

# Money for Life

September 2006

Dear Readers,

As children return to school, they will be learning many new skills. Money management is one of the most important life skills children will use now and in the future. Children begin at a young age to learn about money, why it is important, and how it should be used. Parents play a key role in teaching these important skills.

To help you raise financially responsible people, the FDIC offers the following suggestions:

1. Give an allowance. If used as a teaching tool and not a giveaway, an allowance can be one of the best ways to teach kids, even as young as five or six, about money, taking pride in their management skills, and becoming more charitable. There are many different ways to structure an allowance and, of course, each family has to decide what's right for them (in terms of how much allowance to give, what kinds of things the child should start paying for, and so on). Here's one possibility, based on the advice of experts:



First, consider basing the amount of the allowance on the child's age — perhaps \$1 per week for every year. Give the allowance money each week in small bills or coins that can be apportioned into three clearly marked envelopes or containers — one for each of the three Ss— saving, spending wisely and sharing. Decide in advance that a set amount, perhaps 50 percent, should go into savings for almost any reasonable purpose. This reinforces the concept of “paying yourself first,” which means automatically saving some money before being tempted to spend it. Maybe another 25 percent of

the allowance would go in the spending pile, for use as “pocket money” throughout the week. The remaining 25 percent would be for sharing — for charity and other forms of generosity, including birthday or holiday gifts for loved ones. The parent still is responsible for the basic necessities, such as food and clothing, but the child now starts paying for various “luxury” items, whether they're \$1 candy bars or \$100 sneakers.



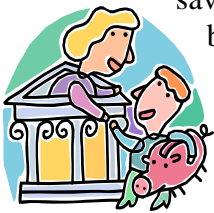
This kind of arrangement encourages children to become educated savers and consumers and to learn from their mistakes. “If kids have to come up with \$50 or more for a pair of shoes that will be out-grown or out of style in six months, they'll think twice about buying the next pair,” says author and Kiplinger's Personal Finance Magazine senior editor Janet Bodnar, who advises parents about kids and money.

2. Help your child start a savings or investment account. The old piggy bank still can be a fun way to introduce little ones to the concepts of saving and managing money. But at around age eight, your child may want to open a small savings account and begin learning what banking is all about, from filling out deposit slips to reviewing statements. At this age or a little older, a kid may even be ready to buy a few shares in a mutual fund or individual stock (although remember that these are investments that carry risks, including the possible loss of principal). You may also want to consider rewarding your child for sticking to a savings plan by matching or adding to the child's contributions.

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The idea here isn't for your child to make an immediate fortune (although that'd be nice). Instead, you're trying to provide a hands-on education in making financial decisions and monitoring the results (especially the mailings that bring news of interest payments and dividends). If this works, pretty soon your child may be reading the business section of the paper and not just the comics and sports.

How to get started? Consider one of the many savings programs for kids offered by banks and other financial



institutions, although almost any no-frills, low-dollar deposit account will do. Think about helping your child invest a small amount in the stock of a company he

or she knows and likes — perhaps a fast-food chain, a clothing manufacturer or an entertainment firm. Also check out mutual funds that cater to young investors by permitting small investments and focusing on kid-friendly companies. And if you're uncomfortable having your child make investment decisions with real money, consider picking stocks you can track using play-money and then working up to the real thing.

3. Jobs can teach kids to be responsible and to enjoy earning and saving money. One way is to pay a child for extra work around the house — the kind you might hire someone else to do. This could mean cleaning the garage or babysitting a sibling on a Saturday night. Author and family finance expert Neale S. Godfrey encourages parents to maintain a list of non-urgent jobs a child can do. “Then when your offspring asks you for a second pair of designer sneakers or money to go ice skating with friends,” she says, “refer to the list.” Godfrey says



this “overtime pay” helps everyone — it's extra income for the child and a time-saver for busy moms and dads.

One topic of debate is whether it's OK to pay for basic chores around the house, such as cleaning up the bedroom or taking care of the dog. “Some experts believe that paying for chores is a way to help children understand that if you want money you need to work for it,” says Judith Cohart, director of education for the non-profit National Foundation for Credit Counseling in Silver Spring, MD. “But many others believe it's only reasonable to expect children to help out as members of the family. They also say an allowance is for teaching money management, not for bribes or punishment.”

When it comes to jobs outside of the home, parents need to be especially careful. Example: An older teenager who has an after-school job for less than 10 hours a week may learn good business skills, earn some extra money and still have enough time for studies and socializing. But a teen working more than 20 hours a week could have problems keeping up in school and could be losing out when it comes to family and friends.

One of the best things we can do for our children is to prepare them for life “on their own.” Whether your kids are tots or teens, instill in them a sense of responsibility when it comes to managing money, working hard and being charitable. The time you devote to teaching the financial facts of life could be one of the most rewarding investments you ever make.

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