

CASH-SAVVY KIDS

Instead of waiting until they leave the nest, parents can help kids learn to manage their money while they are still at home.

By Ann Muder

My husband and I watched our 2-year-old daughter climb on and off the kiddie rides at the mall. She seemed content, so we didn't bother to put in any coins. After a few minutes she looked at us, exasperated, and asked, "Doesn't anybody have money?"

Kids figure out early that they need money, specifically ours, to get things they want. But how do you teach them to manage their money wisely?

It's a question many parents don't think about until it's too late, says Janet Bodnar, deputy editor at Kiplinger's Personal Finance magazine and author of *Raising Money Smart Kids*. She gives a talk to the senior-class parents at Gonzaga College High School, Washington, D.C. every year about preparing kids to make good financial decisions while on their own at college.

She says many parents think about big financial issues, like tuition and scholarships, but not as much about their kids' spending habits. Then at college, their kids spend tons of money and rack up fees with overdrawn accounts.

"The kids are thousands of miles away, so it's hard to rein them in," she says. "It's easier for the parents to pay the bills than to get them to shape up."

Instead of waiting until they leave the nest, parents can help kids learn to

manage their money while they are still at home. By teaching age-appropriate lessons from preschool through high school, parents can play an important role in how their kids will handle money for the rest of their lives.

Preschool

Parents can start teaching kids about money as early as preschool. At this age, don't worry about teaching them too much, says Bodnar. They still think about money in very concrete terms. "If you offer a preschooler a nickel or a dime, they're likely to take the nickel because it's bigger," she says.

You can start by teaching them how to recognize coins and bills. For example, you can use a toy cash register to play store and teach them the difference between a penny, a nickel and a dime.

You can also show them how money is used to trade for something else. Bodnar suggests taking them to a dollar store and helping them buy something with a dollar bill.

"Kids go to a grocery store here and their parents whip out a card," says Jinhee Kim, Ph.D., associate professor in the department of family science at the University of Maryland. "They need to understand it's not free."

This is also a good age to start teaching

kids to wait for something they want to buy. Kim says she often sees college students (as well as adults) who get in trouble with credit cards because they can't wait to buy something. "That habit needs to be something that they learn at an early age," she says. "They have to wait and can't get everything they want."

Grade School

After entering grade school, kids are often ready for an allowance. By assigning small financial responsibilities, parents can help kids get hands-on experience in learning to budget their money.

"It enables kids to make mistakes when the stakes are low," says Jayne Pearl, author of *Kids and Money: Giving Them the Savvy to Succeed Financially*.

"You want them to make mistakes and buy things that break. They have to experience the pain of a mistake to learn from it."

Bodnar suggests that parents start allowances at 6 or 7 years old. "They have to be old enough to figure out how much they're getting," says Bodnar. "So if they're getting \$4, they can say, OK, I can buy x, y or z."

When setting up an allowance, parents should keep in mind what they want their kids to buy. For example, they might decide that the kids should buy their own



