

Gail
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Money-Smart

Kid\$





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Money-Smart Kids

**Teach Your Children
Financial
Confidence and Control**

**Gail
Vaz-Oxlade**

 HarperCollins e-books

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To my beautiful children, Alexandra and Malcolm, who have taught me all I know about mommyhood. It has been a privilege to be your teacher and your guide. I love you two bits!

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INTRODUCTION

Everyone thinks kids should learn about money: how it works and how to manage it. But everyone also seems to think it's someone else's job to teach kids about money. Money lessons should be taught at school. Borrowing should be taught by lenders. Banking should be taught by, well, bankers.

The best place for kids to learn about how money works—and the role it should play in their lives—is at home. While financial literacy is a hot topic, there have been times when other hot topics took the front burner. Remember the food pyramid? It's still being taught at school, which is why we no longer have a child-obesity problem. Oh, wait . . . that's not right!

When kids are introduced to the food pyramid at school, they learn all about which foods are healthiest, and how much of each kind of food they should include in their diets. But telling kids to eat five to seven servings of fruits and veggies each day has little impact if, when they get home, mommy and daddy serve up a hot dog, a bag of chips, and a tin of pop for dinner. Out the window goes the lesson just learned and kids come to know that the stuff they're taught at school is irrelevant to their lives.

And so it is with money. We can talk until we're blue in the face about how important it is to save, but if our children don't see us saving at home, they won't learn the lesson. We can talk about becoming smart consumers, but if parents whip out their credit cards every time something takes their fancy—or worse, because a kid demands it—they're teaching kids they don't have to prioritize; they can buy whatever they want whenever they want it, as long as they have enough credit.

But growing up in a financially sound home doesn't automatically translate into financial success for kids. Children don't learn about money by osmosis. They need to be taught the rules of good money management. They need lots of practice to incorporate those lessons into their lives. They need to be able to fail safely and adjust their thinking as they learn about how money works. And there's a lot to learn. So we should start early.

Want to teach your children to be more financially successful? Want them to avoid living from paycheque to paycheque? Want them to steer clear of crippling

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avoid living from paycheque to paycheque? Want them to steer clear of crippling student loans and credit card debt? Then it's time to take the reins of your child's financial education firmly in hand. If you're hesitant because you think teaching kids to be smart about money is a big task—one that you might flub—relax. As your child's first and most natural teacher, you are in a unique position to be able to help, and you can do it in very small steps.

Think back to the nurturing you gave when your baby took his first steps. You encouraged him by celebrating even his smallest successes. You helped take away the fear by letting him hold your hands. You laughed, played, and had fun. And in no time at all he was walking. Raising Money-Smart Kids takes much the same approach: the learning should be fun, it should be given consistently, and it should be rewarded. Learning about money should feel good.

If you have more than one child, you know that no two children learn in the same way or at the same speed. You, more than anyone else, understand how your children learn; you adapt to each of your children's unique needs so that over time they grow stronger and more confident. It's not about boring them to death with money lessons. It's about engaging them in conversations, sharing ideas, and reinforcing positive behaviour.

Since children love to be part of everything their parents do, day-to-day life offers you a multitude of opportunities for teaching them about how money works and the role it should play in their lives. But trying to decide what to teach and when can be daunting. With this book, you now have a guide to help you decide.

I'll help you figure out how to best use an allowance: when you should give it, how much you should give, and how to set some expectations. I'll suggest specific money lessons that you can teach at each age and stage of your child's life, from toddler to teenager. I'll show you how to teach kids about credit so they learn to use it smartly and to not make the mistakes some adults make. And I'll help you set the habit of saving in place so it's a no-brainer by the time your kid goes to work full-time. Oh, yeah, shopping . . . we'll talk about that too!

I know you want the best for your kids. Like me, you want to make sure your children can stand on their own two feet and make good decisions about what to do with their money. If you follow the plan in this book, your children will be smart about money; they'll know what they can, should, and won't do for it and with it.

