

# FINANCES 101

## Teaching kids budgeting basics

BY C. ROSENBERG

**F**ew of us call ourselves financial pros, but a recent survey, based on answers from more than 150,000 adults in 144 countries, found that many people worldwide don't understand even basic financial concepts.

We cannot expect newly married couples to figure out on their own how to live within a budget, balance their checkbook, pay their rent and their bills on time, and live in a financially responsible manner. How can we, as parents and educators, teach our youngsters the importance of financial literacy and responsibility in order to help them beat the statistics?

## Consumer Culture

Batya Weinberg, Director of Education at Mesila, tells of a young, newly married woman who confided in her that she feels poor when she has to return items to the supermarket shelf because she can't afford them.

"This is a girl who is earning a decent income," Batya says. "She was simply never taught how to prioritize, and now she feels like she's choking."

The reason young adults find such occurrences stressful—despite the fact that they really are healthy, normal situations—is simply because they grew up in a world where wants are perceived as needs.

Add the proliferation of advertisements that young people are bombarded with to the mix, along with the fact that children are very susceptible to peer pressure, and you can understand why they need guidance on dealing with feelings of "must have."

As parents, we need to combat those feelings, teach them financial responsibility, and guide them toward eventual financial independence.

## Parental Modeling

"Your own money habits become your children's money habits," Avraham Byer, a financial trainer in Toronto, says. "Children of parents who have a healthy attitude towards money will have that same healthy attitude. If your children know that you have a systematic way of staying out of the red, they will absorb it. Not having a financial system in place causes you and your children to flounder."

He says that it is important to show children you're not just buying things and hoping that everything will work out financially. Instead, demonstrate to them that you're carefully considering how each purchase fits into your budget.

Modeling teaches children, by osmosis, about financial responsibility. That's not enough,

though; they also need actual information input and active involvement in budgeting skills.

Mara Strom, author of the money-saving blog, "Kosher on a Budget," tells about how she helps her children develop financial awareness. When her son expressed a desire for a new family car, she didn't just say, "No, we can't afford it." She explained to him that when their family purchases a new car, they do not take out a car loan. Instead, they use money that has been set aside each month for that purpose, until there is enough to pay for the car in full. She had her son research prices on cars, and they discussed how much they'd have to increase their monthly savings in order to afford a new car sooner.

"I explained to him how increasing savings in one category means decreasing in another," she says. "By showing him categories such as clothing, tuition, bar mitzvah expenses and so on, he realized that it really wasn't all that important to increase the 'car savings' category."

By going through the process in a hypothetical way, Mara's son learned research skills and how to responsibly prioritize on a budget.

Children can also be involved by accompanying parents to the bank and being privy to the deposit and withdrawal process, writing up shopping lists, and mailing out payments for rent, utilities or other bills. This imparts important financial skills in a dynamic way.

## Kids on a Budget

It is important for children to learn that not everyone gets everything; there is always a tradeoff. And they should learn it from a young age, before they have been trained in unhealthy habits or society teaches them different values.

Mara gives her children a monthly allowance, and advises them on how to budget the money responsibly. "Their money gets divided into three," she explains. "One part is for

*tzedakah*, another for savings, and one for spending."

This way, they get to experience buying small items on their own and what it feels like to save up for a larger purchase. She motivates them to save by matching their saved funds by a dollar for every two they save. "They won't get those interest rates in real life," she admits. "But it teaches them the value of saving. Sometimes, they'll even decide to earn extra money if they want to save up for something big."

Mara coaches her children on which purchases to make and/or save up for by having them answer two questions:

1. How does it fit into my overall budget?

2. How high a priority is it?

Answering these questions teaches them about prioritizing, tradeoffs and how to make responsible decisions.

Parents also learn about their children's spending habits this way; they see which kids are frugal, and which ones spend their money right away. "This doesn't necessarily mean that one child will be better off than the other," Mara clarifies. "But it does give parents insight into their children's 'money personalities,' and they can then guide their children based on their personalities."

When children ask their parents to buy an item, Avraham Byer suggests telling them how much money they are able or willing to spend on the item, and allowing the child to decide how to spend it. If a child wants a piano, for example, he can decide to use the money from his parents to buy a used piano of better quality, a new one of lesser quality, or add some of his own money for something in between. This helps train children not to purchase items impulsively.

Another important reason to put children (and adults) on a budget is to curb the financial mismanagement which stems from peer pressure.

"Children have to learn to think

about their classmates and not flaunt their wealth, and parents have to learn to say no to their children just so as not to raise the bar,” Batya Weinberg says. “We need to introduce that concept to better our communities.”

### A Balancing Act

Though we want our children to be financially aware and responsible, we don’t want to burden them with financial concerns. Nor do we want them to fear the possibility of not having enough.

“It’s all a matter of perspective,” Avraham says. His parents lost a lot of money in a real estate crash, but they didn’t let on that things were tough. “My mother didn’t turn it into a *nebach* campaign; she made it fun! At the thrift shop, she’d say, ‘Let’s see which treasures we’ll find today!’ Because my parents were so cool about their situation, we were okay with it too.

“The same goes for budgeting. It doesn’t have to be: ‘I’m not making money; we have to budget carefully.’ It’s about being responsible. Wealthy people budget too.”

Mara never tells her children that she can’t afford something. “That makes it seem as if the only reason we’re not buying something is because we don’t have the money for it,” she says. “Instead, I say that it’s not in the budget right now.”

This gives children the message that parents are choosing not to spend money on a purchase, versus not having enough money to do so. When parents show that they are in control, it provides children with a sense of security. It also demonstrates that financial decisions are made by conscious choice, which doesn’t depend solely on whether they can or cannot afford a purchase.

