Raise a Financial Whiz Kid

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How often have you felt that your child thinks money grows on trees? Here, creative ways to help children of any age become financially aware and responsible

“MAAAA!! I’m leaving for camp in a week and I have yet to get new shoes, linens, and clothes!”

“Shaindy, I already bought everything you need for camp. If you want new shoes, use your babysitting money,” said Malka, as she put in yet another load of laundry.

“Huh? I used that money for my new blow-dryer and hair iron. Why can’t I just have your credit card?!”

Why did I let her blow her money on a pricey blow-dryer?! I wish she had thought ahead and realized that she’ll want a bunch of new things for camp. Now she’s just going to complain for the next week about how deprived she is until I give in. And we can’t afford the extras with all these camp tuitions! I wish she understood how money works...

The mortgage crisis and recession of 2008 wreaked havoc on the finances of many families in our communities. However, you don't have to go back to 2008 to find examples of *frum* families living in troubled financial straits. Even though high living costs are a major player, the lack of financial education is an equal culprit. While many schools have implemented financial literacy into their curriculums, the reality is that the best teachers are Tatty and Mommy.

"The sooner parents start taking advantage of everyday teachable money moments (for example, give a six-year-old $2 and let her choose which fruits to buy), the better off our kids will be," writes Beth Kobliner, author of the *New York Times* best-seller *Get a Financial Life*. A member of the President's Advisory Council on Financial Capability, Ms. Kobliner spearheaded the creation of Money as You Grow, which offers age-appropriate money lessons for children. "Parents are the number one influence on their children's financial behaviors, so it's up to us to raise a generation of mindful consumers, investors, savers, and givers," she adds.

But how can you teach kids about money, aside from opening a bank account for them and harping on how it's better to save money than spend it? Turns out, there are many age-appropriate ways parents can help children understand the value of a dollar, no matter what stage of childhood.

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WHAT'S IN STORE?

Ages 3–6

Chances are, you've seen little Shmuli or Miri play "pretend." Imaginary play is an intellectual developmental milestone that is perfect to use to your advantage.

According to President Obama's Advisory Council on Financial Capability, one of the first lessons to give over to children is that you need money to buy something at the store. To transmit this message, ask your child to play "store" with you, with your child as the store owner and you the customer. Have your child put together a "store" of things around the house or kitchen — you might already have plastic pretend food that's perfect to use. Gather a few coins (pennies work great for younger kids; older kids can start learning how much each coin is worth) and tell them you want to buy something from the store. Then ask, "How much does this cost?"

At first, children might need a little help (you can offer, "Let's say this apple costs two pennies"), but they should catch on with time. The objective is that they realize items cost money and, if you want to buy something, you have to pay for it.

Another key age-appropriate financial lesson: "You have to wait to buy something you want." This is the perfect time to start reinforcing the value of patience by helping them strengthen the self-control muscle. When your child is waiting in line at the swings or even when a sibling is playing with a toy that they want, discuss with him how important it is to wait patiently.

Take patience one step further, and introduce the idea of "delayed gratification" — the ability to put off something mildly fun or enjoyable now in order to wait for something that's much more fun, enjoyable, or rewarding later. While some kids are naturally able to wait for something that's better, others need to be taught this skill.

You've probably heard about Stanford University's marshmallow experiment series in the 1960s and '70s, in which preschool children were offered a choice between one small reward provided immediately or two small rewards after a ten-minute wait. Batya Weinberg, of the international education division of Mesila — an organization that promotes financial self-sufficiency among Orthodox Jews — builds on this strategy: she suggests you offer your child either one chocolate chip now, or two in ten minutes. If he's able to withstand the impulse and hold out for more chocolate, point out to him how much he gained by waiting. "Delayed gratification isn't just about money," says Batya. "It translates into better life skills all around."

You can help children work on delayed gratification during real-life spending trips too. For example, imagine your son wants a specific Lego set or race car for his birthday, but when you get to the store, it's closed. Naturally, your son will want to go to a different store *right now* to get a present, even though it might not be what he was hoping for — not as good quality or the same style. However, if you help your son hold off until he can go to the store tomorrow, he'll be happier with the gift because it was what he initially wanted, as opposed to an impulse buy.

Accentuate these teachable moments by mentioning — after the gift is purchased — "Yossi, doesn't it feel great to wait and buy what you really wanted?" (Just don't wreck the moment with, "I told you so!")

