



# Money Smart Kids: When and How to Teach Finances

By Judy Arnall

A common question I get from parents is when and how should kids start learning about money. Here is an age-by-age primer of what your child needs to know at each age group, from babies to university students.

## **Young children (Ages 0-5) - Age to model money transactions but you keep control of it**

Small children before the age of 5, are not reliable with money. They are naturally forgetful, lose money, and don't understand the exchange of a symbol (coins, paper or plastic) for "ownership" of items. This is a good age to begin chores, but not to pay for them. (In fact, don't ever pay for them!) You can model how to purchase items, but don't give any money to the child.

## **Early school-age (Ages 5-8) – Age to start allowances**

Children should have a coin purse with real money (coins and bills) at around age five when they start to understand the exchange of money for goods. Parents must still keep a close eye on it though, if the child brings it to the store, because children are still forgetful until about age 10 and might lose it. Many parents begin allowances with the 3 compartment bank which has a separate section for spending, saving and sharing. Let's look at these 3 uses of money.

Children should have an allowance for spending. A good rule of thumb is one dollar per week for each of their year of age. For example, a 5 year-old would receive \$5 per week. For parents that gasp at this statement, I ask them to add up everything they spend on their child in a week such as treats, movies, dollar store toys, games, candy, etc. Then they realize that they spend much more than that on their child. I tell them that they are still outlaying the same amount, but now they are just handing over the control of the money to the child, allowing him or her the opportunity to budget, spend and make decisions about allotments for what they desire.

When parents only give a child a dollar or two per week, the child doesn't have much choice to purchase anything other than candy or cheap dollar store toys, both of which is not good for the child. It takes forever to save up for something decent like a book or video game, and the child doesn't learn that reasonable saving will get them what they want – a life lesson that we need to teach kids. As children get older, parents can

require the child to buy more and more of their needs – clothes, shampoo, birthday gifts, cell phone plan, etc., and hand over more control of the money they will need.

Part of the allowance should be for long term saving. It can be a percentage of the spending money. It can be deposited in an "at-home bank" where parents can just keep track of totals on a chart or in a little passbook. Interest rates are so low, it makes no sense to keep it at a real bank, because trips to the bank are not worth the gas money.

Should parents have restrictions on what they can spend the money on? Absolutely not. It's very difficult for parents to do this, but necessary. By allowing a child total freedom over their "spending" money, (not the saving portion,) they allow the child to make choices and mistakes while they are still young. Children learn that they pay good money for cheap toys that break, or they lose the toys, and it's a very valuable lesson. Parents can talk about how cheap things are made, but children need to make those mistakes themselves to learn from them. Children also learn that what is promised in advertising on the box, TV, or the Internet is not always the reality. The kids in the picture on the box may look like they are having fun, but your child may not feel the toy is fun and may question the truth of the advertising, which is another good lesson.

Allowance should never be tied to chores. When you do tie chores to allowance, you are giving your child the opportunity to say "No thanks, to the allowance and the chores." Then you are stuck doing the chores yourself. You want your child to learn all about money management and if they opt of chores, they don't get the opportunity to have money to use. Chores (I prefer to call them duties) should start at age 3 and continue as long as the child is living at home. Chores should not be optional as they teach children a valuable set of skills such as commitment, empathy, and self-discipline.

The last part of the allowance is for sharing. It can be saved for charities or bringing happiness in any manner a child chooses. Buying a coveted toy for a friend is very kind too, as well as donating it to a charity that a child wishes to support.

Bring your child with you when shopping, getting money out of an ATM, buying online and show them what you are doing. Model good money habits and recordkeeping.

### **Tweens (Ages 9-12) – Age to start a debit card, gift card redemption practices and online shopping**

There is no benefit to a child having a bank account until they need and can use a debit card. Again, a debit account can start when a child is about 10 (or beyond the age of losing their items). That is around the time girls start to carry purses and boys can carry a wallet. They often go to the store with buddies on their own and can make a few of their own purchases with a debit card, rather than carrying around cash.

Most banks don't charge children fees when they are under 18 years old. Parents can help them open savings account but the fees and the interest rate right now are not worth the hassle of running to the bank to deposit money for the child. Parents are better off to use the actual money to pay down their own debts and keep a tangible record of the child's "bank account" like a sheet on the wall that the child can track ins

and outs. When it is time for the child to get a debit card, then the parents can hand over the "real" money from the "bank account" record sheet.

Again, don't put restrictions on what they purchase. Remember, that children this age are more than halfway to adulthood, so they have limited time to make mistakes. It's much cheaper to make mistakes at this age, than later at university, when they are away from parental guidance.

This is also a good age to teach about the various charities and where the child might wish to donate some of the sharing funds. The tween years are also a good age to guide and help children research reviews about purchasing their own gifts, some clothes, and electronics online.

