

# Piggy Bank

## Financial literacy building blocks for kids

**F**inancial decisions were once much simpler. Let's rewind the clock to a time when, after graduating from high school or college, individuals would begin a job at a company where they would remain for the entirety of their career. Cash inflows were simply a pay check while working, followed by a pension in the golden retirement years. Employers would fully cover the cost of health insurance, and, upon retirement, Medicare would substitute. Banking would occur at a local bank where tellers were identified by their first name, and interest was paid on cash savings. If there was excess cash in a checking account, conservative investing would take advantage of the power of compounding.

Let's now fast forward to today, where it is the responsibility of each individual to decide how much to save for retirement, where to save, how to invest, when to pay off various debts, as well as what to do about health insurance and healthcare costs. In a time when endless information can be found on the internet at the click of a button and the choices available to consumers are infinite, individuals must have a solid financial literacy base in order to make good financial decisions.

Now, more than ever, it is essential to teach financial literacy skills to our children. As a certified financial planner, I recommend teaching a series of financial literacy building blocks throughout childhood.

### Talk about money

Make time for family discussions about money. It's very important to talk with children about why you do things the way that you do them in your household. As parents, practice what you preach. If you teach your children about the importance of saving, and then children see you spending all of the money entering your household, you are sending a mixed message. Children will pay attention to the action rather than the verbal message.

Young children can begin to learn about money and adopt early skills needed for a lifetime of currency use. Teach young children about different currencies.

Practice counting and exchanging coins and bills with them: four quarters for a dollar bill, a five-dollar bill for five one-dollar bills. Simple games such as "store" or setting up a lemonade stand are fun ways for children to gain comfort with money.

Help kids understand prices, purchases and how to make change. Have your child open their own library card and explain the library trusts the child to return borrowed books or they will owe a fine. This is a way for kids to begin their first credit relationship.

### Build competency

Giving children a chance to practice money skills while the stakes are relatively low is critical. Using an allowance as a financial teaching tool is a great place to start a financial education. A good rule of thumb for allowance is a dollar a week for each year of age. For example, an 8-year-old would receive eight dollars paid in cash on the same day each week, and then going up to nine dollars after her next birthday, and so on.

Be consistent and clear with when allowance will be paid and how their money can be used according to parameters decided upon as a family. Families may determine that allowance should be split into thirds: a third saved, a third given to charity, and a third to spend. Give children the freedom to spend the money that is set aside for spending. Encourage comparison shopping and thinking twice before making purchases. It is also helpful to talk about needs versus wants. Clothing is a need, while the fancy new t-shirt designed by a skateboard professional is a want.

With age, financial literacy activities can become more complex. Have your 10-year-old track a utility bill for six months. A good example is the cell phone bill. Look at how many minutes each person uses and how much data is used in a given month. How does the expense change month-over-month? What can be done to decrease the bill when the expense is high? How much of your household monthly budget is this cell phone bill?

It is never too late to begin discussions about financial literacy. To be successful,

we need to educate both ourselves and our children. Financial literacy skills are critical and they can also be a lot of fun. **UB**

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