Teaching your children about spending, saving and sharing their money.

When a child starts to receive or earn their own money through an allowance, family gifts or working, their natural instinct is to spend it all. However, it's never too early to start teaching children that money may also enable two other important functions: saving some for bigger or more beneficial purchases or experiences and sharing some of it to help others.

If you encourage and teach your children to get into the habit of automatically splitting their money into the three "S-categories"— Spending, Saving and Sharing — they may be more likely to continue applying a smart money management approach throughout their lives. Here are some tips (by age) to help you encourage your children to adopt strategies that embraces the three S-categories to successfully manage their money:

Young children (Ages 8 and under)

Your child may not fully understand the value of money until about age five, or when they enter kindergarten. That's a great time to start giving them an allowance or paying them a small amount for doing some chores. In addition, you might want to consider these tips:

- **Pay with cash:** Even though adults are moving toward all-digital money solutions, bills and coins are still important teaching tools for children, according to Neale Godfrey, an 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 it weekly:** It's a good idea to give younger children an allowance on a weekly basis, especially if the concept of earning an allowance is new to them, it helps reinforce the process of earning an allowance. (Later, you may switch to a monthly allowance.) A common allowance rule of thumb is to give a child $1 per year of age, so $4 weekly for a four-year-old and $5 weekly for a five-year-old, and so on.
- **Encourage money-splitting strategies:** Your child doesn't need to split their money evenly among the three S-categories. Let them choose how much goes into each pot — just insist they somehow divide the money. The goal is to teach children that money is never just for spending.
- **Use teaching tools:** Give your children designated piggy banks that have been labelled specifically for spending, saving and sharing. You may also label three clear jars with pictures and the words "spend", "save", "share". Whatever you decide to use, it's important for young children to be able 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 first, your child may simply want to put their "sharing" money into the holiday donation pot at the 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. Just collect your child's sharing funds and make a credit/debit card donation in that amount to the child's chosen charity. You may want to share with your child the letter, email, or receipt from the charity acknowledging the donation to give them a sense of fulfilment after parting with their money.

Continued

Tweens (Ages 9-12)

Children in this age group should now be getting better acquainted with money. They're also more excited to spend it. Continue reinforcing the three "S" money-splitting strategy. Also, if you're just starting to give your child an allowance or family salary for doing chores, use some of the strategies listed above such as a weekly allowance and using cash. Here are some other tips to consider:

- **How much allowance?** It's up to your family to decide how much money your tween can handle or should receive. You could continue to use the $1 for every year of their age, so for example a 10 year old would receive $10. According to data from an app that tracked the allowance habits of their North American users, the average allowance is $11 a week, with the most assigned chore being tidying the bedroom. Mopping the floor averages $3, while washing the car earned a whopping $7.[1]
- **Use smart tools:** Tweens may still like keeping their money in segmented piggybanks. However, if those compartments start getting too full, consider using three separate, marked envelopes or individual zippered pouches (such as those old-style, three-hole-punched, flat zippered pencil cases) in a binder.
- **Add digital or plastic tools?** Again, it's a family choice whether to give your child a prepaid card, a debit card that you monitor or digital cash apps like *RoosterMoney*, *Chore Check* and *iAllowance*. However, it's still a good idea to give tweens at least part of their money in cash. It's a very concrete learning experience: when the cash is gone, it's gone.
- **Funds still don't have to be evenly split:** For one thing, depending on how much your child earns, it may be tricky to split their money evenly into three categories. However, you can try paying your child in multiples of three, so the 1/3 system works better: for example, $9 a week can be split up into $3 in each jar. It's also ok for your tween to put most of their money into spending, a little less into savings and the smallest amount into sharing.
- **Develop saving strategies:** Encourage your tween to save money toward a specific goal — it provides motivation to continue striving to achieve the goal. They may keep the name of the item or a picture of it on their saving bank or envelope. You may also want to set up saving rules, such as, "You may only spend 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 him or her right now. Help your child research non-profits (on sites like Charity Intelligence Canada) related to their key values. Organizations that help animals and needy children are popular choices for this age group.
- **What about apps?** Tweens love everything electronic. Consider using an app like those mentioned in the previous section that allows your child to monitor a virtual (instead of cash) allowance balance with you. You can dole out the money as needed. You may also consider a debit card for your child that allows them to allocate their money into separate account categories while also earning some interest in a savings account – this is another valuable lesson to learn about growing their money. You, the parent, should still remain in control of their account.

Teens (Ages 13 plus)

At this age, your child might start accumulating money from a job or larger financial gifts from family members. You may still insist that they use the three "S" strategy. Whenever they get a paycheck or money gift, 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. You may also want to consider these tips as well 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 a paycheck cycle and to get accustomed to making their money last longer (budgeting – is another useful financial lesson they will eventually need to learn).
- **Understand that cash may no longer be king:** As they earn more money, teens may want to keep a small amount of spending money on hand. The rest they may want to keep safe in a bank account. They can connect to the account with a debit card or an app that most banks offer.
- **Consider expanding categories:** Instead of having just one spending category, your teen may want to break their money down further to include sub-categories like clothes, entertainment, gifts and more.

Continued

- **Maintain a joint bank account:** It's a good idea to closely monitor your child's money habits as long as you can (until at least age 18). Plus, banks typically won't open accounts for teens under age 18 without an adult co-owner. With a joint account, you may easily go online to review your teen's financial activity and continue to coach them on smart money habits.
- **Keep teens in the sharing habit:** For as long as you can, continue to insist that a percentage of your teen's money goes to help others. For instance, they may want to donate to a cause that is relevant to them or your family, or to a recent crisis. You may consider matching your teen's donations to give them even more impact.

Over time, your child will hopefully grow into a financially savvy adult who always puts their money into the categories of spending, saving and sharing. Eventually, they'll probably also add another important fourth financial category: investing.

!

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

BMO Wealth Management

We're here to help.™

[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

05/19-0954