

ALBION FINANCIAL GROUP

GUIDING CLIENTS TO A LIFETIME OF GOOD DECISIONS



FINANCIAL LITERACY BUILDING BLOCKS FOR KIDS

WRITTEN BY
SARAH BIRD, SENIOR WEALTH ADVISOR

Financial 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.

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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 where endless information can be found on the internet at the click of a button and where the choices available to consumers are infinite, individuals must have a solid financial literacy base in order to make good financial decisions.

HOW DO PARENTS TEACH THE VALUE OF A DOLLAR AND OTHER KEY FINANCIAL LESSONS?

Now, more than ever, it is essential to teach financial literacy skills to our children. At Albion Financial Group our team of certified financial planners recommends teaching a series of financial literacy building blocks throughout childhood.

As a family, craft a clear set of values regarding spending, investing, and philanthropy in your home. What does it

cost to run a household? What percentage of monthly pay checks are saved each month? Are donations made to charities in volunteer hours or dollar gifts? Which particular charities in volunteer hours or dollar gifts? Which particular charities are supported?

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.

MAKE IT A GAME

Who said learning about finances had to be boring? 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.

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 eight-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.

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MAKE THEM EARN THEIR ALLOWANCE

It's a good idea to separate allowance from household duties like making the bed, keeping the bedroom clean, and emptying the dishwasher—in other words, expected household contributions that do not warrant compensation. Create opportunities for children to earn money by doing jobs around the house that are above and beyond expected household duties. Make a chart that shows the monetary value of each of those other household jobs: mowing the lawn earns five dollars or organizing



the pantry earns four. When you pair allowance with work, you show children the relationship between performing a job and earning a wage.

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.

As your children mature, begin to pay allowance in advance. By paying allowance monthly or quarterly, you allow older children to practice long term budgeting. Work with kids to create an itemized budget and track expenses. Overtime, talk about what is working in their budget as well as where they have over-spent or under-estimated. The goal is to help children shift from relying on their parents to relying on themselves.

With age, financial literacy activities can become more complex. Have your ten 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?

Encourage children to think about what they would like to be when they grow up and facilitate research on the average salary for the desired profession. Let's say they chose a circus performer. How much does one earn each year? If the circus performer had to save one third of earnings, how much is left to spend on new circus props? Have them look at different



career paths and study the level of education or training needed for a particular career. Then, look for schools that specialize in this training and find the cost associated with the training. Children also love stories of entrepreneurs. Share entrepreneurial stories about professionals working in areas that your children are passionate about.

THE BOTTOM LINE

Good money habits don't form out of thin air—they have to be learned. 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.



KEY TAKEAWAYS

- Make time for family discussions about money
- Having kids earn their allowance through household chores can help them build the self-reliance they'll need later in life
- Allowing your kids to observe budgeting discussions can help them learn how to spend responsibly
- Make it fun!

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about Albion Financial Group's investment strategy and portfolio models, please contact your financial advisor or visit AlbionFinancial.com.

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