Dollars and sense: Helping kids learn to manage money

Money can be a sensitive family topic. A recent survey by the American Institute of CPAs found that while more than three in five parents provide an allowance — usually, starting when their children are about 8, and at an average of $65 per month — they're uncomfortable talking to them about finances. In fact, Mom and Pop are more likely to talk about the importance of courtesy, healthy eating habits and good grades than they are about managing money. Fortunately, parents can take a number of steps to help their kids learn sound money management.

When should you start?

Although it might seem like jumping the gun, even 3- and 4-year-olds can begin grasping concepts such as needs and wants, as well as the idea that most people can't buy everything they want. So it's important to start explaining to these tots about the relationship between work and money.

An example: A trip to the grocery store can be a great learning experience. Show your kids how different products cost different amounts, and explain when you feel it's worth spending more and when a lower-cost version will suffice.

What about grade-schoolers?

Grade school often is the time when parents introduce allowances as a way to help their children live within a budget. Before handing over the cash, however, talk with your child about the purchases you expect the allowance to cover, such as video games. Otherwise, you may get ongoing "requests" to handle expenses your offspring believes shouldn't come from his or her allowance.

Also introduce "values" to the discussion. Younger children are quite capable of grasping the concept of using their money and other resources to help those who don't have as much, and to save for longer-term goals.

Moreover, it's important to think through the relationship between your child's allowance and the chores he or she is expected to handle. Some parents view an allowance as strictly a money management tool, and that, as members of the family, the kids should have chores that they're expected to handle *without* compensation. Of course, this isn't to say that a child can't receive extra payment for handling certain chores that go above and beyond day-to-day tasks.

And middle-schoolers?

As your children gain experience handling small amounts of money, ask for their input on their larger financial decisions. Before heading out to buy new school clothes, for example, discuss what items your child needs the most, and whether it makes sense to buy several, less expensive items, or one pricier item.

Given how tuned-in many “tweens” are, discuss with them how advertisements are designed to prompt consumers’ desire for a specific brand or product. As an example, point out that a popular brand of shoes costs significantly more than a store brand, and ask your child if the difference in cost is worth it.

Middle-school years are also a perfect time to open a bank account in your child’s name. Use this opportunity to explain how to record deposits and withdrawals, and provide a simple calculation to demonstrate the compounding effect of interest.

What to expect from teenagers

High schoolers can be expected to take on even greater responsibility for their own expenses, including clothes, entertainment, cell phone use and transportation costs, to name a few.

When practical, bring your teenager into the discussion when you’re researching major purchases, such as a new appliance. He or she can read product reviews and descriptions, and compare prices of different models. Of course, make it clear at the outset that you’ll have the final decision.

If you believe your child is ready to handle a credit card, a safe way to start is with a secured credit card. As its name suggests, this line of credit is secured by cash deposited in the account. Once a teen has proven to be capable of handling the line of credit, consider allowing him or her to open a regular credit card. Of course, make sure you review the rules of responsible credit card use and the speed with which interest expense can add up.

Is it time for a chat with your kids?

Instilling sound money management skills in your children requires discipline, common sense and consistency. The payoff? Kids who can intelligently manage their finances are less likely to expect help from their parents. And that’s a good thing.