Though it’s very important for children to learn limits, they must feel safe in knowing that Tatty and Mommy will take care of their needs [as well as a few wants].

### Open Purse Strings

As parents, we want to give our children the world. After a child is married and has moved out of the house, many parents don’t close the purse strings on him. In such circumstances, how can they help their child eventually reach financial independence?

“Most couples aren’t going to be supported forever,”

“YOU WANT YOUR CHILDREN  
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SYSTEM.”

Batya points out. “Even if they are getting money to cover their current expenses, it’s important for them to have their place in the workforce so that they don’t suddenly get stuck when expenses increase, or support stops, or both.

“Additionally, we all need to be constructive. What is a newly married woman to do if she’s not working? She’ll feel healthier, happier and more productive if she works and if

she knows that she’s relieving some of her parent’s financial stress—and her marriage will be healthier and happier as well!”

How your children receive the support is another important topic. According to all experts, married children should never be given their parents’ credit cards to spend money *carte blanche*.

“You want your children to track their spending and have their own independent financial system,” Avraham says.

When parents cover a specific expense, such as groceries, utility bills, car lease etc., they should not make payments directly to the vendor. “Decide how much you think the budget should be for that specific category,” Avraham advises. “And give the couple the money. This way, they know that they have to live within that budget—and that the parent won’t be covering the bill regardless of how high it runs.”

Avraham cautions that learning responsibility can be a rough experience; people make mistakes. We, as parents, shouldn’t step in to help [unless there are extenuating circumstances]. If we step in at the first sign of trouble, we’re not allowing young couples to learn financial independence.

### Credit Card Cautions

Some of us use credit cards wisely and end up cashing in on the perks. However, frequently, the credit card companies are the winners. How can we teach our children to come out with the better end of the deal?

When Batya speaks to seminary students, they often tell her that they have no idea how much money they spend in a month; everything is on the credit card.

“You’d never hand your toddler a bottle of Tylenol and allow him to use it at his own discretion!” she exclaims. “A credit card, too, can be dangerous. Children have to be taught how to use it responsibly.

“It may be easier for parents because they don’t have to come up with the cash. But we’re really doing our children a disservice. Children have to learn how to spend real money. They need to feel the natural hesitation to spend which comes when one parts with cash.”

This lesson is lost on children, not only when they are given credit cards, but also when they are given access to family credit accounts at local retail shops and supermarkets.

Avraham advises parents to look at the individual child to see how responsible he is. “For example, if your child has his own cell phone, and he’s constantly going over minutes, he’s probably not responsible enough for a credit card. Yes, a credit card can help your child build credit, but he’s going to spend more money than he should and turn to you to bail him out. Don’t let credit card rewards entice you either. They’re designed to financially blind you. Typically, they only average 1-2% returns on purchases, while the credit card company charges interest [19.99% is typical] on a balance. In other words, interest payments add up to a lot more

than the rewards are worth.”

Furthermore, Batya cautions parents to think about the message they are sending their children when pulling out one credit card after another because the first ones were declined.

A credit card to be used only for “emergencies” isn’t a great solution either. The child will use it to buy a belt, a sandwich, or whatever constitutes an “emergency” on any given day; using a credit card in that way quickly becomes habit forming.

Everyone agrees that it is far superior to teach children financial responsibility and budgeting when they’re still young and open to parents’ advice than to wait until they are on their own and deep in a financial crisis. Additionally, many schools have begun to incorporate financial literacy into their curriculums. In this way, we will raise children who are making smart financial choices naturally as they develop into independent adults. ●



## TRAINING IN MONEY MANAGEMENT SKILLS

By Rebbetzin Faigie Horowitz

When it comes to preparing our young women to lead successful lives, [see “The Pink Pressure Cooker,” page XXXX, for an in-depth analysis of this topic] there are many pitfalls and stressors to talk about, such as a sense of entitlement, lack of resilience when confronted with stress, responsible dating, and materialism. However, there is a very effective lever that can be used to open up and expose other problems so they can be properly dealt with.

Young women often don’t know what things cost, how to manage on a budget, handle credit cards, and how student loans work. Rivky may want to get a second degree and be shocked to learn of the future implications of taking out a loan. Before her wedding, Aliza purchased several pairs of Stuart Weizmann shoes [which cost several hundred dollars each] and now she has to live on a limited income and budget her food expenditures. Stress about money and finances among young couples is rampant, but it is not so hard to remedy.

The tools we can give them are planned and honest preemptive discussions about the financial implications of choices. Informal financial education can also be accomplished when discussing lifestyles, choices, and life planning. Formal financial education is another tool increasingly

used in girls’ high schools and seminaries. Some schools start life-planning classes twice a week in ninth or tenth grade. They spend part of the year on personal finance [check writing, personal cash flow, interest, credit cards, etc.] and the second half of the year they examine career choices. Other schools use the Mesila high school and seminary curricula with student guides and trained faculty.

The organization’s experience is that talking with the girls directly about budgeting and finances brings out topics of lifestyle choice, personal responsibility, and resilience with a heightened sense of openness. Girls want to hear, debate the issues, ponder the choices and examine their commitments to materialism, idealism, and values. This is a very useful key, because the instructor shares the school’s outlook and can bring the discussions to a level of practicality often not achieved in a regular school setting.

It’s actually a simple *Chazal*. “*Ha’adam nikar b’kiso*”—one’s wallet is the test of his values. By discussing the wallet, we strengthen values, clarify choices, and develop decisions. Money is the key to discussion about many life-planning issues.