

Special Financial Strategies for the Younger Generation (Great Ideas for Adults Too!!)

An excerpt from 'MoneyMinding' by Tracy Piercy

How fortunate are the children who grow up financially literate with solid financial values. How much more productive, efficient and enjoyable will their lives be without added financial stress. This topic is certainly an entire book all on its own. Recently there have been some great books, although this is an area of personal finance that could use further development. The following are some key ideas that have been taken from several books specifically on the subject, and adapted to incorporate some of my own thoughts and research from an adult environment.

ALLOWANCE: Yes or No? How much? How often? What for? I believe that the biggest benefit of an allowance is to teach the children proper money management and financial strategies rather than as a reward for good behaviour. This is important, of course, but children (particularly young children) do not understand the value of the dollar as a reward or consequence. They will learn the consequences of poor financial habits independently of their lessons in good behaviour. The following is a three-part process for establishing an allowance program for your children with the goal being to teach them sound financial principles.

Note: At this stage it is better to pay your child more than not enough, because this way they can learn to be financially responsible for some of the activities and expenses you incur on their behalf. If you pay them too little, there will be no reward and they will be continually looking to you for their desires rather than developing independence.

- Pre-school to age 9: One dollar for each year of age per week. This money is to be received regardless of behaviour. The allocation of the money is outlined below, as well as additional funds that are earned or received as gifts. This is the important stage of learning to spend, save, value, and track personal finances.
- Age 9 to age 14: A continuation of their pre-school allowance (i.e. \$9 per week), plus commission for household chores and activities. You can decide the payment to be received and the activities required of your child. This way their income is now partially their responsibility. The allocation of earnings is still maintained as below. During this phase children can be encouraged to explore ways of generating income on their own. The idea of the lemonade stand comes to mind, although paper routes and babysitting might be appropriate depending on the child and their age.
- Age 14 to 18: 100% commission for household chores, activities, help, etc. At this point it essential to help your child to find alternate ways to earn income outside of the home as well. Babysitting, paper routes, yard work for neighbours, etc., are certainly easy activities for children at this age to find and maintain. The allocation of earnings is still maintained. Now your child is completely independent and you can encourage creative earning ideas that appeal to their own interests.

ALLOCATION OF FUNDS: We have a four-part strategy to encourage short-term savings; and delayed gratification, spending, giving and long-term pay yourself first concepts. There is no room for credit in teaching children proper money management. Effective and prosperous credit use is a lesson that will be learned easily if there are no loans allowed from parents and children grow up to learn about delayed gratification and cash-only transactions. They will learn that they have the ability to provide for their desires without credit use and that credit can be a valuable tool to help them reach their goals – not satisfy short-term desires. Whatever the amount received by your child, either by allowance, gift, or their own earnings, the following program will help develop a solid financial foundation.

- **INVESTING:** 10% - 25% of the total. A contribution to this fund from each pay is non-negotiable. This is long-term financial independence money. I would suggest working with a financial advisor to establish an international diversified mutual fund as soon as there are enough funds to meet the minimum deposit requirements. When the amount grows this money will be diversified and managed the same as an adult's independence account.
- **SAVING:** This money is being saved for a specific purchase that is larger than the current cash on hand. For example, our pre-schooler has so far saved for a scooter, roller blades and is now working towards a Barbie car. This money will support delayed gratification while teaching them that it is okay to spend their money – in fact spending money is an enjoyable experience. The waiting process can teach them to shop around for the best price and quality so that when they do have the cash to make their purchase they are informed shoppers. The amount allocated to this portion is between 25% and 50%. The child can decide. The difference for the higher amount comes from their immediate spending category. The way to include them in the decision making process is to question them about how quickly they would like the item they are saving towards.
- **SPENDING:** This category of allocations is for immediate spending on small stuff like snacks, knick-knacks at the check out in the grocery store, etc. You, as the parent, are to reserve your judgment (within reason) and let the child spend their money even if you would prefer they didn't. Obviously, certain values must be reserved for you to help guide your child, but for the most part this is their money to spend as they wish.
- **GIVING:** This category is actually part of the spending component of the program. The amount will range, and where the money goes is also a personal decision for your family. There is a longer discussion around giving further in the Money Minding program. I believe that to develop a feeling of abundance and to be able to experience true prosperity there must be a regular giving component in your ongoing financial affairs. The flow of money in our lives is constant, and when we donate to worthwhile causes and spiritual work we are helping the leaders of those organizations inspire us further, and to reach more people who are in need. The amount you allocate to giving should be no less than 10% of the gross weekly allowance or gross earnings. Our daughter has some that we call her 'God money' that she takes to Sunday school. She will also help out when we send gifts to our foster child or Christmas gift boxes.

For example, our four year old earns \$4 per week allocated as follows:

- \$1.00 to investing
- \$1.50 to saving
- \$1.00 to spending
- \$0.50 to giving

BANKING: Aside from the investment account, you may wish to establish an account for your child for the saving portion of their earnings. This will depend on your personal preferences. In any case, I strongly advise you to help your child establish a routine of recording their earnings and expenses and balancing their account when they receive statements on their investments or savings. You can do this quite simply with a notebook or use the MoneyMinding table. Our daughter does the writing in the book so it makes it fun and interesting for her. I also believe that it will give her a solid record of her financial activities later in her life.

LANGUAGE: This will require awareness and change on your part as the parent to help your child develop empowering language skills. There is further discussion on language in the MoneyMinding program; however, it needs to be mentioned that when a child is developing their language skills it is also the most sensitive learning period of their lives. It is always far better to use a positive statement rather than the negative to make the same point. For example, it is not any more difficult to say “remember” than it is to say “don’t forget”. Or “stay on the sidewalk” rather than “don’t run onto the road”. And financially, how about saying “we don’t have the money for that right now” rather than “we can’t afford that”. As soon as you tell your self that you ‘can’t afford’ something you will stop searching for a solution. If you leave the door open, perhaps a solution will appear.

RETIREMENT: What is retirement? It certainly isn’t an age driven event. It is a point in time when we can chose to leave the workforce if we desire – or stated another way – it is point in time when we are financially independent. Robert Kiyosoki, in his book ‘Rich Kid, Smart Kid’, challenges parents to teach their children to retire (i.e. to be financially independent) when they are 30. That way they can chose to work where they want, when they want, and do something they love to do, not because they need to work just to put food on the table. Imagine the increased efficiency, productivity and healthier attitude we would have if we went to work out of choice not obligation.

A handwritten signature in cursive script that reads "Tracy".