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Here we go.

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ALLOWANCE

If you want your kids to learn about money, you've got to put some in their hands. Children are the most concrete of learners. Without some actual dollars and cents to work with, everything you say will be a discussion "in theory." Give a child an allowance and you move from the theoretical to the practical, from thinking to doing.

Giving kids money is easy . . . you've been doing it for years. Whether you hand over coins for your kid to buy a can of pop, or you take her into a store to pick out a new pair of shoes, you are constantly spending money.

"Mommy, can I have an ice-cream cone?"

"Dad, my hockey stick broke."

"Mom, I need money for the book fair at school."

"My pants are too short."

"I need a haircut."

"My calculator is broken."

The idea of an allowance is to put some of the money you routinely spend on your child directly into her hands so that she can learn how to manage it for herself. It's about transferring responsibility for financial decision-making to your child so that she can get some practice. Given regularly, an allowance not only provides kids with the bucks they need to experiment with saving and spending, it also gives them the responsibility for keeping their money safe and using it wisely. Over time, even a modest allowance will get kids thinking about the value of money and how to make their dollars go further.

The alternative to an allowance, and a trap for most parents, is the dole system. That's when your kid asks for some cash and you dole it out. Since the dole system has no limit, there is no reason for a child to set priorities or make a decision on relative value. Another downside to the dole system is that you remove all control from your child. You get to decide which of his requests is

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remove all control from your child. You get to decide which of his requests is valid enough for consideration, and your child feels like a beggar. Your child learns the Gimme Game really well and you grow resentful of the constant requests for cash.

“But Mom, I only need \$2.”

“Gee, Dad, it only costs \$5.”

“Can I have another quarter? Another dollar? Another \$100?”

If you're currently on the dole system and don't fully appreciate what it's costing you, keep track of all the money you hand over to your kid in a month. Yup, write it down. Never mind whining about what a pain it is to do this. DO IT and you'll see exactly how much money your kids are getting each month. You might be surprised by how large your kid's allowance is!

Set Expectations

To learn how to manage money responsibly, children need an income they can rely on—one given at regular intervals. The experience of handling a steady flow of cash will teach many fundamental skills, including how to plan ahead, how to set goals (both short and long term), and how to save.

While I'm all for giving children an allowance, I also believe very strongly that you need to set some expectations for what kids will do with their money. This is the step that most parents skip, so they lose the wonderful opportunity an allowance offers to teach new skills and attitudes.

If you just hand your child an allowance without any guidelines, she'll learn that she can spend money on anything she wants every week. The liberty to spend at will does nothing to teach good money management. In fact, it isn't a liberty afforded to us as adults. Since we are required to spend a certain amount of our hard-earned money on fixed expenses, regardless of what we want to buy ourselves—we have to keep a roof over our heads and our children fed—allowing kids to do as they will with their entire allowance isn't a true representation of money management in the real world.

Initially, the allowance you give to young children will help them learn how to count coins; how to divvy up their money into categories like savings, sharing, and spending; and how to make small purchases. Over time, as their allowance

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and spending; and how to make small purchases. Over time, as their allowance increases, you'll tie more planned spending into their allowance expectations: they'll become responsible for paying for their own books through school programs, for buying their own school supplies, for budgeting for their after-school activities.

In learning how to manage money, children need to see that there are a variety of purposes for money, not just the immediate gratification of spending it. Spending is a part of the equation, but so, too, is saving and sharing with others less fortunate.

Look at an allowance as having three components: (1) the part to be saved, (2) the part to be shared, and (3) the part to be spent. This third part of the allowance equation can itself be broken down into two parts: first, the spending kids want to be able to do on a whim (their "mad money"); and second, the spending they intend to do based on specific expenses and expressly stated goals (their planned spending). Spending on a whim comes naturally to most people. Saving, sharing, and planned spending are all ideas that have to be introduced, practised, and reinforced.

