

**The Parents Guide to Kids and Money®**

# Tips for Helping Your Children Get Off to a Great Financial Start



**By Nancy Phillips, HBS<sup>c.</sup>, EMBA**



We all want to provide the best for our children.  
We want them to enjoy everything that life has  
to offer and grow up to lead happy,  
accomplished lives.

Because our financial situation affects all aspects of our well-being — health, education, career, relationships and personal interests — children with a good financial education will be better prepared to make the most of life.

Many parents right now aren't sure what to teach their children about money. This guide is designed to provide a solution with simple steps you can take to help your children learn the skills they will need to live a bright and fulfilling future. The advice in this guide is most applicable to parents and grandparents with children and grandchildren between the ages of four and thirteen.



## Simple Steps

Financial skills are made up of simple, basic life skills that build upon each other, just as a child learns to sit, crawl, walk and then run. We don't learn to play a sport or drive a car solely by reading a book — we must have hands-on practice to learn from our successes as well as our mistakes. Both types of experiences are important for developing knowledge of what works and what doesn't.

The same applies to managing money — a child needs consistent and frequent hands-on practice. Modelling and learning from observation are two of the most powerful methods of learning in all young children.

Waiting until the teen years for the “money talk” is too late; habits and beliefs around money have already been created. Mastering money management skills is all about learning through everyday life experiences and becoming competent at consistently making good decisions. Taking the time to discuss these experiences will significantly affect your child's future.

Financial results come from the small decisions we make and actions we take each day compounded over time. As parents, we need to help our children learn to prioritize and make good choices as well as help them learn from their mistakes.



2



## You Are the Most Influential Financial Teacher Your Child Will Ever Have

Parents are important financial role models because children begin learning about money through modelling and observation from the time they are toddlers.

- What children observe on a daily basis affects their values, belief system and habits.
- Starting early is critical to developing good self-control, a key factor in future financial success.
- Children are very interested in learning. They know money is an adult “thing” and are thrilled to be involved.
- Most schools don't have comprehensive financial literacy programs.
- Managing money effectively is a skill and thus needs to be practiced to be mastered.
- Small lessons during everyday life can have a significant long-term effect.
- The act of saving and spending helps children learn about their inner values and interests.
- Goal setting is a key factor for life success.



3

# The Power of Three

**Three key concepts work together to provide children with a good foundation of financial life skills.**

No matter what your child's age, there are a few key concepts you want them to learn over time:

1. The differences between needs and wants
2. How to prioritize and make good choices
3. Understanding the consequences of those choices



## How to Teach

**Divide all income into categories — Give, Invest, Save, Spend (GISS).** This teaches the different ways money can be used and is one of the most powerful wealth building habits a child can develop.

**Use cash** — Children need tangible, visual experiences with money to truly understand the “exchange.” This will help your child's numeracy skills and prepare them more effectively to use debit and credit cards.

**Tell stories** — They help create visual images and emotion which enhances memory and learning.

**Look for every day teaching opportunities** — You don't have to add a half hour a day for structured lessons. Use experiences at the store, the gas station or as you make dinner.

**Take the time to explain things** — Needs and wants differ for everyone based on their interests and what they value in life.

**Provide tools** — Wish lists, file folders and tracking sheets can help with decision making and organization.

**Help your children learn valuable lessons from mistakes** — It is critical for a child to feel secure and not fear failure; this is how they gain knowledge which will aid them in future decisions.

**Encourage creative “entrepreneurial” thinking** — Give your children opportunities to problem solve. If they want to buy an item they don't have enough money for, ask them ways they may be able to earn the money. If they are determined to get the item, they will take action to earn and save for it.



# The Powerful

# G.I.S.S.

**Method of Money Management™**

6



This framework for managing money is simple, hands-on and effective. Each category within this system plays a vital role in your child's understanding of the various ways money can be used.



# The Powerful

# GISS

## Method of Money Management™

6



**Give**

This is an ancient concept often referred to as “tithing” which means “a tenth.” Giving is a very valuable concept for children to learn early on because as they begin to give to various causes, they become aware of their ability to help others and make a difference in the world. Children need to be taught how to be thoughtful and kind, especially in this fast-paced world. Contributing to worthy causes increases their self esteem and feeling of “community.” Acts of kindness have been proven to affect people in a very positive way; this is especially good for children because of the feeling of empowerment and joy it gives them.



**Invest**

Investing is an abstract concept for really young children, but it can be learned gradually. Initially it can be explained as the money your child grows to use when they are older. The key here is that they get in the habit of having money being dedicated to their “non-working” years. It is an essential part of financial independence, as a secure retirement increasingly depends on our individual savings and investments. Many people save but end up spending their money on material items such as cars, boats, etc. and not on assets that will create wealth for them to live on when they retire. Children can understand that the idea of investing is to use the money you have today to make more money, to make it grow. It is important that they realize they don't have to start out with a lot — they have time on their side.