### **Teens (Ages 13-18) – Age to start buying stocks, and learn money saving shopping skills**

Now is a good time to teach about stocks, mutual funds, and company investments. Together with your teen, use some of their birthday money to buy some stocks in their favorite companies that they shop from, so they can learn how the economic system works. You can even read annual reports together.

Offload more and more expenses such as clothes, books, gifts, and entertainment to your teens as they get jobs outside the home. Continue the allowance, as you don't want to penalize them for getting jobs, and also continue the chores as you don't want to be stuck doing all the work!

Continue teaching about money and all aspects of financing in this last third of parenting. Somewhere between now and when children turn 18, parents can teach about receipt management, online purchase management, store returns, cell phone payment management, gift card management, online refunds, and rebates.

### **Emerging adults (Ages 18-25) - Age to obtain credit cards, TSFA's, loans, insurance, RRSPs, tax returns and everything else**

Help your emerging adult obtain a credit card with a limit, perhaps with their savings tied to it, in order to establish a credit history, and make online purchases with parents supervision. Remind them to pay the bill monthly for the first six months, (yes, they still need help with organizational skills) and then let them remember on their own. You may need to help them set up a system for remembering such as paying the bill online as soon as it comes due, in order to not forget to pay it. Go over the rules of credit cards. Be sure your child knows how interest is calculated and that they have to pay the minimum every month by the due date to keep a good credit history.

Be sure to remind your daughters and sons to never give up their own credit card in their own name, if they become stay at home parents, or entrepreneurs, as it will be harder to establish a credit history in their own name if they don't have income coming in.

Help them understand bank fees and how to reduce them. Help them open up a line of credit for starting their own business or show them how to fill out student loan forms.

Explain how insurance works and what is covered for cars and residence.

Help them establish a TFSA (Tax Free Savings Account). Show them how to open up an RRSP (Registered Retirement Savings Account) if they are working and earning more than about \$40,000 per year. Show them how to fill out their own tax forms. The online software now makes it easy for them to do.

After age 18, FOIP and privacy laws kick in and the bank will glare at you if you accompany your child to get money. If you feel that your child is not able to handle finances on his own, get him to write a generic letter authorizing you to help him with his financial affairs on his behalf. Even universities and medical professionals require this type of consent and may have their own form letter. You may hand over a cheque to the university paying your child's account, but you can't make inquiries at the fees office without your child's written authorization. Your child may need help to check that his fees are being correctly assessed.

## **Post-Secondary Student Considerations**

### **Parents, should you pay for post-secondary?**

Once a child reaches adult age, they should pay for their future. In Canada, a child can get a credit card and vote in Canada at age 18 or 19 and they are legally considered adults.

If a child is living at home and going to university full time (that's at least a three course load) then that is their "job." I wouldn't expect regular contribution for rent and groceries. However, it wouldn't hurt for them to pick up the gas or a grocery order once in awhile. If they have a part time job, that money should be going to their future school costs and discretionary expenses.

They no longer are entitled to be supported by law. Thus, they should put some funds into the cost of their post-secondary education. If they work hard in high school and get scholarships, that may be their contribution. If they have part time jobs, they should put some of that amount into their total university costs. If they don't have either, they should apply for student loans. This is only my personal opinion, but the more "investment" children personally have put to their education, the more they will buckle down and study. The harder they work for that money (like a \$10 an hour job) they less they will covet the latest jeans or a case of beer for their friends.

Even if parents decide to pay the bare minimum such as tuition, books, rent, groceries, utilities, and bus pass, (and no child ever needs a car for school), then kids should be paying for their own clothes, parking tickets, beer money, cell phone (yes, a smart phone is a nice to have, but not needs to have), restaurants and all other extra expenses out of their own savings.

## **What if kids made mistakes at university and have no money left at the end of the month? Should parents rescue them?**

Give them the number to the nearest food bank. Kids are young and healthy. They can live on mac and cheese for months with no long term health effects. Learning to live on a budget is a valuable skill in university (maybe even more important than what they learn in class) and kids are wonderful problem-solvers; they can borrow from friends, learn to cook lentils (get them a rice cooker) and generally make do. Don't ever bail them out. The bailing should have been done when they made the mistakes under age 18. Otherwise, when does it stop? The kids will figure out a way to eat or buy that textbook they absolutely have to have!

### **Money smart tips every young person should know when they leave home for university: Kids, you need to....**

**Tenants Insurance** Call the insurance company and get a certificate of tenant coverage for university residence. If you are renting off campus, you need tenants insurance for a) coverage for your stuff and b) liability for the premises you are renting in case you leave a tap running or a pot on the stove and burn down the whole house. If you have shoddy things, be sure to get the lowest coverage you can for your items. Get the highest deductible you can, so your bill is lower. If you make a claim, your insurance will go up, so unless it is a disaster, you might want to pay for repairs to damage to the house out of your pocket.