Setting Up Magic Jars for Kids

One way to clearly differentiate between the different purposes for money is to set up money holders for each purpose. Believe it or not, this is where the idea for the Magic Jars came from. I recommend that parents use four jars clearly labelled: Savings, Sharing, Planned Spending, and Mad Money. Get your kids involved in labelling and decorating their jars. It's not just a great craft activity; it also gives them a sense of ownership.

The reason the jars work for children (and apparently for adults too) is that they make the finite nature of money visual. There is only so much. If you spend it on one thing, you won't have it to spend on another. When the money is gone, you have to stop spending. (As adults, we've lost touch with the idea that money is finite because we've fallen into the trap of using credit to fill the gap. Living on the Magic Jars puts people back in touch with the fact that money is a finite resource and that you have to plan if you want to get to the end of the month before you get to the end of the money.)

How Much?

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The amount you choose to give your child will depend on how much you can afford, your child's age, and what you expect your child to do with her allowance. If, for example, the most you can afford is \$5 a week, so be it. While many parents are stuck on the \$2-a-week allowance, just think about what \$2 can buy in this day and age (after you deduct for saving and sharing), and you'll have a good idea of how effective (NOT) that amount will be in teaching money management.

Ask your child to list the five most important things he wants to do with his money. If he is an avid reader and wishes to buy his own books, he'll need more than a child who is only interested in candy.

Naturally, younger children need, and are capable of handling, less money. If all your child is buying is candy and the occasional toy, you may want to start her off with a relatively small sum. At five years old, 50¢ a week may be more than sufficient.

When you first start giving an allowance to young children—those aged six to 10—I suggest that you use your child's age as a guide, giving a dollar a week for each year. So a seven-year-old would get \$7 a week. You're the best judge of the amount that will be most appropriate for your child. Just remember that it needs to be enough so that your child can save, share, and spend. And know that over time, as you increase your child's financial responsibilities, you will increase the allowance to cover specific spending categories like school supplies, clothing, and gift-giving.

Make It Easy for Kids

When you give the allowance, and how you give it, will affect your kid's development of good money-management skills. Younger children find it easier to handle money if they are given a small amount every week.

Consider what time of the week is best. If your experience says that giving an allowance at the beginning of the weekend means it's all gone by Monday, then give it on Monday or Wednesday. While you want your child to accept responsibility, young children need some help in developing the skills. The timing of the allowance may make all the difference.

Children who are older and have established many of the habits of budgeting should be asked when and how often they prefer to receive their allowance.

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should be asked when and how often they prefer to receive their allowance. While some kids like getting a little money each week, others may prefer a lump sum that allows them to plan spending for the month.

Whatever allowance schedule you establish with your children, make sure you stick to it. It's demeaning for anyone to have to constantly ask for money. And providing the allowance on time will send a subtle message about the value of honouring commitments.

Also think about the denominations in which you'll give the allowance. If you give your 10-year-old all his money as a single bill, he'll have trouble implementing his budgeting plan without hitting a store to make change. Giving him smaller denominations means he will find it easier to set aside the money for the various parts of his budget like saving, sharing, and planned spending.

How Much Goes in Each Jar?

The rule of thumb for saving is that you should save 10% of your income. (This does vary depending on the age at which you start saving, but it's a good guideline, so we'll stick with it.) If your child gets \$6 a week, the first expectation to set is that 60¢ needs to be put in the Savings Jar.

The rule of thumb for sharing is whatever you make it; in my house it was that you should put aside 5% of your income for those who are less fortunate, so if this is something that is important in your household then into the Sharing Jar should go 30¢ (or whatever amount works in your family).

Now comes the hard part. What percentage of the remaining money should be planned spending versus mad money? That depends on whether your child is expected to pay specific costs for herself, and what long-term spending goals she has.

Let's say, for example, that you provide your child with a large enough allowance to pay for her bus fare to and from school each week. That money should be set aside in the Planned Spending Jar to be used each day as needed. If you expect your child to buy gifts for special occasions from her allowance, you'll have to figure out how many gifts are bought each year, and how much of her allowance needs to be set aside each week so the money will be there when the special occasions roll around. (You may also have to set up extra jars so your child can set the money aside visually.)

