



Editors' Comment

What do kids know about money, what it means, and how to manage it? Kids are really big spenders, and by their pre- and teen years they spend more than \$170 billion a year of their own and their parents' money. That doesn't mean they know a lot about money and finance, according to the results of recent surveys. Virtually all surveys come to the same conclusion – financial literacy is low and is showing little improvement. The average student who graduates from high school lacks basic skills in the management of personal financial affairs, according to a survey conducted every two years by the JumpStart Coalition for Personal Financial Literacy. Many students are “unable to balance a checkbook and most simply have no insight into the basic survival principles involved with earning, spending, saving and investing. Many young people can't manage their first consumer credit experience, establish bad financial management habits, and stumble through their lives learning by trial and error.”

In this issue of the NYU Child Study Center Letter, we review relevant topics such as children's changing concepts of money as they develop, why children think they need money, strategies that provide experiences which instill skills and knowledge according to age, the lure of consumerism, the pros and cons of allowances, and most importantly, ways in which parents can transmit their values and encourage saving. By integrating the basic principles of understanding money at an early age, parents can instill a sense of responsibility and values and enable children and teens to make wise financial decisions as they mature.

AG/HSK

KIDS AND MONEY: From Piggy Banks to Credit Cards

Introduction

Children, from the day they are born, are significant consumers. Think of the newborn in her crib complete with a hanging mobile, the one-year-old watching a Baby Mozart video, the 5-year-old asking for the new toy he sees on a television program, the 9-year-old wanting cut-off jeans, the 15-year-old downloading the latest music. Children and teenagers have enormous power, both indirect and direct, in influencing what parents buy for them.

Parents have few choices in responding to the steady stream of wants. They can resist demands they consider unreasonable or inappropriate, or they can give in, tired of the struggle or fearful that their children won't meet the standards of their friends. Advertisers capitalize on this dilemma. However, there are solutions available. Parents can educate themselves and their kids to be attuned to the impact, the truthfulness and the purpose of ads and give them experiences that will help them learn that money matters.

Why do kids think they need money?

Ideas about money and what it means differ according to the age of the child.

Georgie, 4: I need some more money to fill up my piggy bank. I'll go ask my grandma.

Max, 9: I need more allowance because I wanna get the Dragons video game like all the kids in my class.

Alana, 12: If you want to be popular you

have to buy clothes in the same style as other girls.

Jose, 17: On prom night kids spend a lot of money on a limo and stuff, so I got a job to pay for stuff myself. My family would never give me money for that.

Whatever their ideas about money, young kids are responsible for a lot of spending by their parents. By the pre- and teen years, kids themselves are really big spenders; between 12 and 19 years of age they spend more than \$170 billion a year of their own and their parents' money.

Industry, well aware of the spending power of children and teenagers, has increased advertising to youth during the last decade, and currently spends more than \$14 billion a year on this market. The average American child sees more than 40,000 commercials a year on television alone.

How parents can instill values and skills about money

Help children learn the difference between what they need and what they want; kids should learn that every wish cannot be granted. Let them know their parents' personal values about how to save, make money grow, and spend wisely. Use concrete examples to explain that the family doesn't have enough money to buy all the things they would like to have. Money lessons can be taught in the context of every day life experiences. Before they even get to preschool or kindergarten, kids are learning about



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money as they go with their parents to the supermarket, the bank, and the mall.

Young children: Preschoolers, whose thinking is concrete, do not yet make the connection that money is related to acquiring things. They rank money according to size and amount, so a nickel is better than a dime and five pennies are better than a nickel. As soon as children can count and sort coins they become aware of money as a means of exchange. By the time they reach kindergarten children understand that the value of money lies in what you can buy with it. Parents can provide toys such as cash registers and piggy banks to encourage imaginative scenarios such as playing store, restaurant, and other everyday experiences where money is exchanged for things.

Young children soon learn that once you've spent your money you don't have it to buy something else, and that putting some money aside means you can buy something at a later time. According to experts, the earlier children learn about saving, the more likely they are to save as they grow older.

School age children: From ages 6 to 9 children can learn to read labels critically and comparison shop. Make shopping lists, take children with you to the supermarket and other stores, and have them compare different prices. Gradually phase in other practical experiences, such as comparison shopping for toys.

Teach children how to save for a goal. Kids need a reason *not* to spend money. Have them identify a specific goal and keep track of their progress. Start the savings habit early; help children open a bank savings account and make regular deposits.

Middle school years: During these years, many children feel pressured to keep up with the latest fashion or toys that their friends have. Give them a hypothetical budget with a specific amount of money to spend, and ask them to fit their wish list into this budget by checking catalogues and web sites.

