

If You Teach It, They Will Learn

One aspect of teaching your kids about money is the mechanical - like how to balance a checking account and how credit cards work. More important is the emotional aspect - like separating needs and wants and setting financial priorities. So let's start with those.

And let's start at the bare bones beginning - the first time you're in a store and your child asks you to buy him something and a simple "no" doesn't cut it anymore. Most parents fall back on "we can't afford it" or "we don't have the money for that."

There are two problems with the stock answers. First, unless it's something like a yacht or Ferrari™, your kids won't believe you, at least not for very long. They just saw you buy something else, and in a few minutes they'll likely see you buy yet another item. You're also sending the wrong message - you're implying that the decision is really out of your control; that it's some missing ingredient, some external force, that is causing you to have to say "no."

The real answer is that you are making a choice not to buy the requested item based on your assessment of your family's financial priorities. You have the money to buy what your child wants, but if you buy it, it will mean you are unable to get or do something else that is more important for the well-being of your family.

And so you say something like, "Sorry, Jennie, but if we buy that, we won't have the money to buy that new sweater you need for school." Or maybe it's "won't be able to pay the cable bill and then we won't have the Disney Channel™ anymore." Tie it to something Jennie can relate to so that she can begin to think about the finiteness of money and the trade-offs in deciding how to use it. (For example, don't talk about college to a five-year-old who wants a stuffed panda bear.)

I suppose this seems like such a little thing. And it can take a little more time than just saying "we can't afford it" since it invites further questions from Jennie and further discussion. But think of how many times this plays out. By

sticking to the message, you plant the idea of making choices firmly in your child's mind. He grows up knowing that he will have to make choices about what's important to him, giving up some things so that he can have the most important things. He will also be learning that money is limited.

As with most rules, there's an exception. Don't use money as the answer if it's really something else. If you don't want to buy something for your child because it's not age-appropriate, say so. If it has connotations that aren't consistent with the values you're trying to instill, explain that. If it's something that's over-priced, tell her why it's a rip-off. These are wonderful opportunities to strengthen the values and money skills you're trying to instill in your child.

Now what about allowances? Some parents believe that allowances should be linked to responsibilities, and a child should be docked for failure to satisfactorily do their assigned tasks. Other parents believe that allowances are just part of sharing the family income, and chores are part of sharing the family's responsibilities. Then there are those who combine the two perspectives into their allowance plan.

I have never found any reason to believe that one approach is inherently better. Nor have I found any formula for the perfect amount of allowance to give at any particular age. So when you first start an allowance for your child, do whatever makes sense for your family. The only recommendation I have is that if you have concerns about how much to give, smaller is better than larger. You can always increase a child's allowance, but just try reducing it!

A key issue with respect to allowances is what you expect your child to do with it. Some advocate a "thirds" approach: One-third is for church or similar sharing, one-third for saving and one-third for whatever the child wants. I prefer the "10/10/80" approach as that can carry over into their adult lives: 10% to others, 10% for savings and 80% to live on. And there's always the "100%, do whatever you want with all of it" approach followed by many parents.

continued, next page

Whatever approach you choose, you need to think through what you will pay for and what you expect the child to pay for. Suppose you're in the check-out line at the grocery store and Darren wants a candy bar. Is that something he should buy for himself out of his allowance? You need to establish some ground rules and be consistent or else Darren's allowance becomes funny money with no educational value.

This becomes particularly important with older children. I believe that you should give children larger and larger allowances covering longer and longer periods of time with more and more that they have to use that allowance for. In other words, you gradually shift the money you now spend on your child to them along with the responsibility for making the final decisions on how to spend that money.

Yes, she will make some really dumb mistakes. She may blow all her money on something ridiculous that she totally regrets after a couple of days. And then she'll come to you hoping that you will fix it and make everything right again.

That's okay. In fact, as long as you stick to your guns and don't rescue her, that's great - it will be a wonderful learning experience! It may well be tough and tear at your heartstrings. But just keep telling yourself that it's much better for it to happen now when it's mainly just an emotional issue than when your child is out on her own and it's her rent that's at stake.

Here's how Pam and I are doing it. Earlier this year we increased our daughter's allowance, telling her that she now has to pay part of her cell phone bill each month. That will get her used to the idea of a fixed, ongoing cost, like those she will have when she's an adult. She's now also responsible for covering the cost of a specific list of discretionary items like going to the movies and her cosmetics. Because they're discretionary, she has some flexibility with what she does with her allowance.

We arrived at the amount by looking at what we had been spending on her for these things and converting that into a weekly amount. Since most of these are not weekly expenses, she will have to plan ahead some and save for them. She also has the choice of paying

off her portion of the phone bill on a weekly basis or paying it all at once out of one of her allowances.

We don't monitor her spending. She can choose to forego some of the things that are now her responsibility (except for the phone bill!) and use her money for something else she wants that we won't buy for her. She can even blow it all on Swedish Fish™ (a favorite treat)! The key is that we will not cover for her those things that are now her responsibility - no matter how desperate she is, or how much she begs.

The next step will be to give her money for clothing. When she needs a few things, we will give her the amount we would plan on spending and let her choose how to spend it. The only constraint will be that she can't buy any inappropriate clothing. Of course, she might not buy any clothing at all! Or she might buy a couple of very expensive tops and not have money for the jeans we also think she needs.

But that's okay. She will either be happy with her choices or, as long as we don't bail her out, learn a valuable lesson about setting priorities and the finiteness of money.

Eventually, we will build a clothing allowance into her regular allowance. Then she will have to save up from "paycheck" to "paycheck" to make sure she has the money when she needs it. And at some point we will also start paying her every two weeks instead of weekly, and eventually it will be monthly. That will help her learn more about saving and about planning her spending.

Wait...what?! I'm at two pages already? Man, I sure do talk a lot! I've still got more to say, so I'll be back. Until then, let me know if you have any questions. Or ideas - I'm always looking for good ideas!

Want a little help with some aspect of your financial life? Call the Budget Guy, Allen Gunter, at 301-1246 or send an email to BudgetGuy@SHPC.org. I will help you in any way I can, and it's free and completely confidential.

For a wonderful look at what the Bible says about money, check out the Crown Financial Ministries Small Study Groups. Contact Chris Gordon (484-1905; cgordon1@austin.rr.com) or Roger Wade (301-4921; rcwactuary@austin.rr.com) for more information.