Shopping with children in tow provides the backdrop for many good financial lessons, Batya adds. For example, when you're making your grocery list, sit with your children and discuss priorities, especially in situations that are relevant to them. Say you're willing to buy three different treats for a Shabbos party — ask them which ones they would like. They may not be able to come up with just three, so you can work with them to figure out the "most important" ones.

"Let's say your children decide they want

Keep It Technical

Money.

When you hear this word, what emotions arise? Fear? Anxiety? Well, you're not alone. About 64 percent of adults say that money worries are a significant source of stress for them, according to a recent survey by the American Psychological Association.

Instead of transmitting your negative emotions about money to your kids, keep money talk as technical, practical, and unemotional as possible. "It's like safety pins," says Batya Weinberg of Mesila. "If you don't have one and you need one, then go get one and move on. But nobody should be dreaming about safety pins."

But how do you get to the point where you can leave your emotions at the door when it comes to money? Keep your reaction rational, suggests Batya. For example, if your spouse wants to buy something expensive, don't make it into an argument where you say, "Well I worked hard for this money..." or "You always blow through money like it's water!" That's emotional, not rational. Rather, look at the numbers and figure out if and how you can afford it.

potato chips, corn chips, and jelly beans," explains Batya. "Now this list becomes their guide at the grocery store, not you. So when you're shopping and they point to the lollipops and say, 'Mommy, can we buy this?' you can respond, 'Well, is it on the list? No? So maybe we should put it on the list for next week.' But if they persist, you can say, 'If you really want it, we need to take something off the list and add this. You can take jelly beans off and put lollipops on.' "

This activity, says Batya, teaches the child very basic yet very critical financial concepts — trade-offs, budgeting, and planning in advance.

SUPERMARKET MATH
Ages 7–12

Making responsible choices is a vital skill necessary for achieving financial stability. By the time your child is seven years old, you can start teaching him about making responsible decisions and understanding the difference between "needs" and "wants."

Needs are the basics, those items we use to survive — like food, clothing, and shelter. They also include reliable transportation and other tools and resources necessary to help us do our jobs well. Wants, on the other hand, are all the upgrades and items that are nice to have but aren't necessary for living and earning money.

While children need to practice making the choice between satisfying their needs and wants, make sure to keep the situations relevant to their lives, urges Batya Weinberg. "Our mantra at Mesila is that your budget should cover all of what you need and some of what you want. So when you take your child shopping for school supplies, figure out how much he'll need to buy all the necessary items like notebooks, pencils, and a backpack — let's say $40. Give him $50 and let him argue with himself, not you, about what he should and shouldn't buy."

Modeling responsible choices is another way to instill the lesson of spending responsibly. Children watch their parents' behaviors and learn by imitation. So when you're shopping, talk *aloud* about how you're making your financial decisions as a grown-up. Ask yourself questions like, "Is this $6 package of cookies something that we really, really need? Or can I just make cookies with ingredients I already have in the pantry?"

"Start your kids off with a healthy fear of a credit card"

Another important concept to introduce at this age is saving money versus just spending it. Get three jars and label them "Spend," "Save," and "Tzedakah." Every time your children receive Chanukah gelt, birthday money, or chore money, have them put some into the *tzedakah* jar (to be given out according to their preferences). Then, talk about what to do with the rest of the money — do they want to spend it now or save it for the future?

To become financially responsible, kids need to learn how to make wise financial choices — and sometimes slip up. "They'll inevitably make mistakes or spend money on trinkets and regret it later when they don't have money for things they truly want," says Ron Lieber, *New York Times* money columnist and author of *The Opposite of Spoiled: Raising Kids Who Are Grounded, Generous, and Smart About Money*. "So letting them make mistakes — spectacular ones even — is a great way to go, because then they learn, and they're not making mistakes when they're 24 and it could mess up their credit score." (*Forbes* 2/24/15)

At this age, children can also learn the valuable skill of comparing prices. Take them to a grocery store and bring them to a shelf displaying several different types and brands of ketchup. Ask them to get you the cheapest one. If they have strong math skills, make the task harder by asking if the bigger container of Heinz ketchup is a "better deal" than a smaller container. Use this moment to teach them how to find the best "per unit" deal.

"A seven- or eight-year-old can have a good time with this activity," says Batya. "You can have a kid sitting in the store, spending ten minutes figuring out which croutons are the cheapest. This builds great math skills and great life skills. Plus, kids love having this autonomy in the market."

