

## The Value of a Dime

December 18, 2001: 7:33 a.m. ET

### Saving, budgeting and banking: teach your kids what they need to know.

By Annelena Lobb (CNN Money)



NEW YORK (CNN/Money) - Remember the scene in *Mary Poppins* when the two children run away from the bank because they're afraid it's trying to steal their money? The bankers implore them to leave their coins in a savings account, saying it will grow, but the kids get scared and run away - debating instead whether to spend it on bread to feed the birds.

It's a classic case of art imitating life. Experts say it's important to teach your kids early on about the value of money and the need to save. Such lessons set them up for a lifetime of disciplined financial planning. With many kids receiving cash gifts from grandparents and favorite aunts this holiday season, there's no time like the present to get them started.

#### Falling behind

According to Teen Research Unlimited, today's under-18 crowd are big spenders: the average teen dropped \$84 a week in 2000. Unfortunately, they're also largely unschooled in the realm of personal finance. The Jump\$tart Coalition, a group created to promote financial literacy among teens, gave a nationwide test last year on personal finance basics to 12<sup>th</sup> graders. The average score: a 52 out of 100, or an F by scholastic standards.

"While many kids know money doesn't grow on trees, they may think it comes out of the wall at the ATM," said Catherine Pulley, a spokeswoman for the American Bankers Association. "These days, it's as important to teach kids about banking and saving as it is to teach them how to cross the street."

#### Giving an allowance

You can start teaching kids about money as early as you want, said Neale Godfrey, head of the Children's Financial Network and author of *Money Doesn't Grow on Trees*. Godfrey said you can begin easing in as soon as they start asking for things, typically around the age of 3.

Experts agree that teaching financial responsibility begins with setting an allowance for your kid. You'll have to choose whether or not you want it tied to something like chores or good grades, or whether it's something your child receives simply for being a part of the family. But once they've used up their dollars, don't allow them to nickel and dime you the rest of the month.

"I like to distinguish between 'citizen of the household' chores - like keeping a room free of breeding diseases - from 'work-for-pay' chores," Godfrey said. "But it's important to teach that you get money by earning it - there's no entitlement program out there simply because you were born."

#### Teaching how to budget

The next thing kids need to learn is how to budget that allowance. Experts agreed that a percentage of the money should go directly to savings, and some of it should be allotted for expenses that you and your child decide on together.

"The baby boomers have profoundly blown it," Godfrey said. "We were a generation of spenders. Over the last six years, more people have declared bankruptcy in the U.S. than have graduated

from college. If we don't teach kids to save, we are doing them a great disservice."

As such, he said, you should decide on an amount - say, 30 percent of the allowance - that will go to savings every month.

Then, explain that some of the money should be for day-to-day expenses. "Budgeting is a natural outgrowth of saving," said Dara Duguay, executive director of the Jump\$tart Coalition, a group that seeks to improve students' financial literacy. "You only have so much money - what are you going to do with it?"

Think of a list of items, like school lunches, haircuts or movie money - that you want your child to pay for with the money. Come up with a list and a budget - and stick to it. If your child runs out too early, you can point out the spending choices that got him or her in trouble.

"It's good to have the child be responsible for purchasing some things on their own," said Duguay. "If parents buy everything for kids, they won't learn to associate money with those items."

### **Explain how the bank works**

When it's time to explain how the bank works, kids will ask a lot of questions, particularly younger ones. They'll ask why their money has to leave the house, why it's pooled with other people's money, and whether they can be sure they'll get it back.

Long before you take them to open a savings account, you can help them begin to understand how these institutions work by giving them a piggy bank and a blank checkbook register, said Jayne Pearl, author of *Kids and Money*. They can record their deposits and withdrawals from the bank in their book.

"When you go to the bank, let them fill out some of the forms. Kids love that," Pearl explained. "Explain the bank transactions you're performing at the window. It will help them understand what's going on."

Teach them why people use banks - both for safety, and so their money can earn more money. "Explain that if you leave all your money in your house, there are risks: it could get stolen, lost in a fire, or you could forget where it's kept," said Debbie Pierce, a spokeswoman for the Young Americans Bank, a bank that caters exclusively to people under 21.

Also explain how interest works. "You can say that interest is a thank-you from the bank for keeping your money there," suggests Pierce. Duguay recommends you review your monthly statement with them. "You can show them - look, I made an extra two dollars this month, just for leaving my money in the bank."

Pearl offered the following example as a way to explain compounding.

"Make a hypothetical offer: either a twenty-dollar bill or a penny that doubles every day for a month," said Pearl. "Most kids will go for the bill. But if they went for the penny, the amount would double, over and over again, to more than 5 million dollars in 30 days. Obviously, nothing doubles every day, but it will help them understand that interest earns more interest."

When your child understands that using a bank is a far better deal than keeping their money under the mattress, they're ready for their own savings account. A parent or another adult will have to co-sign the account, called a custodial account. According to the ABA, many banks have children's accounts that offer no fees and no minimum balance.

"Kids take more ownership and pride with money when they have their own accounts," said

Pierce.

Duguay said more sophisticated decision-making will then come with having the account. "They can add money from Grandma, money from babysitting, money they receive in an allowance. But then they have to decide when they can withdraw it," said Duguay. "That's when those budgeting skills come in. They'll learn the lesson we all learn -- that they can't take it all out, obviously, because they won't have any left."

If it sounds overwhelming, don't give up. Kids catch on fast and like to try their hand at grown-up things. And remember *Mary Poppins* - at the end of the movie, Michael Banks, one of the children, gives the matter some thought, talks to his dad and decides to deposit his tuppence in a bank account. Smart move, kid. ■