Kids and Money

Kelley Keehn

It's never too early or too late to teach children positive spending and savings habits. Summer is fast approaching and for many parents, second only to Christmas, this can be the most costly time of the year. This short-lived season can also offer children the opportunity to earn extra cash from summer jobs. But at what age should spending and savings guidelines be initiated and implemented and where does a parent start?

With personal debt levels in Canada increasing every year and savings dropping to all-time lows, parents should be concerned that their children might not be equipped with the necessary tools for a healthy financial adulthood.

The following age specific tips are segmented into general age categories. As a parent, you're likely doing some of the ideas listed. This simple step-by-step guideline will encourage flexibility, positive saving and spending habits over time for your child and will even introduce them to the benefits and potential dangers of credit cards.

Ages 5 and Under

This is a time for your child to have fun with money. A simple piggy bank for saving all money that your child receives is sufficient. This bank should be emptied as the child desires. This is a time to teach your child about dollars, coins, their value and what they can purchase with them. Keep the spending and filling of this bank fun and pleasurable.

Ages 5-10

This and all age categories should keep a piggy bank, in addition to other accounts, to ensure that a portion of their income is always enjoyable.

A second "account" is now introduced to this group called a "targeted savings bank". Help your child determine what percentage is split between the two banks (i.e., 50/50, 40/60). The physical bank could just be a second piggy bank or a jar; the mental separation of funds is the important part.

The targeted savings bank is ideal for items that require advanced savings, such as a summer pass to the swimming pool, a new super soaker, or a pre-paid cell phone in the future. These are short-term goals that will be realized in the next month to twelve months of the child's year. Dialogue with your child as to the items that require advanced thought and savings. If you know your child will not be able to reach their goal, perhaps you might match their savings (one for one, etc.).

The subject of allowances is an ideal and recommended topic for this age group. Parental dialogue with the child is essential. When using an allowance to encourage behaviour that is already a responsibility of your child such as completing their homework, getting good grades, or not fighting with their siblings, these activities and behaviors should be expected independent of the parent paying their child to do so.

Consider discussing the amount of allowance paid, what activities and duties are required for payment and the conditions necessary for the child to receive an increase in allowance.

If you have always purchased everything for your child, they might not appreciate the value of the dollars being spent. Allowing them to make spending decisions by giving them the money in their hands, empowers them to be choosier with their purchases.

Ages 10-15

All of the other banks as described above are still used (the piggy bank and the targeted savings account). The additional account for this age group is a "long-term savings account". I would recommend that this account be set up as your child's first formal bank account. The percentage allocation between the three accounts should be discussed with the child having a say in the split.

This new account requires long-term savings and goal setting. The end desire may be a trip to Europe that the school will be taking in the next three years, for example. Again, if you feel dollar matching is required to achieve this goal, include it in the goal setting stage. Keep in mind that a teenager or child does not consider "long-term" savings quite the same as an adult. Ensure the goal of the savings will be realized in one to three years.

Allocate funds between the three bank accounts. This age group will likely start to receive more income from family birthdays, allowances and odd jobs around the neighborhood. Discuss the percentage split between their "free spending" piggy bank, their targeted savings bank and their long-term savings account.

Assist your child in identifying income-generating opportunities. Perhaps they can shovel snow, cut lawns or rake leaves on the weekends for extra cash. You might enlist their assistance in your summer garage sale with a commission to the child for all that is sold in your sale. You'll likely be surprised with how many more ideas your child comes up with.

Ages 15+

This last age group utilizes all of the banks and accounts as described with the addition of a "credit account". In a few short years your child will likely have the opportunity to receive their first credit card. If they don't understand interest charges and responsible usage guidelines, they may think their available credit is money to spend.

Determine a credit line of sorts between you and your teenager. There might be times when a snowboard or new roller blades are on sale (even if you are going to purchase this item for them anyway) and all of their other savings have been depleted or allocated. Set the amount of credit the teenager has available, the terms of payback, any interest you would like to charge and the ramifications for default or non-payment.

Only a parent knows the financial astuteness of their child. The above guidelines are just that. Have fun and keep the saving, spending and credit usage of your child simple. Take time to dialogue with your child about the reasoning behind the accounts and assist them with making some of their own empowering money decisions. By the time they reach adulthood, they'll be better equipped to handle money management from a childhood of practising.

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