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Teaching Money Management to Your Kids

Jeff Metzger

Founding President,
Kids First Sports Center
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We parents teach basic courtesies to our toddlers knowing if we fail to do so at a young age, teaching them later will present challenges. We teach intellectual skills such as reading and arithmetic (counting, addition, subtraction, etc.) to our preschoolers because it helps prepare them for more advanced mathematical concepts essential to excel in today's world.

But what about financial skills? Aren't money management skills just as important in today's world? It truly *boggles* me how few parents make a meaningful attempt to teach money management to their kids, especially when doing so is so SIMPLE. When is the best age to start? When a child can count to 10 and not a day later. As a bonus, the process of teaching money management will give relevance to numbers which will tend to help the child learn math easier and faster. No matter what the subject, when there is *relevance*, learning results.

Today, my own kids are now happy, healthy responsible adults as well as excellent money managers. I might add, that was accomplished without ever once getting angry or lecturing or expressing the stereotypical frustration, "do you think money grows on trees?" Before sharing my teaching suggestions, I want to make a case against using credit or debit cards when you transact in the presence of your children. The ethereal, abstract nature of 'electronic money' makes fiscal management difficult for many adults. Think how difficult it is for a preschooler to imply value to a electronic impulse that manipulates a virtual digit in a virtual checkbook! I have a long held pet theory; the proliferation of 'plastic' (electronic money)—i.e., the *absence* of the discipline that is inherently imposed when dealing with tangibles (swapping cash for goods)—has been a material factor in the public's eroding financial skills. (And a parallel belief: I also believe that our nation's lack of fiscal discipline is largely because our currency units have no 'inherent value' and have not since 1971 when the Nixon administration decoupled the US\$ from gold.) In summation, when people exchange one 'thing' for another 'thing' and the first 'thing' has little inherent value (virtual digits and value/less dollars) then the second 'thing' appears to have less value as well. It is no mystery to me why so many kids today 'have no appreciation for the value of a dollar' and 'don't take care of their things.'

A Money Management System for Preschoolers. You could call my Money Management System an allowance. But it isn't a typical allowance in that it simulates a retirement fund as well as compound interest, two critical financial concepts many folks never learn. Note: in my example below I write about the same nominal \$ amounts that I used in 1985ish even though inflation has altered the value of the \$ considerably. To wit, the Government's Bureau of Labor Statistics says a \$1.00 allowance in 1985 needs to be \$2.02 today to maintain the same spending power. Try it yourself at <http://data.bls.gov/cgi-bin/cpicalc.pl>

When a child can easily count to 10, give her *two* banks, a ONE WAY BANK and a SPENDING BANK. Being a woodworker, I made the ONE WAY BANK out of cheap pine. It was *permanently* glued and screwed shut, painted red and the only access was the coin/bill slot on top. The ONE WAY BANK simulates a retirement account. The SPENDING BANK was of the store-bought variety where the coins would flip flop into their correct chamber, allowing easy ac(counting). The SPENDING BANK serves as a depository or checking account.

At the Metzger house, the paying of allowance was an event that took place on Sunday evenings during quiet time before bed. It was a time to talk, teach, laugh and learn; just writing about it makes me nostalgic for those wonderful days.

The starting allowance was \$1.00 and at first we dealt exclusively in coins because their tangible nature and counting is easy as 1, 2, 3, 4. The central premise was the 25% RULE which was intended to simulate interest. Here is the rule: 25% of *every* dollar which passes through a child's hands is to be deposited into the ONE WAY BANK, not to be touched again until retirement (other than to be invested more conventionally years later). The 25% RULE applies to *all* money including 'found money': If Grandma gives the child a \$5 bill for Christmas, 25% of that amount is to be placed in the ONE WAY BANK. (As an aside, you would be amazed how quickly counting and stacking quarters, four to a stack, can help a preschooler grasp that if one quarter of every dollar is to be deposited in the ONE WAY BANK then a \$5 Christmas gift requires a five quarter. The child will quickly learn that 25% of \$5.00 is \$1.25 and that is some pretty impressive math for a 3 year old)! By the way, the child could elect to deposit *more* than 25% into the ONE WAY BANK.

Now comes the simulation of COMPOUND INTEREST (Albert Einstein called compound interest "the greatest mathematical discovery of all time"): For every coin or bill your child deposits into the ONE WAY BANKE, you match it. For us, it was a game and I would have a stash of coins so I cold match each dime, quarter or dollar as it was deposited. Caution: this includes 'found money,' so if a child were gifted, say, \$100 for Christmas and elected to deposit, say, \$95 into the ONE WAY BANK you must be prepared to match the entire \$95. Note that my kids would routinely deposit 50-75% of 'found money' into the ONE WAY BANK. The point: at a young age and without coercion, my children learned to value 'saving' over 'spending.' Einstein was right!

The SPENDING BANK is more or less a depository to be used the same way an adult might use a checking account. Here is the most important (and, for many parents, very difficult) rule about the SPENDING BANK: permit your child to spend his or her spending money ANY WAY S/HE SEES FIT WITHOUT JUDGMENT OR INTERVENTION. It is CRITICAL TO ALLOW YOU CHILD TO EXPERIENCE THE PAIN OF A POOR DECISION. Always remember, lecturing doesn't teach, pain does! Might

your child 'blow' a few dollars. Certainly, at first. Resist intervention and allow it to happen. Remember, significant believe systems are seldom learned all at once.

Let me tell you about the power of the 'sticky factor': The 'sticky factor' engages when, through work and discipline, a person is able to amass a nucleus of savings which stimulates a desire to continue the habit and grow the nest egg. To understand why this is, consider the opposite: when a person has zero savings there seems to be a pervading sense of hopelessness in even trying to save.

Looking back, I NEVER (!) got involved in my kids' spending decision (snacks, trinkets, souvenirs, etc.) with practice, my children learned to make good spending decisions at a young age! Another rule: it must be the child's responsibility to carry and protect and transact with their own money. Did my children ever lose money? Yes, a time or two. Bummer for them and they learned to be careful early on. Note that on rare occasions (I remember one, a trip to the History Museum) a child would fail to bring their money in which case I would offer a short term loan which was made official with a written IOU which would be settled when we got home. Giving a short term loan opens the doors for you to teach your child about the three kinds of debt: 'convenience debt' (short term such as the Museum example or when an adult uses a credit card and pays it to zero at the end of each month); 'fool's debt' (buying a consumer product and paying interest on an item which depreciates); 'self-liquidating debt' (business debt which is serviced by the purpose behind the debt and serves to increase one's net worth).

As the years passed, the allowance amount increased to include giving the child increasing responsibility for budgeting purchases.

Some day I will write the details of my 7th grade battle to get my Mom and Dad to give me an all-inclusive allowance that would allow me to budget my school supplies, clothes, and maybe a trip to Coney Island. My argument was I would never have to bug them for money (something I genuinely did not like to do) plus I would ultimately cost them less. It must have worked great because they agreed to a short term trial that continued. I never asked for money again (other than for a \$10,000 loan in 1975 to start Queen City Gymnastics Center. But that is yet another story. *Make it a great summer! Jeff*