



## Practical Steps That Can Help Us Teach Our Children About Money

(by Michael Collie for WNC Parent, October 2005)

*Editor's note: This is the third story in a three-part series.*

Over the last two months, we discussed why it is so important to teach our children about money and how we can prepare ourselves to teach them (if you missed these two articles in the three part series and would like to receive a copy of them, send an email to [mcollie@colliefp.com](mailto:mcollie@colliefp.com)). As a review, let's briefly look at each of these areas of focus.

- Our understanding of money and how we handle it affects all areas of our life, including our marriages, our current and future lifestyles, our ability to accomplish long-term financial goals and, ultimately, our lasting impact on future generations.
- Our children, if equipped with an accurate view of finances and how to communicate about money, will be well-prepared to face many of the eventual challenges of life.
- The responsibility to teach them is on us, their parents, because they are not getting the right message from the consumer driven and materialistic society that we are all submerged in.
- Money is a tool that can be used to impart values and wisdom to our children.
- We must realistically address how we handle our own money and get our financial house in order or we may end up affirming to our children the very message we are teaching against.
- Parents need to seek wise counsel from a Certified Financial Planner™ or other credible reference sources that share the same perspective and values about money that they do.
- Parents must commit to exhibiting these sound financial principles, with spousal unity, so their children will learn not only what to do with money, but how to communicate about it as well.

This month, we will discuss some practical steps we can take to ensure that our children will be well-equipped to deal with financial issues as they become adults. There are four basic financial skills that we want to teach our children. Let's discuss each of them:

**How to develop a spending plan.** The best way to do this is to utilize an envelope system. There are also "piggy banks" that can be used in place of the envelope system. Our 7 year old uses an ATM bank that can be ordered from crown.org. This system should divide their spending into at least three categories, spending, saving, and giving, and possibly also include clothing and gifts, making five total categories. This is what parents primarily spend their money on for their kids. Figure how much you will spend on or for your children in each of these areas throughout the course of the year, not including birthday or Christmas gifts you will buy for them. An example might look like this: clothing (\$300), gifts for Holidays and friends' birthday parties (\$200), spending - Fun Depot, toys, movies and candy money (\$300), saving (10%, \$100), and giving (10%, \$100) which totals \$1,000. Divide this \$1,000 by 52 weeks and you get roughly \$20 per week. Now you're asking, I'm going to give my child \$20 per week, are you crazy?!?! Look at it this way, you're spending the money either way. Do you want to spend the money and help them develop the ability to live on a spending plan, something that most parents themselves struggle with their whole lives, or spend the money and not teach them anything at all, except of course that Mom and Dad must have a money tree around here somewhere and I can milk them for whatever I want!

**How to buy wisely and make financial decisions.** Now that the child has the opportunity to make the spending decisions, with their parents' guidance they can learn how to make smart purchases. They will be faced with the real dilemma of choosing between those \$150 sneakers they *want* or the \$50 on sale sneakers they *need*. They



may plan ahead and save money by buying size-up winter clothes on sale at the end of the season, rather than paying full price at the beginning of the season. You will be absolutely astounded at the ability of your children to pick this stuff up and make wise spending decisions. For example, our oldest son saw a \$20 toy he *really* wanted. I didn't think he would really play with it that much, but this was going to be a teaching opportunity. I asked him if he thought that was a smart way to spend his money, and he whole heartedly said yes. A month later, as the infrequently played with toy sat in his closet, he said, "Dad, I wish I hadn't wasted my money on that toy, that wasn't a smart decision. I should have saved that money for something else I will use more." That was unprompted and a true example of how he spent his money and learned a valuable lesson. Had I told him this lesson, rather than him experiencing it himself, it would have probably gone in one ear and out the other. He has not made the same mistake since.

**How to set financial goals.** If your child wants something that fits outside of this spending plan, they will learn to save. They will learn the value of delayed gratification. Say for example the child wants a snowboard helmet that will cost \$60. If they can defer from spending money on toys and candy, and place \$10 per week into savings instead of \$2 (the 10% budgeted for savings), then they can reach their goal in a relatively short period of time. What a valuable lesson for our children to learn!

**It is important to give to others.** Because giving is one of the envelopes, your child will learn that it is important to give. This can open up conversations between you and your child on why we should give and who we should give to. When your child takes money out of giving for a worthy cause, and then decides to take a little bit extra out of spending because their heart has been touched by the need of others, you will be blessed beyond description. And they will be developing the kind of character we pray our children will have as they grow into adults.

The time and effort that you take to learn sound financial principles, apply them to your lives, and teach them to your children will be well worth it. By applying these steps and sharing these principles with your children, they will be well-equipped to start a life headed toward achieving financial freedom.

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