**Save**

It is critical for children to learn how to set and achieve goals and that goes for the financial part of their lives as well. As children work toward specific goals, whether it's saving for a bike or a toy of some kind, they learn the steps needed to achieve the goals. And when they do achieve the goal, the self esteem they feel can be very powerful. It shows them what they are capable of and makes them feel more confident, which allows them to set bigger goals. Self-discipline and good decision making are fundamental lessons in personal development and success. Parents need to give their children the opportunity to set and achieve small goals so they are inspired and feel confident to pursue their bigger dreams. As children get older, this category will eventually be divided up for such items as tuition, cars, a home and providing for their own family.

Self control is a key indicator of future financial success and one of the best ways to develop it is by saving. Saving helps teach delaying gratification which is a very important part of emotional development. Giving children everything they want as they grow up often leads to them feeling very unsatisfied and unfulfilled as adults.



**Spend**

This is the category that helps children learn how their actions have consequences. Once children use their own money for purchases, they begin to consider the cost and value of things. It's much better for a young child to have a chance to handle money and make mistakes with a few dollars than it is to send them off to college and expect them to learn on their own. Mistakes are not bad things; they are lessons that need to be learned. Buyer's remorse over a cheap broken toy teaches a strong lesson about quality even to a pre-schooler.

Children need the opportunity to learn how to handle and make good decisions with money. The next time you see your child about to make what you consider a bad spending decision, think about how valuable it will be for him to experience the consequences now, when only a few dollars are at stake. Try not to object to his purchase unless there is a safety issue or the item is not in line with the family's values. This newfound responsibility tends to lead to very thoughtful outcomes over time.

One of the major benefits of the GISS money management system is that it allows your children to think and plan for their future while they learn to manage money in the present. Always keep in mind that one of the most important financial skills you want your children to learn is how to spend wisely.

## Why Do It?

Repetition is one of the most critical elements of learning, along with experience and emotion. By providing a consistent and frequent opportunity for your children to divide and manage their money, they will gain experience and knowledge of what works and what doesn't. The process of dividing money into "Give, Invest, Save and Spend" categories is powerful because it provides:

- repetition and relevancy which are critical for learning and developing new habits
- memory skills such as counting and sorting coins
- opportunity for critical thinking and decision making
- profound and meaningful conversations between parent and child become a part of daily life

- practice in goal setting and the progressive steps necessary for goal achievement
- opportunity for children to be responsible for their own money decisions and the pride that comes with the responsibility

These experiences all work together to make a memorable learning experience and create the foundation for good financial habits.



## Allowances — A Tool for Teaching Hands-On Money Management

The purpose of giving an allowance is to help children learn how to manage money effectively. Managing this money is their "practice time" and helps teach them about consequences of choices and personal responsibility. The experience also allows them to begin to appreciate the value of things.

### Decision Making and Responsibility

Beginning an allowance involves a shifting of responsibility from the parent to the child. Once children have a finite amount to spend on their candies and toys each week, they will begin to learn the cost of things and to thoroughly think through their choices. This decision making process is critical in their development of money management skills.

### Tie it to Chores or Not?

When considering this question, the first thing to look at is the goal of giving an allowance — it's really about creating learning opportunities.

There are numerous experts who believe allowances should be tied to chores and there are many who believe it shouldn't be. There are certainly many ways you can set up an allowance system.

### A Simple Solution — The "Mini" Allowance

Since simplicity is critical for success, one effective approach you may want to try is the method billionaire J.D. Rockefeller used with his family. It involves giving a small amount of money to your child each week so she can learn to manage it. If she wants to earn more to buy something specific, she needs to work to earn the extra money. This method encourages hard work and goal setting while ensuring the child gets consistent practice managing money each week.



### How Much and When?

The most common time to start an allowance is around age five or six. At this age, children are interested in knowing more about money and buying things and they are learning to count quite well.

### The Amount

This will depend on several factors including the child's age, how often you are giving it and what expenses you are expecting it to cover. For young children, a common rule of thumb is \$.50 to \$1.00 a week per year of age. The amount is directly related to the items you are expecting your child to buy with the spending portion of the money each week. Set expectations clearly so your child knows what the allowance must cover and what it doesn't. The amount and responsibilities will change as the child matures and takes on expenses such as personal toiletries, entertainment, clothing and gift giving.

For young children especially, be sure to pay the allowance in small bills and coins, so the child can count out the money for the four categories. This is excellent practice for their numeracy skills.

### When?

Give the allowance the same day each week. Many parents find the beginning of the week more effective than Fridays as the money can easily disappear over the weekend, leaving none for the remainder of the week.

It's helpful to write "allowance" on the calendar so you remember. It's important not to forget for several weeks in a row as your child won't be getting the practice the allowance was intended to provide.