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Your child might also have a special purchase in mind, like a new iPod. Help her determine how much she needs to put aside each week so that dream can become a reality. And help her come up with a system for monitoring her progress so she stays motivated. The rest of the money is mad money. She can spend it or she can put it towards her planned spending goal (the iPod). She can do anything she wants with it!

When my daughter, Alex, was heading off on a European trip with her school chums, I paid for the trip and she had to come up with the spending money. As the date of departure grew closer, we were talking about how much she had, and she was commenting on how her friends were scrambling to find money. “But they’ve been shopping,” she said. “Every time I wanted to buy something, I thought about the trip, and then I thought about what I wanted more—that thing in the store or the money for the trip.” See, it works. Teach your kids that money is a finite resource and they will weigh their infinite spending opportunities to figure out what they really want!

Tying Allowances to Chores and School Work

If there were strings attached to the money you received as a child, those memories will have a strong bearing on the strings you attach to your children’s money. Perhaps you were never given an allowance and had to work for every penny you got. Your allowance may have been tied to chores. Or you may have been required to save all the money you received as gifts. Whatever your experiences, they may colour the way you look at allowances in general, so you need to try to put them aside. Even if you had to walk seven miles to school in blinding snow with a hole in your shoe, that doesn’t mean you want the same thing for your own children.

Most people have no problem with the concept that teaching kids about money is an important part of their development. And most would acknowledge that having some money to manage is the best way to learn how money works. But when it comes to what you should ask of your children in exchange for that allowance, emotions can run pretty high.

Some people feel an allowance should have no strings attached. Others think it should be tied to chores in the home, school grades, or behaviour. (“If you don’t smarten up, I’ll cut off your allowance!”) Some parents debate whether or not kids should work for their money by having part-time jobs. Some feel that school is a child’s job and that any other work detracts from potential academic

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school is a child's job and that any other work detracts from potential academic success. Others think that a part-time job is perfectly fine, while still others believe that a part-time job is essential because it begins the development of a good work ethic.

I believe that allowances should come strings-free and that it's perfectly fine for children to get a part-time job to supplement their allowance—not to replace it—when they get older.

Think about why you're giving your kid an allowance. The objective should be to teach him money-management skills. The fact that you work hard for your money will be brought home when your child learns relative value (which we'll discuss in the "Spending" section): how many hours he has to work to afford that pair of running shoes.

Money doesn't work as a reward for good behaviour. Just ask the many management theorists who have proven that money is not a motivator for adults. So why should it be for children? Good behaviour is based on an understanding of right and wrong, thoughtfulness, caring, and consideration, along with myriad other positive attributes, all of which have to be internalized.

Good grades are your child's responsibility. School is his primary job, and good grades are an indication that he is doing his job well. If you provide financial reward for good grades, you are externalizing the reward. Instead, the reward should be internalized: the self-esteem and pride that accompany having done well at school.

As for an allowance being payment for chores, who pays you to do the chores in your home? Chores are a part of each individual's responsibility to the family. Payment for regular chores negates a child's individual responsibility as a member of the family unit. (Payment for extra household tasks—those above and beyond a child's normal chores—is fine when your kid is specifically doing the task to earn some money.) The biggest problem in tying your child's allowance to the completion of chores comes on the day when you must withdraw the allowance because the chores haven't been completed. Now you're teaching your child, "I have the money, and you'll have to do as I say to get some of it!" That's a straight-out power play. "I have the money, so I have the power." Ouch! Not a lesson I want my children to learn. A far better tactic for teaching children who don't follow through on household responsibilities is to do a like-for-like comparison. "Kiddo, if you don't make your bed, I'm going to have to. And I only have time to do one thing, make your bed or make your

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have to. And I only have time to do one thing, make your bed or make your lunch. Which one do you want to do?”

