

## **MONEY: A LIFELONG RELATIONSHIP STARTS EARLY**

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Learning to manage money is a skill. It can be taught. Like most learning, experience is the best teacher (and maybe the only teacher)! We learn what we do, and we learn from our mistakes and our successes. To help children learn about money they need to experience successes and mistakes from an early age so they can develop lifelong decision making skills. To insure this, children need an environment where the consequences of their actions are manageable and developmentally appropriate. Waiting until after college to learn about money can lead to some unmanageable consequences!

A number of years ago a friend of mine and I were having a conversation about money at a baseball game. He told me that his parents had provided everything for him when he was growing up. He didn't have to work, and his time off was spent traveling, playing sports and engaging in recreational activities. He went to camp in the summer, and was sent to college with a car and a credit card – all expenses paid and lived close enough to home that he could bring home his laundry on the weekends! After college he was hired for his first job and his parents helped him get set up in an apartment. Soon after starting his job he was informed by his parents that he was on his own, financially. It was time. After a week or so of work my friend ran out of clean clothes, so he brought all his dirty clothes to the dry cleaners. You can imagine his surprise when he received the bill! He had begun a long journey to becoming financially responsible. Unfortunately, the stakes were much greater for his mistakes, and he was very overwhelmed at the prospect of learning how to make healthy decisions with money when the consequences were so high.

Don't wait! The more that children learn about money from an early age the more likely they are to make sound and mature decisions as they get older, both at home and when they leave home. Allowances from an early age can really help children learn to manage money for the long haul, if used to teach life lessons. However, how allowances are used in the family makes all the difference in the world.

Before we discuss the "do's", let's discuss a few "don'ts" when creating an allowance structure for your children. Allowances should not be used for punishments or rewards, or in connection with chores. Using allowances as leverage for behavior puts the adult in the position of being the judge and jury and creates an opening for arbitrary and inconsistent decision making, and this invites power struggles, arguing and manipulation. Chores are contributions to the family, and if children are paid to make basic contributions to the family, then they learn that they should be paid to pitch in (see opportunities for earning money below). The purpose of an allowance is to teach a child how to manage money.

Here's how an allowance can work to teach money management and develop decision making skills in children. Develop a plan to give an allowance to your children every week; the same amount at the same time. Give your children the responsibility for spending and saving it accordingly. (Some families structure the allowance so that a certain percentage of money comes off the top each week to save and to give to charity.) The children are responsible for bringing their money with them if they want to buy something, or putting it away in a "piggy bank" or a real bank to save.

## Developing Money Management and Decision Making Skills with an Allowances

1. Take time to show your child what happens to money when you save it.
2. Teach your children about budgeting before they have difficulties.
3. Avoid rescuing children when they run out of money. Allow them to experience the limits of their ability to spend (this is a lesson that many adults need to learn, no?). Life is filled with limits, and successful people learn to work within defined limits and then see beyond them.
4. Don't give advice! Just ask reflective questions when they run into problems (be truly curious):
  - a. What happened?
  - b. What caused that to happen?
  - c. How are you feeling about that?
  - d. What did you learn from this?
  - e. What's your plan for next time?
  - f. What can you do differently to avoid this from happening again?
  - g. Etc.
5. Avoid giving loans, but if you do:
  - a. Set clear terms for the loan
  - b. Make a definite plan for repayment (deducting a certain portion of their allowance until repaid)
  - c. Be sure that the amount that you lend can be repaid successfully
  - d. Only one loan at a time
6. Be careful not to confuse your priorities with theirs! When we try to force our priorities on children they either rebel or become passively compliant. This does not make for teaching good problem solving skills – children need to make their own mistakes.
7. Set a schedule for raises based on age.
8. As children get older (adolescence), consider the areas in which you spend or budget money for your children. Create a budget for them and give them an according allowance. For instance, if you plan on spending \$700 per year on clothing for your child, give them a clothing allowance for that amount, and help them develop a plan on how to spend it that year. Other areas to consider for these allowances are:
  - a. Grooming (hair, nails, etc.)
  - b. Activities (lessons, sports, etc.)
  - c. Lunch money

## Saving Lessons

1. Use a piggy bank with younger children and put a portion of their allowance in the bank each week. From time to time count it together and discuss what is happening to the money.
2. Make a list of things that a child might want to save for and help them create a plan to get it.
3. When children hit their savings goals, take time to use reflective questioning (above) so they can learn from their successes.

## Opportunities to Earn Money

Earning money is an incredibly important life lesson. The reason, again, that we don't connect allowance to chores, is that chores are simply a contribution to the family. We do chores because we belong to the family and have an according responsibility, and the benefits from contributing are gaining a sense of social/familial responsibility, belonging and significance. However, learning to put in a day's

work and make a day's pay is also rewarding and vital to developing autonomy and financial independence.

To help younger children learn to earn money, simply make a list of "extra jobs" around the house that you normally do, that they can do for money. Put the amount that you are willing to pay next to each item. When your child asks you for something that is beyond their ability to pay for, just ask them if they've checked the "extra job" chart to see what they can earn.

Finally, as your children are able to work consider eliminating allowance and encouraging them to find a part-time job or start their own business (lawn care, shoveling, house cleaning, elderly help, etc.). This can be the first step in developing true financial independence. Many businesses have found that hiring recent graduates who have worked while in school do not have to learn basic skills such as timeliness, time management, resilience (not calling in sick when they have a sniffle), ability to take constructive criticism, and responsibility to coworkers. As an employer myself, I weigh work experience while in school even higher than grades or extra-curricular activities when making hiring decisions (I have learned this the hard way).

The benefits of teaching children to manage money not only last a lifetime, but like most constructive parenting approaches, makes for a smoother ride as a parent, and children who are competent and confident. When children have predictable access to money and a home environment where they can learn from their mistakes and successes, then behaviors such as stealing, manipulation, lying and whining are greatly reduced. Had my friend been given these opportunities he would have saved a few hundred dollars in dry cleaning bills.