights when they leave a room. This step requires quite a bit of trust. Explain to your child that details of the family budget should not be discussed with friends at school.
4. Plan the family vacation together with your child, assigning them the task of researching air fare, hotel rates and rental cars.

3. Provide an allowance.

Opinions vary as to whether an allowance should be dependent on chores.

- Start with a small amount as soon as they are old enough to understand that money can buy things.
- Pay their allowance with bills and coins to allow the child to sort them into different containers labeled with different budgeting categories.
- Encourage part-time work instead of an allowance when the time is right. It will teach them not only to manage their money but also to manage their time.



4. Give them places to put their money.

- Buy a piggy bank for younger children so they have somewhere to keep their money temporarily.
- Employ visual aids such as labelled glass jars for older children so they can separate their money into different budgeting categories.
- Open a savings account so they have somewhere to save their money for the long term. Explain how interest accumulates when they are old enough to understand.

5. Develop a budget together that includes making short and long-term goals that include a savings plan, no matter how small. Consider the following budget as one example:

- **Donate** 10% to a church or a charity.
- **Invest** 20% in a savings account, savings bonds or the stock market.
- **Save** 30% for a special toy, game, or other purchase.
- **Spend** 40% right away on immediate or daily expenses such as lunches, school supplies, clothing, birthday gifts, and so on.

6. Establish limits.

1. Don't bail them out if they spend their money too quickly. Allow them to experience the consequences of their actions while they live under your roof. Credit card companies have learned that college students are excellent customers even though they don't have jobs because parents are quick to bail them out when they get in too deep. If you teach your child about budgeting, you might avoid this situation in the future.
2. Don't buy your child whatever they ask for. Budgeting is about making choices. If they're used to getting *everything* they want, they'll never understand how to prioritize, which is what budgeting is all about.
3. Teach them how to say "no" to impulse buying early on.

7. Keep a financial ledger or journal with them to keep track of where their money goes. Review their spending with them regularly.

Tips

- Use cash to illustrate financial lessons when your children are too young to understand how debit or credit cards work. You can also substitute pennies for younger children and board game money for older children.
- For teenagers, you can gradually increase responsibility and control by making them responsible not only for allowances, but also for separate amounts for clothing, lunch money, school supplies, etc. If these are itemized in your budget, show the child how you keep track of expenses, and ask the child to start doing the record keeping. You can gradually turn control of buying power over to your teen as they demonstrate good decision-making. Some families find great success in putting children in charge of their laundry and their clothing budget at the same time.
- If a five-year-old receives five dollars per week and saves 20% for investing, then at the end of the year, she will have \$52.00. This is enough to buy one share of stock in many different companies. See [One Share.com](http://OneShare.com). If it earns 8%, it will be worth \$112 in ten years when she is ready to buy a car. If she earns an extra dollar per week every year, and repeats the same pattern, she will have \$1500 when she is 15.
- If at all possible, encourage your teenager to open a checking account. (Not all banks allow underage teens to have checking accounts, but it's worth calling around to find one that does.) Learning how to write checks, balance an account, etc. is valuable, and it's a good idea to start sooner, while the child is still at home and the consequences for mistakes are not as severe.

Allowances

- Some parents believe that children should earn their allowance. By paying a child for chores; however, they may get used to accomplishing tasks simply because they know they're going to get paid, not because it's a responsibility. Additionally, since budgeting skills are best learned through practice, to withhold allowance as punishment for not doing chores denies them practice with budgeting. The best solution might be a combination of the two philosophies: pay an allowance regardless of chores, withhold other privileges if chores are not done, and pay extra money for doing extra chores which are not their usual responsibility.
- Increase privileges and responsibilities as children get older. The ideal allowance is enough money to buy something small (otherwise there is little value to a child), but small enough that larger purchases require saving up for a few weeks. This amount will naturally increase as the child gets older. If you have several children, it's a good idea to tie allowance increases to certain birthdays, and stick to the same schedule of increases with each child.
 - One popular schedule is one dollar per week per age; for example, a five-year-old receives five dollars per week.
 - Another popular schedule is one dollar per week per grade; for example, a fifth grader receives five dollars per week.
- When you think the child is old enough, start giving allowances on a monthly, rather than weekly basis. This teaches the child to budget over a longer time period.
- Try teaching them the value of each piece of money.

Warnings

- If one method fails, try another. Not every child learns the same way.
- Be careful with giving allowance early or making an advance. Children, like adults, can be lured into seeking "credit" by getting paid for a chore before it's done or asking for an early allowance payment. It's important for children to avoid spending money they have not yet earned.