If you want to teach your children the value of working for pay, then that can easily be incorporated into your money lessons; it isn't a substitute for an allowance. As your children get older, they will be looking for ways to make more money. You can count on it. And this is where the work-for-pay learning comes in. Perhaps Kiddo is willing to take on the job of cleaning the kitty litter. Is it worth \$5 a week to you to not have to do that job anymore? If it is, each week you fork over the \$5, providing the kitty litter has been kept clean. A substandard job means you dock your worker's pay. No commitment to following through means Kiddo doesn't get paid. But if all goes well, you are saved from the nasty job, and Kiddo feels adequately rewarded. There are loads of things kids can do to earn money at home. From washing the car to weeding the garden, from shovelling the snow to cutting the grass, you'll always have jobs you can pay your kids to do for you if you want to teach the work-for-pay lesson.

As your child gets older, you'll review and adjust the amount he receives as an allowance. Pick a specific time of year—the beginning of the year, your child's birthday week, the beginning of a new school year—and make the review routine. If your son is looking for a hefty increase, ask him to give you a written proposal or a formal presentation explaining how much he wants and why. If you were asking for a raise at work, you'd have to justify your request. Perhaps he feels it is time he started buying his own clothes. You can negotiate the initial amount, outline the attached responsibilities, and implement the plan slowly. Moving from no clothing allowance to a year's clothing allowance in one fell swoop is a recipe for disaster. Let your child assume responsibility in small increments.

Before you do your allowance review, think about what you want to accomplish over the next year in teaching your child about money. Is it time to put your daughter on a clothing allowance? Should your son take on responsibility for managing the money spent on his soccer? Do you want your wee one to learn to accumulate a little each week to buy school supplies come the start of the new school year? Talk with your partner about how much responsibility you feel your child can take on. Perhaps you wish to start your daughter on an investment program. If so, you'll need to do a fair amount of teaching, and you'll need to up her allowance to take the money for investing into account. You'll also have to carefully monitor her progress to ensure the funds are being directed to the

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carefully monitor her progress to ensure the funds are being directed to the appropriate new category in her budget.

Keep Your Hand Out of Your Pocket

An allowance only works if, once given, you keep your hand out of your pocket. Giving an allowance backed up by the dole system is a great way to raise a Princess (male or female). If you want a responsible and independent young adult, keep your hand out of your pocket and let the consequences of your child's behaviour teach some important lessons.

So what do you do if your daughter takes her monthly clothing allotment and blows it all on a dress for a party? So be it. The money is gone. If you can't stand seeing her in those ratty old jeans, that's your problem, not hers. At some point you have to allow your children to be self-determining. If you object to your daughter showing up to special family gatherings wearing something you consider totally inappropriate, you can ask her to be considerate of your feelings and dress a little more conservatively. Take her shopping for a special outfit and set it aside for those occasions.

Can't stand to see your hard-earned money being spent on the trashy clothes she buys? It's not your money. It's her money. You gave it to her and it's hers to manage. Let her live with the consequences of her purchase decisions. If she comes to you and says, "Mom, I don't have anything to wear! I need a decent dress," resist the urge to take her on a shopping spree out of sheer relief. If there are no consequences to her purchase decisions, she won't learn anything. She needs to experience the natural consequences. Your best response would be, "Molly, I'm sorry you don't think you have anything decent to wear. Maybe you should budget for some new clothes out of your next allowance."

Clothing is often a point of disagreement between parents and children. But there are hundreds of other examples. Your son may arrive home one day with a haphazard haircut that makes him look, at least from your perspective, like a barbarian. Grit your teeth and smile. Your daughter may decide to spend her long-saved planned spending money on something other than her original goal. That's her choice. Your son arrives home with a beat-up car on its last legs. And he paid what for it? You can say, "Get rid of that thing—you're not parking it in front of my house!" or you can say, "Have you considered what it will cost to find a parking place for that?"

The way you react to your children's purchase decisions will affect the way they

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