Teach Your Kids How to Budget

Unfortunately, many children don't learn how to manage their finances until after college. And by then, it's often too late. **Here's how to help your kids avoid debt tomorrow** by teaching them how to budget their money today.

Because he has four children, ranging in ages from 6 to 18, Dan Scheerer knows all too well how kids see money. Although their parents assume they know how it works, the truth is, kids think money is magic.

"As parents, we go to an ATM and assume our kids know we go to work and earn that money," says Scheerer, who is founder and president of SmartGeorge, a financial coaching service based in Duxbury, MA, that offers money management training for young people. "What they see, though, is, 'We go to a bank and take our money out of a machine.' They need to know where that money comes from. They need to know it doesn't just magically pop out of a machine when we need it."

DECLARE YOUR FINANCIAL INDEPENDENCE

Budgeting doesn't just help you stay on top of expenses. It's the first step toward liberating your money and achieving your financial goals. Learn about tracking and balancing your expenses with our new budgeting workshop, available at **firstmidwest.com/workshopregistration**. You'll also be able to view other educational workshops and take advantage of helpful financial information and tools available to our First Midwest Bank clients.

They need to know because their financial future depends on it, says Jayne Pearl, co-author of "Kids, Wealth and Consequences: Ensuring a Responsible Financial Future for the Next Generation."

"If parents don't talk to their kids about money and try to instill in them some financial literacy and discipline, then their peers and the media are going to do that job for them – and they might not like the results," says Pearl, adding that kids who grow up financially illiterate are more likely to accumulate credit card debt, suffer bankruptcy and experience home foreclosures. "Parents have a unique opportunity to teach their children what they need to know about money while they're still young enough to be receptive and to let them practice money management before the stakes are high. Personally, I'd rather have my child wipe out his entire income of $500 as a teenager – under my roof – than I would $500,000 as an adult."

Parents that want to equip their children with the financial skills they'll need as adults should start with budgeting, says Ellie Kay, mother of seven and author of "Money Doesn't Grow on Trees: Teaching Kids the Value of a Buck."

"Budgeting is one of the foundational elements of fiscal fitness," she says. "Without a budget, your financial goals aren't going to be reached, whether you have $1 million a year to manage or $10,000. If you want to raise children who are financially literate, you have to teach them the basics of budgeting."

Teaching Young Kids

Scheerer recommends parents start teaching their children about budgeting around age 5, when they're old enough to understand the concept of prioritizing.

"Young kids need to learn that you can't have everything you want," he says. "Even at a young age, they need to begin to understand about priorities."

To teach your children about budgeting between the ages of approximately 5 and 10, consider the following strategies:

- **Keep a list of wants:** When kids see something they want on TV or at a store, don't let them immediately purchase it; instead, Scheerer recommends, write it down and make a note of what it costs. Then, every so often, sit down with your child to go over the list and refer back to the concept of prioritizing. Ask them what they remember about the items on it and why they wanted them. Then, have them rank them in order of importance. While you may offer to help them buy the top item on their list, they might have to wait for a holiday or special occasion to get the least important items, which teaches them to prioritize expenses and delay gratification.
- **Use a three-bucket approach to allowances:** So that they can practice managing money, all kids should get an allowance, according to Kay, who recommends a 10-10-80 spending plan. When her kids get their allowance, they can spend 80% of it, but must put 10% into savings and give 10% back to the community, by donating it to a charity, for instance, or putting it into the church collection plate. The three-bucket approach – spending, saving and giving – teaches them early on how to budget their income.
- **Develop "fun budgets":** To give her kids practical budgeting experience, Kay gives them "fun budgets" to spend at restaurants, movie theaters, etc. Whenever you go out

as a family, give your children a pre-determined amount of money to spend. What they don't spend, they can keep. If you go out to dinner, for instance, you might give your child $10 to spend. If a kids' meal costs $8, and a soda costs $2, they will spend their entire budget. However, if they choose to get the meal and have water instead, they can pocket the $2 leftover.

Teaching Pre-Teens

To teach your children about budgeting between the ages of approximately 10 and 14, consider the following strategies:

- **Develop bigger, broader "fun budgets":** When kids get older, Kay suggests continuing the concept of fun budgets, but recommends expanding and extending it. Instead of giving your kids $10 to spend one night at dinner, for instance, she recommends giving them $100 to spend over the course of an entire day at a theme park, or – when they're even older – a lump sum to spend on school supplies for the entire semester, or on entertainment during their entire summer vacation. As they get older, the idea is to give your kids more money to manage over longer periods of time.
- **Start a family 401(k) plan:** When your child wants a big-ticket item, such as a new bike or a new video game, Kay recommends establishing a family matching plan whereby you agree to pay for half of the item if your child will come up with the money for the other half, either by saving their allowance or by earning extra money. When they have to save or earn money to pay for something themselves, Kay says, children learn to save and spend more wisely.
- **Model good budgeting behavior:** Simply talking to your kids about money can prove extremely effective, Pearl says. When you're at the grocery store, for example, she suggests verbally explaining to even your youngest kids what your budget is and what strategies you're using – coupon clipping, for instance, and bargain hunting – to make it work. The more they hear about budgeting, she says, the more they'll internalize it. Just as important as telling them about budgeting is showing them, says Scheerer, who stresses that older kids can smell hypocrisy and therefore shouldn't perceive that their parents go out and buy something whenever they want it.

Teaching Teens

To teach your children about budgeting between the ages of approximately 15 and 18, consider the following strategies:

- **Collaborate on goal setting:** Because money is measurable, Scheerer recommends partnering with your teenagers in order to set trackable savings goals. Whether it's a new car or a college education, help them develop a savings strategy, then meet with them quarterly so that you can show them how their money has accumulated over time.
- **Delegate financial responsibilities:** Because teens like to spend money – on clothes, cars, cell phones, etc. – Kay and Scheerer suggest drawing a clear line in the sand with your children so they know what you will and won't pay for. If you agree to pay only for essentials, such as food and shelter, and require them to pay for all or a portion of their car, their Friday nights with friends, etc., they'll learn the core of successful budgeting, which is discerning between needs and wants.
- **Encourage employment:** Because budgeting is about money coming in as well as money going out, Kay says all teens should work, especially during the summers, to earn extra income. Working doesn't have to mean bagging groceries, either. According to Kay, teens have several different ways they can earn money, including entrepreneurial methods like starting their own babysitting or lawn-mowing business.

No matter what strategies you use to teach it, what's important is the lesson that's learned. "Teaching how to budget from an early age is building a foundation for the rest of your kids' lives," Scheerer says. "Think about the habit-forming that takes place during childhood; if they learn early how to manage money, your kids are going to be in much better shape than if they wait until they're 25 or 30 to learn those lessons." ◆

To learn more about family budgeting, call a First Midwest Banker at 1-800-241-1749 or visit firstmidwest.com/budget.