

Teaching Your Child about Money

Money can seem mysterious to children; they might even think it grows from trees! While they might not fully understand where money originates, they quickly learn that it can be exchanged for things they want. When children show interest in money, educating them on how to handle it wisely is essential. Lessons taught today can help them make sound financial decisions throughout their lives.

Allowances

An allowance gives children a taste of financial independence. It empowers them to save, budget, and plan for their goals and desires. How much to give depends on family values and the household budget. Parents should also decide which expenses allowances will cover and how much should be set aside for savings.

There are several approaches to allowances:

- **No strings attached.** Give a set amount regularly without requiring chores.
- **Chore-based allowance.** Tie the allowance to household responsibilities.
- **A hybrid model.** Provide a base allowance and offer opportunities to earn extra by completing tasks beyond normal duties.

If you choose to give your child an allowance, keep these three tips in mind.

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1. **Set clear parameters.** Discuss what the allowance can be spent on and how much should go toward savings.
2. **Establish a schedule.** Pay the same amount on the same day each week to build consistency.
3. **Teach goal-setting.** Help your child create short- and long-term savings goals, such as buying a toy or saving for a special outing.
4. **Plan for raises.** Reward responsible money management with occasional increases.

Opening a Bank Account

A childâ??s first bank account is an excellent way to introduce the concept of saving. It provides a hands-on lesson in how a savings account works and gives children the satisfaction of making deposits and watching their money grow.

Many banks and credit unions offer kid-friendly programs with activities and incentives to teach financial basics.

Beyond opening the account, parents can reinforce good saving habits by showing children the power of compoundingâ??how deposits earn free money over time. Additionally, offering matching contributions toward a long-term goal can further motivate consistent saving. Itâ??s also important to allow occasional withdrawals; young children may lose interest if the money only goes in and never comes out.

Saving for Financial Goals

Getting children excited about saving for financial goals can be challenging, especially when money from birthdays, holidays, or milestones feels like it should be spent immediately. The value of saving for the future isnâ??t always obvious, so parents play a key role in making it engaging and actionable.

Let children set reasonable goals. This creates a sense of ownership and incentive to save. Encouraging *bucketing*, where money is divided into portions for saving, charity, and savings is an example of this approach. Make the plan actionable by writing down the goal and the amount that must be saved during each period. This distinction between short-term and long-term goals helps children understand the process. Visualization also matters. Taping a picture of the goal to a savings jar or to regularly scheduled deposits can strengthen the connection between saving and achieving the goal. Three other tips include:

- **Celebrate small wins.** Young children often lose interest in long-term goals, so keep objectives shortâ??just a few weeks at most.
- **Teach through experience.** Donâ??t rescue your children from disappointment. Missing a goal can be a powerful lesson in planning and discipline.
- **Build gradually.** Saving is an iterative process, nourished by achieving small milestones over time.

Raising Savvy Consumers

Commercials, peer pressure, and advertising are designed to influence behavior. Children are naturally tempted to spend, and learning to make wise purchasing decisions takes time and guidance. To help them grow into savvy savers and consumers:

- **Explain why you say no.** Use shopping trips as teachable moments by discussing why certain purchases arenâ??t allowed.
- **Create a wish list.** Encourage your child to try an item in the store and then add it to a birthday or holiday list.
- **Plan a monthly shopping day.** Designate one day each month for shopping together. This approach promotes saving for meaningful purchases rather than impulsive spending.

Build Financial Confidence for Life

Teaching your children about money is one of the most valuable investments you can make in their future. Start small, stay consistent, and turn everyday moments into lessons that last a lifetime. If youâ??d like more ideas for building financial confidence at home, a CAPTRUST advisor can help.

Resource by the CAPTRUST wealth planning team

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