Talk about the techniques marketers use to target kids, such as free samples, recommendations of sports or movie stars, commercials during favorite programs. How does the price compare to other similar products? Does the ad try to make the child envious of others? Encourage kids to use ways to save such as clipping coupons, looking for sales, and comparison shopping. Use other every-day opportunities. When you pay with a credit card, make it clear that a bill will have to be paid on time; introduce the concept of taxes by pointing out that tax money pays for services such as the post office and garbage collection. Include children in family discussions about money, such as budgeting and planning for family vacations.

Teenagers: Have teenagers keep track of their expenses and income by setting up a budget.

Teach them to compare cash, checks, and credit cards and how to manage each. Explain compound interest – show how amounts grow by using a table or computer to demonstrate. Help them understand credit and debit cards.

When teens have part-time jobs, they should have their own checking account. Help them shop for the account with the best terms, and make sure they know how to balance the account. Teens have to make decisions about saving and spending in the real world, and income that they earn from odd jobs can help pay for non-essential expenses, such as dates, movies, and money for gas.

Although teens become eligible to have credit cards, they don't always understand that these are really loans that eventually have to be repaid. Help them compare ways to invest their savings and compare the rates offered by different types of bank accounts, stock markets, and other investment options.

Teach about the stock market; help them pretend to invest in stocks and

About Allowances

Providing a child with a regular amount of money is one way to encourage hands-on experience in learning how to allot resources, make decisions, and understand the advantages of saving.

When to start? Experts state that 7 or 8 years of age, when children are also learning about money in school, is a reasonable time to start an allowance, and then adjust it up or down.

Keep the agreement simple and clear.

Tell your kids a) that they get a specific amount of money on a regular basis and b) that they pay for certain expenses, as you both agreed upon. For example, kids can pay for discretionary things, such as their extra toy purchases, movies, and as they get older, gifts, text messaging, etc. Being in charge of their own money enables children to make decisions and to learn from mistakes. When kids actually have to hand out cash, they learn first hand about how to manage money – how much to spend, how much to save.

Decide on an amount. Experts recommend a formula of \$1 per week for every year of age. A survey reported by Kiplinger.com notes that the amount most frequently cited for age groups between ages 6 and 17 was \$5 to \$9 per week, followed by \$10 to \$19 a week. Some parents start with an allowance based on a figure which is half of a child's age.

Should allowances be attached to chores?

Most experts advise parents not to link chores to allowance, that household chores are the responsibility of family members. Others believe that money and jobs should be linked, that kids who are automatically guaranteed a certain amount of money grow up with a sense of entitlement. This is a personal choice. Some parents choose to pay children for chores on a per job basis, such as mowing the lawn.

Open an account. If part of the allowance is designated for saving, open a bank account so the child can keep track of his/her money and how interest affects savings.

Don't bail your child out. If your child runs short or spends too much, s/he should deal with the impact of the mistake.

Do allowances work? If parents believe in it, make expectations and requirements clear, and stick with it, the system works.

follow their fluctuation and progress.

Teach how to avoid debt. Illustrate the downside of credit by concrete examples of interest charges of credit card companies.

Parents as role models

Set an example for your kids and be aware of your own feelings about money matters. Parents need to think about their own buying habits -- their history of buying affects their approach to buying for their children. Some people who may have felt deprived of material goods when they were younger may buy too much for their own children. Others may go in the opposite direction. Some may use gifts to make up for feeling guilty that they don't spend more time with their family.

Establish a regular schedule for family discussions about finances. Even young children can be included; this can be the time when they tote up their savings and receive interest. Other discussion topics might include the difference between cash, checks, and credit cards; wise spending habits; how to avoid the use of credit; and the advantages of saving and investment growth. With teenagers, it's also useful to discuss what's happening with the national and local economies, how to economize at home, and alternatives to spending money. All of this information will be important as they take on more responsibility for their own financial well-being.

Cultivate the pleasure and responsibility of giving

Demonstrate generosity by donating to charity. Some families put aside a certain amount of money every year to contribute to organizations whose aims they support.

Make children aware that some children don't have many toys or material things. Have children donate clothing, toys and games they no longer use to local community centers.

Giving children money to donate to a cause of their own choosing teaches

them to take on responsibility for themselves.

Projects such as donating time to a charity can be a family tradition that teaches children responsibility for helping others. Collecting toys at holiday time, collecting art supplies and warm clothing for needy children are some examples of activities for the family to work on together.

Teaching children and teenagers about money also carries some less obvious benefits. Although many Americans are experiencing an era of affluence, there is a perception that many children have been overindulged and have come to overvalue material possessions.

When the emphasis is on acquisition as a measure of success and self-worth, children have not had the opportunities to learn the discipline, problem-solving skills, and the connection between effort and reward that realistic attitudes and experiences with money provide. Children and teenagers want more time with their parents, not more things. Be a good role model—although kids are influenced by pop culture, media, sports personalities and movie stars, parents are still the most powerful influence in children's lives. Spend more time, and less money.

Helpful websites:

www.fdic.gov
www.kiplinger.com
www.themint.org
www.jumpstartcoalition.com

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