TEACHING KIDS ABOUT MONEY

By: John Welsh, Senior Vice President, Director, Commerce Family Office

Evidently a penny earned by kids today is not necessarily a penny saved.

A recent survey conducted on behalf of the American Institute of CPAs (AICPA) found that children are getting an average allowance of $30 a week—enough money to save $1,500 a year. However, while 75% of Americans believe the most important purpose of an allowance is to teach children the value of money and financial responsibility, only 3% of parents say their kids save their allowance. Usually it's spent on outings with friends (45%), digital devices or downloads (37%), or toys (33%).[1]

The AICPA survey also found more than four out of five Americans who give their children allowances expect them to earn it. (Nowadays, most kids average a little over $6.00 an hour.) About a quarter of the adults surveyed believe allowances should be partially earned and partially gifted. The good news is this: 92% of parents agree it's important for their kids to understand how to effectively manage their money and seem to be putting in the time and effort to teach them about financial responsibility.[1]

> **"One of the best gifts we can give our children is a solid education on how to manage their money. Simply handing money over to a child without guidance is a missed opportunity. By making an allowance a teachable moment, parents will help instill money management skills in their child at a young age that will help prepare them for the important financial decisions they'll have to make when they're older."[2]**

FORM YOUR KIDS' MONEY HABITS AT AN EARLY AGE

It's a common belief that parents are the single most powerful influence in their children's long-term financial lives. For generations, introducing children to the concept of money and the value of saving is what parents have been doing with piggy banks, big jars, and savings accounts.

Teaching children good money habits should begin at an early age with open, honest conversations. The traditional three-jar system is a popular method for helping young kids learn about basic money concepts.

Here's how it works.

All the money your children earn or receive is put into one of three money jars. The first jar is for spending, the second for saving, and the third for sharing with others. Here are tips for getting started.

- Help your children pick out three large clear jars at the store (it's important they see their money in the jars and watch it "grow").
- Decorate the jars with permanent markers.
- Print "SPEND" on the first one, "SAVE" on the second, and "GIVE" on the third.

Keep it simple—stick to the basics.

- Before any money goes into the jars, talk about the monetary value of currency and coins. Show the many ways different coins add up to a dollar.
- Let your children have input into how money they've earned or received as gifts will be divided among the three jars. Discuss the importance of being consistent with their allocations each time. This teaches them that money isn't just about spending it all on something they want. Consistently saving money and setting some aside to give to a charity or help others are important lessons to teach with every dollar your children receive. Remind them that no charitable amount given away is too small.
- Allow them to use the spending jar for what they want—even if that means making some bad purchases.
- Introduce the concept of interest by giving some form of earnings for keeping money in the savings jar. You could give a set amount at the end of the year, such as $1 for every $10 saved.
- Offer to match any gift made from the giving jar. Let your children have input into the people or charities that will receive their gifts.
- Consider adding a "FAMILY EVENT" jar that you contribute to every week to show the children the act of saving for a special vacation or experience.
- Keep children interested by giving different forms of money such as 50-cent pieces, gold or silver dollars, and bills in various amounts.

TEACHING TIPS FOR CHILDREN AS THEY GROW

As they watch the money build up and fill their three jars, the children are getting their first lesson on how the value of saving starts simply and grows over time. The concept will take on even more meaning when they save for something they really want and can buy it with their own money once they reach their goal. As they grow older, the things they want to buy will be more expensive—they'll quickly learn that the time between saving their money and spending it will grow too.

BE A GOOD ROLE MODEL

Someday, your children's money jars will be replaced by wallets, bank accounts, and investment portfolios. Whenever possible, involve them in your own money management process so they'll be prepared when their time comes. For example:

- Explain the process of depositing your paycheck and paying bills.
- Discuss why and when you use a debit card versus a credit card.
- Involve them in discussions and decisions about making large purchases.
- Talk about competitive pricing and why it pays to do your homework.
- Discuss why you have a family budget—and the importance of sticking to it.

What the children likely will remember the most from these family conversations and experiences are the financial choices you made about how to spend, save, and give to others—in good times and bad.

NEXT STEPS

Contact Commerce Trust Company today to learn more about how we can help your family take the next steps toward planning and achieving your financial goals.

[1]AICPA.org, "Children's Allowance Pay Is Up—Amount Saved Alarmingly Low," press release on 2019 American Institute of CPAs (AICPA) survey; https://www.aicpa.org/press/pressreleases/2019/childrens-allowance-pay-is-up-amount-saved-alarmingly-low.html. October 1, 2019.

[2]Gregory Anton, CPA, CGMA, chair of the AICPAs National Financial Literacy Commission. AICPA.org, "Children's Allowance Pay Is Up—Amount Saved Alarmingly Low," press release on 2019 American Institute of CPAs (AICPA) survey; https://www.aicpa.org/press/pressreleases/2019/childrens-allowance-pay-is-up-amount-saved-alarmingly-low.html. October 1, 2019.

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John is a managing director of Commerce Family Office in St. Louis. He collaborates closely with clients on strategies for addressing the complex personal, family, and financial challenges that can accompany significant wealth and often impact current and future generations. John works to help clients integrate core values into wealth planning and decision making, translate vision and mission statements into actionable solutions, implement successful family communication strategies, and establish effective family governance structures and processes. Prior to joining the Commerce Family Office team, John was a Family Wealth Strategist in Chicago, where he worked with families and individuals on the development and implementation of estate, wealth transfer, philanthropic, family education and fiduciary planning activities, as well as a variety of wealth planning matters. Prior to that, John was an attorney where he was a part of the Private Client group providing wealth and estate planning services to ultra high net worth individuals, families, family offices and foundations. John earned his Bachelor of Business Administration from the University of Notre Dame and his Juris Doctor from Northwestern University School of Law.

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