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Hands on Banking®
Money skills you need for life

WELLS FARGO

Talking to Your Kids about Money

We live in a consumer-oriented society where money is part of daily life. American kids are barraged with advertisements encouraging them to buy. Once they leave high school, young adults are often flooded with credit card offers. Yet, most lack a basic understanding of personal finance. Some are piling up thousands of dollars in credit card debt.

As a parent or guardian, you have the opportunity to educate your children about smart money management. Understanding the fundamentals will help them to become financially self-sufficient, with the knowledge to take advantage of financial opportunities. Teaching your kids to develop a healthy relationship with money can have a positive, lifelong impact—and improve your own financial knowledge, skills, and attitudes along the way.

Most kids are interested in money and recognize money management as an important step toward maturity and independence. Talking with them about personal finance will show that you recognize they're on the road to becoming responsible young adults. By gradually transferring more financial responsibility to them, they'll gain experience in planning, making choices, and learning to live independently.

It's never too early to begin teaching your children the basics of good money management. You can help them to build healthy, lifelong financial habits. Here are tips for introducing your children to the fundamentals of money and personal finance:

Make it a (daily) conversation.

Engage your kids in age-appropriate conversations about money. Share your thoughts with them about how you make your daily spending and saving decisions. They'll also benefit from hearing about your past money mistakes and what you learned from them. Let your kids know they can always turn to you for financial information and advice.

Start young.

As soon as your children can count, you can introduce them to money—dollars and cents. When they're old enough to shop with you, you can introduce them to the ideas of spending, saving, and how money is used to store, measure, and exchange value.

Discuss the fundamentals.

Once kids understand the idea of money, introduce them to basic concepts about how to use money wisely. (*The Hands on Banking* program offers money management education designed for students from 4th grade through college.) Encourage your kids to:

Recognize needs vs. wants—and make tradeoffs.
Kids need to understand that people can't have everything they want. They need to identify their priorities and make tradeoffs.

Talking to Your Kids about Money (continued)

Discuss the fundamentals. (continued)

Set goals and save for them.
Help your kids to set goals and teach them the habit of saving regularly to reach their goals. As an added incentive, consider offering to match what they save on their own.

Make money grow.
Explain the concept of earning interest and the power of compound interest to make money grow faster.

Be a smart shopper.
Encourage kids to comparison shop, ask questions, and think through a purchase before they buy.

Keep good records.
Teach kids to save receipts. This will allow them to keep track of what they buy and how much they spend, and to return purchases if necessary.

Include kids on the family finance team.

You can help your kids learn about money by including them in your daily financial activities and decisions:

- Have the kids accompany you on shopping trips and help you to clip coupons, watch for sales, and compare quality, service, and price.
- Preparing a meal together can be an opportunity to discuss the value of planning ahead and avoiding waste—concepts that also apply to money.
- Before making a major purchase, discuss the pros and cons with the family. This will help your kids to recognize the importance of weighing alternatives.
- If your child asks for expensive items the family can't afford, don't give in; stick to your family budget. Use the situation as a teaching opportunity by giving your child the specific reasons behind your decision.
- When they're old enough, let kids sit with you while you pay some household bills, balance your checking account, review your monthly credit card statement, or update the family budget. Give them a sense of how much it costs to cover the various monthly household expenses.
- Explain your money management strategies and decisions to your children, whether it's saving for a family vacation or borrowing against your home equity to remodel the kitchen.

Talking to Your Kids about Money (continued)

Give an allowance.
Giving kids an allowance provides them with an important opportunity to learn and practice money skills they'll need throughout their lives. On a small, manageable scale, an allowance lets them make their own decisions and their own mistakes—and live with the consequences.

Some advisors recommend a simple system for determining the allowance amount: a dollar a week for each year of the child's age (e.g., $10 for a 10-year old child). Others recommend that you determine an appropriate allowance amount by making a list of what you buy for your child in a typical week and how much you spend. Separate essentials, such as lunch money, school books, and haircuts, from discretionary items such as CDs, magazines, and sodas. Consider an allowance in an amount sufficient to cover essentials and discretionary items. Be specific about the essentials the child will need to handle. This approach will help the child recognize the difference between needs and wants and set spending priorities. Help your child to create a personal budget and map out a spending plan. Also, set guidelines for what items, if any, are "off limits" for allowance spending. Be sure to pay the allowance consistently and on time.

Because the idea behind an allowance is to let children practice money management skills, many experts advise parents not to link the allowance to the child's behavior or a list of chores. Parents can take away a privilege (for example, a ride to the mall) if the child misbehaves, but frequently docking the allowance takes away the child's opportunity to learn about money management. Consider making routine chores part of your children's responsibility as family members, but give them the opportunity to earn extra money above their allowance for tackling special projects. If you decide to use the allowance as a payment for chores, be clear about what's expected and keep your agreement.

Let kids make money decisions.
Advise children to divide their allowance and any additional earnings into three "buckets:" a fund for spending, one for saving, and one for charity. (Giving the allowance in $1 bills makes the money easy to divide.) Encourage your children to routinely save part of the allowance they receive. Help them understand that since no one knows what the future will hold, it's smart to have savings. If they set money aside immediately each time they receive some, they won't be tempted to spend it.

Let children decide how to use the remaining money, but encourage them to track what they spend. Without tracking, their money can quickly disappear unnoticed. Explain that since people can't afford to buy everything they want, they always need to make spending choices and trade-offs.

Encourage goal setting.
Ask your children to list all of the things they want, and to organize their list into immediate, short-term, and long-term goals.This will help them learn about making choices and trade-offs, setting priorities and distinguishing between needs and wants.

Talking to Your Kids about Money (continued)

Visit the bank together.
Around age 10, when children can start to understand the concept of interest, take them to a bank to open an interest-bearing savings account. Teach them how to make deposits and withdrawals, keep an account register, balance their account and use online banking to track account activity. Teens can also open a checking account, preferably one without any minimum balance requirements or monthly fees. Guide your children to use their accounts responsibly.

About jobs and pay.
Having a part-time job can be a good way for young people to learn more about earning money and how to manage it. However, be sure that school remains their top priority. Young adults need to take advantage of the opportunity to focus on school. In addition, the quality and level of education they receive will have a major impact on their future earning power. Continually monitor whether working is causing schoolwork to suffer. Also, evaluate whether the environment and values of the employer are positive and healthy influences for your child.

Start slowly with credit cards.
Credit cards can provide financial flexibility and convenience, but many young adults get in trouble with credit card debt. One option to consider is getting a low-limit credit card for your teens while still in high school. (Age limit rules will apply. Check with your credit card company or your banker.) You can teach them how to manage a credit card account, including how to save receipts, check their monthly statements, and charge only what they can afford to pay off completely each month. By learning to be responsible with credit early, your children may be less likely to have debt problems in the future.

Teach a commitment to charity.
Encourage your kids to make a habit of giving to charitable causes. Ask them to consider what causes they care about personally and how they would like to make a difference in the world around them. Save solicitations you receive in the mail and ask your kids to help decide where your family should make donations. Also, encourage your kids to volunteer and consider volunteering with them. Volunteering can be a powerful experience for both parents and kids in terms of recognizing community needs and the benefits of giving back.

For more information on Credit Card Regulations, please visit **www.federalreserve.gov/consumerinfo/consumercredit.htm**.