# Money and children: Teaching by age groups

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If you haven't shown your children how to handle their money, you've left them vulnerable to a lifetime of financial insecurity.

And when it comes to money and finances, exposure is everything.

According to the Council for Economic Education (CEE), which promotes economic and financial education in the classroom, students who have taken a class in personal finance are more likely to engage in financially responsible behaviors such as saving, budgeting and investing.[1] Consider the following...

- **93 percent** of those who have taken a personal finance class save money compared with 84 percent of those who have not.
- **60 percent**of those who have taken a class have a budget versus 46 percent of those who have not.
- **32 percent**of those who have taken a class have invested money versus 17 percent of those who have not.

Parents can insulate their kids from some of the biggest money management mistakes and build their financial literacy by talking openly about the value of money and the benefits of good financial decision-making.

"One of the most important things a parent can do is to have conversations about their financial decision-making at home," said Nan Morrison, president and chief executive of the CEE, in an interview.

To yield the biggest impact on kids' money habits, however, the lessons imparted must be age appropriate.

**Elementary school: Saving by example**

Younger kids, for example, may not be ready for a lesson on compounded savings growth, but they can benefit greatly by watching their parents model good financial behavior.

"When you need new sheets and towels, explain that you're waiting until January when the white sales happen and show them how much money you saved by doing that," said Morrison. "Make them realize that they can spend and save wisely. Let them learn by example."

Also at this age, it's important to demonstrate the value of money and sound money management.

That's best done by giving them a dollar to purchase something at the mall, a yard sale, or at the movies. Let them see what they can get for a buck.

"Help them to understand that you cannot purchase something that costs more," said Diane Pearson, a financial advisor with Legend Financial Advisors near Pittsburgh, Pennsylvania, in an interview.

Elementary school kids can also begin to set financial goals.

When they receive birthday money from Grandma, or an allowance, encourage them to save the cash for something bigger that they really want.

Show them how to compare prices at the grocery store and explain how different brands cost more for the same product.

Tell them you don't want to go out for dinner midweek because you would rather save that money for a nicer family meal this weekend, or that it costs the equivalent of four movie tickets, said Morrison. Money management is about making choices.

**Middle school: Money management**

As your children mature, you can start letting them experiment with the money they earn through babysitting, shoveling snow, or an allowance.

Help them set up three accounts — one for their savings, one for spending money, and one (if you choose) for charity. And explain how interest works, Pearson suggested.

These are the years to help children establish good saving and spending habits, and to help them learn to control impulse buying.

If your child commits a money misstep, let him or her fall, said Morrison. That's kind of the point.

Don't give them money for ice cream with their friends, for example, if they already blew their allowance on something they wanted less.

To help close the knowledge gap, continue to build financial literacy, and reinforce the lessons learned at home, look for activities or public events that help build money awareness. (**Learn more:** Financial literacy)

For example, MassMutual developed a program called the FutureSmart Challenge. In conjunction with select NBA teams, MassMutual's FutureSmart Challenge delivers interactive seminars to middle school students in a stadium setting. The seminars are designed to convey the importance of savings, career choices, staying in school and going to college, and the impact these have on their future financial goals.

Through the FutureSmart Challenge, MassMutual also collaborates with Junior Achievement affiliates, nonprofits that offer financial literacy programs to schools throughout the U.S., to extend financial education in the classrooms of the same students who attend the Challenge. To date, MassMutual has reached more than 40,000 students through the FutureSmart Challenge.

**High school and college kids: Debt awareness**

High school and college-age kids are ready for more sophisticated lessons in personal finance.

That includes debt. Many of the best and brightest graduates get themselves into financial hot water by spending money they don't have and burying themselves in high interest credit card debt.

You can save your kids from a similar fate by explaining how interest rates work, and how those $300 designer sneakers cost much more if you pay with credit and make only the minimum monthly payments.

By paying $30 per month on a credit card that charges 18 percent interest, for example, that $300 would take 11 months to pay off and cost an additional $27 in interest, according to one credit card company's calculator (… and make sure your kids run the numbers themselves).

Parents can also help their teens think beyond the purchase of their first car and develop a plan for staying debt free — especially as college kids near graduation.

"Help them to create a budget for future spending needs so they can understand how much of a salary they will need to cover those costs," said Pearson.

Now is also the time to impress upon young adults the benefits of good financial choices — and the cost of poor decision-making.

Banks and other lenders rely on credit scores, a number that reflects your debt-to-income ratio and repayment history, to determine whether to issue borrowers a credit card or loans for a car or home mortgage. They also use it to determine what interest rate they should charge.

By making payments on time and keeping your debt to a minimum, consumers are far more likely to qualify for the most favorable, lowest interest loans.

Finally, there's nothing like a lesson in compounded growth to motivate your adult children to save for their future.

A 30-year-old making $50,000, for example, who contributes 10 percent of her salary to a 401(k) would have amassed a total balance of $656,884 by the time she retired, assuming a hypothetical investment return of 7 percent pre-retirement. By waiting 10 more years to begin contributing, however, she would have amassed $289,375 by the time she retires, according to one retirement retirement planning tool.

The easy-to-use **MassMutual** retirement income calculator can help to illustrate the importance of getting an early start on retirement savings.

Teaching kids to save has nothing to do with hedge funds and sophisticated investment products. At the end of the day, it's merely aimed at giving them the tools to become smart consumers, use debt wisely and put money away for their future.

"You need to give kids a personal finance vocabulary so they have the confidence to ask the right questions," said Morrison. "It's very empowering for young people to understand that they can make good choices about money in their lives that can help their families and their futures."

This article was first published April, 2016. It has been updated.

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1Council for Economic Education, "Industry Data & Research," 2016.