Teaching Your Children About Money

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When children receive money through an allowance, gifts or from a part-time job, it's important to teach them about the advantages of saving, and how these funds can serve other goals, like sharing them to help others.

By teaching your children the value of spending, saving, and sharing their money (the 3S-Strategy), they can apply the same smart money-management approach throughout their lives. Here are some tips to help you encourage your children to adopt strategies that embrace the 3S-Strategy to successfully manage their money.

Young children (Ages 8 and under)

Young children often don't understand the true value of money. For kids ages 8 and under, this is the best time to instill habits of earnings and savings by starting their allowance or providing them a small amount of money for chores they do around the house. In addition, you may want to consider these tips:

- **Pay with cash**: Even though we're moving toward complete digital money solutions, bills and coins are still important teaching tools for children, according to Neale Godfrey, author and Executive in Residence at Columbia Business School. Young children understand money better when it's tangible and they can hold it and exchange it.
- **Pay weekly:** It's a good idea to give younger children a weekly allowance. If the concept of earning an allowance is new to them, a weekly allowance helps reinforce the practice of earning. Later, you may choose to switch to a monthly allowance. As a rule of thumb, provide an allowance of $1 per year of age. For example, $4 weekly for a four-year-old, $5 weekly for a five-year-old, etc.
- **Encourage money-splitting strategies**: A child doesn't need to split their money evenly using the 3S-Strategy. Let them choose how much to allocate and where. The goal is to teach them that money is not just for spending.
- **Use teaching tools**: Give your child designated piggy banks that have each been labelled specifically for spending, saving and sharing. You can also label three clear jars with pictures and the words: "spend," "save," and "share." It's important for young children to easily see their money accumulating.
- **Consider these sharing strategies**: It's important to allow children to choose where they would like to allocate their "sharing" money. At this age, for example, your child may simply decide to put their sharing money into a holiday season donation "pot" at your local mall, or donate it to the walk-a-thon at their school. Over time, as your child accumulates more money in their sharing jar, you may want to help them choose a charity consistent with their personal interests, for example, an animal shelter.

Tweens (Ages 9-12)

Children in this age group should now be getting better acquainted with earning and allocating money. They're also more excited to spend it. Continue reinforcing the 3S-Strategy of money-splitting. Also, if you're just starting to give your child an allowance or family salary for doing chores, use some of the strategies previously described. Here are some other tips to consider for this age group:

- **How much allowance?** It's up to your family to decide how much money your tween can handle or should receive. You can continue to use the $1 for every year of their age so, for example, a 10-year-old would receive $10 on a weekly basis. According to data from an app that tracked the allowance habits of their North American users, the average allowance for this age group is $11 per week. The most common assigned chore to this allowance was tidying the bedroom. Cleaning the floor averaged $3 per week, while washing the car earned $7 per week.[1]
- **Add digital or plastic tools:** Tweens love technology. Consider giving your child a prepaid card or a debit card that allows them to allocate their money into separate account categories. They can also earn some interest in a savings account. Parents should maintain control over the bank accounts to conduct spot checks and confirm how your child is progressing and spending their money. It remains a good idea to give tweens at least part of their money in cash. It's a very profound learning experience, when the cash is gone, it's gone.

- **Develop saving strategies**: Encourage your tween to save money toward a specific goal. They may keep the name or a picture of the item on their piggy bank or in their bedroom. You may also want to introduce saving rules such as, "You may only spend towards your savings when you've named a goal and saved toward it for at least 30 days."
- **Make it easy for them to continue sharing**: Children of all ages are more willing to be charitable with their hard-earned money when they get to choose where it goes. So, ask your child what matters most to them. Help your child research non-profits (on sites like Charity Intelligence Canada) related to their values and passion. Organizations that help animals and children in need are popular choices for this age group. Collect your child's sharing funds and make a credit/debit card donation in that amount to the child's chosen charity. Share the letter, email, or receipt from the charity acknowledging the donation to give your child a sense of fulfilment after parting with their money.

Teens (Ages 13 plus)

At this age, your teenager might start accumulating money from a part-time job or larger financial gifts from family members. You may still encourage them to use the 3S-Strategy. Whenever they receive a paycheck or are gifted cash, have them deposit a portion of their money into two savings sub-accounts (many financial institutions offer them, connected to a master savings account), or into digital categories in a financial software program or app.

You may also want to consider these tips for your teen:

- **Move to monthly**: If your teen isn't yet working, consider giving them a bi-weekly or monthly allowance. The idea is to familiarize them with the concept of a regular paycheque and having to budget and become accustomed to making decisions that will help their money last longer.
- **Cash may no longer be king**: As they earn more money, teens may want to keep a small amount of spending money on hand, and keep the rest safe in a bank account. They can connect to the account with a debit card or mobile app.
- **Consider expanding spending categories**: Instead of having one spending category, encourage your teen to break their money down further to include sub-categories like clothes, entertainment, gifts and more.
- **Monitor their spending**: It's a good idea to closely monitor your child's spending habits for as long as possible (until at least age 18). By linking their bank account(s) to your online banking profile, you can easily go online to review their financial activity and continue to coach them on smart money habits.
- **Inspire the sharing habit**: For as long as you can, continue to insist that a percentage of your teen's money goes towards helping others. At this age, they may want to donate to a cause that is relevant to them or your family, a recent crisis, or an organization where they are currently volunteering. Consider matching your teen's donations to encourage their charitable giving.

Over time, these strategies can help your child grow into an adult who is financially savvy and successful and allocates their money into the categories of spending, saving and sharing – and, eventually, an important fourth financial category: investing.

For more information about teaching your children about money, please speak with your BMO financial professional.

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[1]Allowance apps are the modern piggy banks and they could really help your kids. Selvarajah, M., CBC News, November 2018.
https://www.cbc.ca/news/canada/allowance-apps-are-the-modern-piggy-banks-and-they-could-really-help-your-kids-1.4926286