

CHILDREN NOT PREPARED FOR FINANCIAL WORLD

Teaching financial skills to our children in today's complex financial world is as critical as teaching hunting and farming skills to children hundreds of years ago.

Yet virtually every study and survey about children's knowledge of managing money shows our children receiving failing grades. A recent poll by the Jump\$tart Coalition for Personal Financial Literacy, for example, showed a *decline* since 1997 in financial literacy among high school teenagers. So what can we do to teach our children financial survival skills?

Start with yourself. While the outside world certainly has an influence, parents impart the most critical money lessons to children. They do this by what they say and do. Consequently, think about your own attitudes and habits toward money. Are you a good saver, a wise spender? Are your experiences and financial knowledge something you would be proud to teach your children—or something you would not knowingly want to pass on? Thinking about this might not only help you better teach your child, it might improve your own finances.

Start early. Some experts recommend teaching children about the differences in coins as early as age three or four, giving them a piggy bank by the time they're five, opening a savings account by age nine, and managing a clothing allowance by age 12. Money habits form early, and bad habits get tougher to shake the older you get.

Use an allowance. An allowance is typically a child's first experience in managing money, but exactly how you should use an allowance as a money-teaching tool is controversial. Some experts believe an allowance should be contingent on doing household chores—you don't work, you don't get paid. That's life. Some tie it to grades. Others argue that chores are a family obligation, without pay, and the allowance should stand separately.

Let them be responsible for certain expenses with their allowance, suggest, says some experts. This forces them to make choices—and choices is what managing money is all about.

Encourage kids to earn extra money. Consider paying them for extra household chores or encouraging them to find enterprising ways to make money in the neighborhood such as pet sitting. Once they learn how difficult it is to earn money, they may be more responsible spending it.

Educate them. There is lots of good material in libraries, including videos that teach money management. Computer games are another educational tool. Encourage your teenager to take a personal finance course in school if it is available.

Let them make mistakes. Inevitably, the more freedom you give children in managing money, the more likely they'll make mistakes. That's good, say experts, because it's an important way to learn. Let children "waste" their money on a cheap toy that will break in an hour or bust their budget on a clothing item (just don't rescue them). Better to make a \$50 mistake today than a \$50,000 mistake later.

Should you encourage but not force savings and charity? Some experts argue that it is actually counterproductive to require that part of an allowance be saved and part of be put toward charity. You can teach them more long-lasting habits by finding ways to encourage them to voluntarily save (say to buy a computer game within six months) and donate (show them how charitable money is put to use).

Watch what you say. Monitor how you respond to money questions. Telling a young child who wants a toy or candy that "I don't have the money" when in fact you do won't fool them. Instead, make it clear that you don't spend money every time just because you have it, and that you're choosing not to spend it now because you want to put the money to other uses later.

Discuss household finances. As children get older, consider showing them how you make some of your household financial decisions. Money is often a taboo topic, even within families. But showing children just how much it costs to run a household, how you are contributing to their welfare such as saving for their college education, and how you make investment and spending decisions can provide excellent "real life" lessons.

Ask a financial planner for ideas. Some financial planners teach clients' children about finances, or will offer ideas to clients.