This is also a good time to transition your child from using a piggy bank (or his drawer) to an actual bank. Even if it's just a few dollars, you can take him to open a bank savings account. (He'll probably need an adult added to his account.) Each month when he gets a bank statement, show him that the bank is not only keeping a record of his money, but also *paying him* money (interest) to hold and even use his money temporarily.

Your budget should cover all of what you need and some of what you want

PRACTICE MAKES PERFECT

Ages 13–18

During the teenage years, youngsters are starting to get a taste of the "real world," including dabbling in the arena of adult finances.

Many parents will have their teenage children get a job to earn money to spend on "extras." But even before your youngster gets his first paycheck, you'll want to open the fundamental discussion of healthy financial mindsets. According to Dr. Sharon Danes, professor and family economist at the University of Minnesota and expert in the field of teaching children about money, parents should be guiding teens toward the realization that resources are always limited and that setting priorities about spending money, time, and energy is a vital part of becoming an adult and making adult decisions.

"When making decisions, work with them in visualizing the pros and cons in context with all the other possibilities," Dr. Danes recommended in our interview. "Assist them in comparing the costs of those options balanced with the time needed, the energy needed, and the social network potential in reaching the goals that they have in mind."

Another vital lesson for teens: The sooner you save, the faster your money grows. Why? Compound interest, which is the interest you earn on both the money you've saved and the interest you already earned. For example, let's say you invest $1,000 (your principal) and it earns 5 percent (interest rate or earnings) once a year. After the first year, you would have $1,050 — your original principal, plus 5 percent, or $50. The second year, you would have $1,102.50. That's because the next interest payment equals 5 percent of $1,050, or $52.50.

It's imperative to give over to teens the message that credit cards must be handled with care. According to a 2011 survey by Charles Schwab, an American brokerage and banking company, while nearly three-quarters (74 percent) of 18-year-olds say their parents have taught them how to use a credit card responsibly, only 39 percent report being "knowledgeable about how to manage a credit card" and only 32 percent say they know "how credit card interest and fees work."

"A child who isn't old enough to deal with delayed gratification and can't really understand borrowed money and interest rates is too young to touch a credit card," warns Batya. And this includes a ten-year-old running into the store with your credit card to buy a loaf of bread. "Give him five dollars, not the credit card," she says.

But when children are old enough to understand the ramifications of using a credit card, Batya suggests that you make sure to give them a purchasing limit and, when they come home, ask for an accounting of how much was spent. "It can't be that they can spend as much as they want. Start your kids off with a healthy fear of a credit card."

And Batya's last piece of advice regarding credit cards and kids: Even if you don't talk about interest rates, only give the card to them with reluctance — they should understand that it's not an easy thing to get and use.

By the time kids are teenagers, they've probably already heard about "investing" and the "stock market," especially in their history and economics classes. A popular way to teach teens about investing is through the "stock market game" — they pick a few stocks, track them over a week or two, and pretend to buy and sell. While this does impress upon teens what investors do, there are many problems with this approach.

"First, no one has been able to predict stock market moves with any consistency," writes Brett Arends, financial writer for the *Wall Street Journal*. "Second, few things are as dangerous to your wealth as the latest glamorous 'growth' stock. And third, successful investing only works over the long term."

Instead, instill teens with responsible investing practices. For example, "get rich quick" is neither wise nor practical. Investing is a long-term strategy; start funding a retirement account before investing (and only after you have a budget in place and an emergency fund); and consult with a respected financial advisor for guidance as to where to put your money.

However, if you really want to give them practice, open an investment account with you acting as the custodian (since they're a minor). Brainstorm a "financial plan" together — do they want to save up for something specific or just for the future? One useful exercise is to ask them what they would buy, if they could buy anything in the world? Then, using a savings calculator (like the one on bankrate.com), show them how to figure out how much they'll need to invest every year to purchase this item in the future.

Last, but most important: creating and using a budget is absolutely critical. One of the easiest ways to teach budgeting is by giving them a budgeting project. For example, ask them to be in charge of Monday night family dinners for a month. Once again, a budget should cover your needs and a few of your wants. So if you think that each meal should cost $15, give them $70 for the entire month. Sit with them and make a plan of various dinners the family likes to eat and how to stretch the $70. While they may want to make Monday night "Sushi Night," they'll quickly find out that if they do so, they'll be eating peanut butter and jelly sandwiches by the last Monday night of the month.

Creating financially responsible kids does not happen overnight. It's a slow process that requires effort and patience. But it pays off in the long run, when your children become adults with a greater chance of financial stability.