### Increases

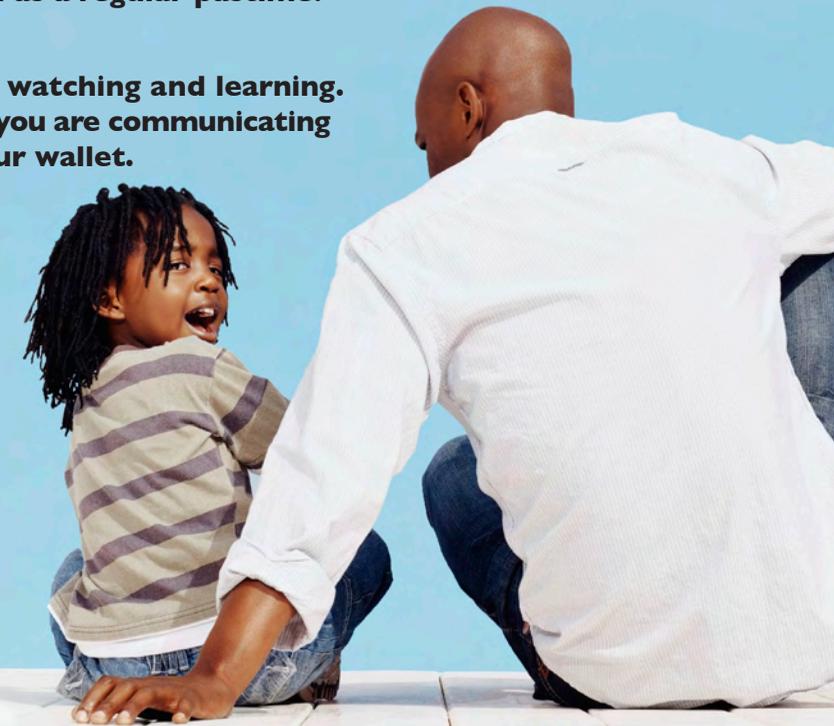
Most parents choose to increase the allowance annually so that it is clear to the child that raises won't be an ongoing negotiation. Choose an appropriate time for your family. Some of the most common choices are: birthdays, the beginning of a new year or the beginning of a school year.

There are many formats in which an allowance can be given; the key factor for your child is that he is provided an effective way to manage his own money on a consistent basis.

# Mistakes to Avoid

- **Assuming someone else will teach your child about money**
- **Consistently talking negatively about money or not talking about finances at all**
- **Assuming you have to be a mathematical genius or investment wizard to teach your kids great financial skills**
- **Teaching children only how to be spenders**
- **Making mindless, unplanned purchases**
- **Overindulging children with "stuff"**
- **Getting upset at a child's decision and not identifying the lesson within the "mistake"**
- **Giving stock "yes" or "no" answers to save time**
- **Going to the mall as a regular pastime.**

**Your child is always watching and learning. Consider the values you are communicating before you open your wallet.**



## The Key to Effective Money Lessons

Consistency, personal relevancy, age-appropriate responsibility and a lot of hands-on practice are the foundation of effective money lessons.

You don't need to be a financial expert to successfully teach your children how to manage money, but you do need to commit to discussing basic money topics frequently during daily life.

### Benefits to Parents

As you begin to actively teach your children about money, you will benefit as well. Parents say they feel relief knowing they are teaching their children critical skills required for future success and well-being; they feel decreased stress because the requests for money and items virtually disappear.

Moms and dads are often surprised at how resourceful and responsible their children are when given the opportunity to handle their own money, and these parents feel great pride in their children's ability to learn these concepts. There is also a lot less guilt when parents realize that it doesn't benefit their child to buy them everything they want and that saying "no" may be tougher initially but is ultimately better for their child in the long run.

Other benefits include increased bonding with your child by discussing topics that are relevant to their everyday life and future plans. And finally, you may find that your own financial habits improve as a result of helping your children get on track.

### Next Steps

- Commit to being your child's #1 financial teacher.
- Begin teaching your children financial skills during daily life starting NOW by telling stories, sharing experiences, using cash to help them practice their numeracy skills and helping them set up a GISS banking system so they can learn the different ways of using money.

Your kids have the capability  
to learn these skills  
and you have the capability  
to teach them...

**So Have Fun  
With It!**



# Tips for Helping Your Children Get Off to a Great Financial Start

**Talking with your children about money and helping them develop good financial habits is more important than ever.**

You can transform your child's future by helping them learn basic financial life skills. As they practice, learn new skills and develop responsibility for their financial decisions, your child's capabilities will improve and they will be better equipped to lead financially independent lives during adulthood.

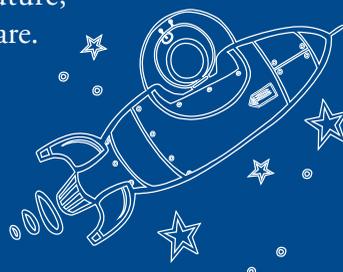
Parents, you have the opportunity to change the course of history for your children and the entire next generation by inspiring your children to set big goals for themselves and then providing the necessary tools to achieve those goals.

Progressive learning of financial life skills is about adding building block upon building block over time. There is no rush; the concepts don't have to be taught all at once. Each life stage has new opportunities and challenges to be explored and learned.

The tools discussed in this guide are basic building blocks that form a foundation for your child's financial future, building blocks that are simple to teach and fun to share.

Enjoy yourself as you watch your children take ownership of their new responsibilities with pride.

Share the joy when children realize their potential to learn and achieve is limitless!



Nancy Phillips is the mother of two young children, the creator of the Zela Wela Kids financial products and president of DollarSmartKids Enterprises Inc. Her mission is to help improve the financial and life success skills of our youth globally.