**Car Insurance** Review car insurance and ask what the various options are for. Some features are added automatically with yearly renewal and it's up to you to notice them and take them off if you don't want them. Ask for what you legally require and then upgrade based on your individual needs. Be sure to check your car insurance needs each school year. Every year that a child ages, lowers the rate, but the insurance company will not call and let you know that. Parents, if your child is out of town and not driving your cars, phone your insurance company to tell them. There is no point paying the child's extra insurance as an occasional driver if the child is out of town going to school for the year.

**Charities** When charities come to the door, ask them to leave a brochure so you can review the organization without pressure. Point out to your child why you do this. Don't donate to charities at the till of stores and businesses. You lose the tax deduction from a printed receipt. Say, "I have a specified charity that I donate to for the year. Thanks but no." Spend some time reviewing charities' administration and fundraising costs and compare the percentage of administration costs to the percent of money that actually benefits the goals. Then decide if the charity is deserving of your money if they practice prudent spending according to your criteria.

**Cell Phone** Review your phone package every year and ask for the phone companies retention department. Ask for what deal they are willing to give you to keep you as a customer if you are not on a contract plan. If you are on a phone contract plan, you can't quit the terms or the company unless you "buy it out."

Don't accept any free downloads from companies you don't trust. You could be on the hook for large amounts of data downloading.

**License** Always bring in discarded/no longer needed license plates. The person who they have been issued to is still liable for them if they get stolen or lost. Always carry pink insurance and registration cards as the driver can be fined if they are not produced upon request by a police officer.

**Car Collisions** If in a car collision, take a photo of the damage, the other driver's registration pink slip, license, and pink insurance slip. Take a photo of the car's model as well.

**Residence** Try not to be the group contact, or sign the lease for a group house rental. You are liable for all the renter payments, behaviour, etc. If you are living in residence, be sure to check and note all deficiencies in repairs and cleanliness. Take photos when moving in and after cleaning when moving out. When moving out, get a receipt for your room key and have the Residence Assistant (RA) inspect your room, otherwise, you will be getting a bill after you return home. Be sure the last person who leaves the room, leaves it clean or all roommates will be penalized.

Sell your fridge, hotplate and reusable items at the end of the year for pocket money. Be sure to sell your used books too. Be environmentally conscious - the landfill doesn't want your stuff.

**Travel** Always copy and paste an email confirmation into a word file and save it to appropriate folders in your computer. Hotel, airline confirmations etc. Don't forget school financials such as Opt-out of health plan confirmations. Always read the terms of the sale. Ask about any fee that doesn't make sense to you. Get money out of an ATM and not from a credit card, when traveling. Ask what the fee is before you get in the taxi or hostel. Currency exchange rates are always better on credit cards, than on accessing cash from an ATM.

**Friends** Never lend substantial money to a friend. \$20 here and there until their payday is fine. More than that and you put your friendship at risk. If you do lend it, mentally write it off as a gift. If it gets repaid, you will be pleasantly surprised. If not, you won't harbor hard feelings.

**Banking** Always check your bank statement for new fees. Banks add them on and it's up to you to opt out. Never hand over your student timetable to anyone (including banks and RESP companies) to confirm your student status. You are giving away too much private information such as time and place of classes which could put your safety at risk. Always send in the generic "Confirmation (or Verification) of Enrollment" form when institutions ask for proof of student status.

Get to know bank language and ask them what the terms are. What is a "product" or "vehicle" or "annuity." Learn the differences between e-mail transfers and wire transfers and how much they cost.

Always pay your credit card a few days before the due date. Some cards, like American Express, deem the amount paid only when they receive the funds, not when you send them. It can take several days for the amount to travel from your bank to their bank and you will be stuck with interest owing for the whole month if it arrives a day late to their bank.

Always check your credit card statement each month for any purchases that don't look like yours.

When punching in your pin number at the ATM or at a store, cover your hand and always pretend to punch a few more numbers in case any cameras are watching.

Never, ever use those handy cheques that come with the credit card statement. They are for cash advances that will start accruing up to 20 percent interest from the last credit card statement date.

**Gift Cards** Many employers give gift cards for employee recognition. Use up gift cards as soon as possible. The longer you keep them, the higher the risk of losing them and the store going out of business. Same for store credits. Send cash instead of gift cards. Over 50% of gift cards are never redeemed which is why stores love them.

**Records** Destroy and shred any receipts or documents with personal information on them. Keep employment and student receipts for 7 years along with your tax return.

**Shopping** Don't buy opt-out deals. Most people forget to opt out by the time deadline.

That's it. Enjoy those student discounts!

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