HOW MONEY WORKS FOR KIDS

A Parent's Guide

Contents

Introduction

In today's world, children are constantly bombarded with products and services that advertisers spend billions each year trying to convince them that they *need*. In fact, around $17 billion dollars is spent each year on promotions targeted at children – an astronomical increase from the more modest $100 million spent in 1983.[1]

When you think about how many outside forces are vying for your children's financial attention, it's a pretty scary thought! But how do you combat this marketing siege without breaking the bank?

How Money Works … for Kids is designed to help you teach your children simple financial strategies now so they'll be better equipped to deal with money matters on their own *later*.

In fact, a recent survey found that 47% of Americans couldn't come up with just $400 in cash for an emergency expense![2] You have the power *right now* to help your children avoid common money mistakes by helping them grow up "money smart!"

Talking It Out

One of life's ironies is that we go to school to learn how to make money, but we *don't* learn strategies for handling that money responsibly! As a parent, you're in the perfect position to guide your children through the money maze as you help them develop healthy money attitudes and formulate good strategies for saving, spending, investing and giving back to their communities.

According to a recent study, 71% of parents have some level of reluctance to discuss financial matters with their kids, and nearly 30% are very reluctant to have that conversation.[3] If parents aren't teaching their kids good long-term money management skills from the beginning, it's no wonder the average college student graduates to the adult world with more than $30,000 of debt![4]

It's important for your kids to *grow up* knowing how to deal with money – so they won't fall into the same traps that many of today's college graduates are!

check the money mirror

As they grow up, kids pick up on adults' behaviors and attitudes – whether social, work-related or financial. So modeling good money management is one of the best things you can do to get them ready to handle their own money!

If you are constantly worrying about money or expressing anxiety about going broke or not being able to pay bills, losing the house, etc., those attitudes are naturally going to rub off on your kids. In fact, many adults' money issues come from childhood impressions they got from their parents.

Here are a few things you can do to avoid passing a negative legacy on to your kids.

Set an Example

- Decide what attitudes you want your kids to have toward money – then exhibit them yourself.
- Emphasize the "value" of money – teach your kids that money isn't "free." You have to work for it, and thus, are *working* for the things you purchase.
- Pay yourself first – overall personal savings in the U.S. is currently a dismal 5.5%.[5] If you want your kids to save, they've got to see you doing it too!
- Get your debt under control – the average American household with a credit card carries $16,000 on their credit cards.[6] Indirectly teaching your kids to rely on credit could give them the wrong idea about plastic.
- Be in the habit of giving – when you give to charitable causes you're encouraging your kids to be socially minded.
- Speak openly about money with your kids – you don't have to go into all the details of your family finances, but talking about how money works and how to use it wisely will go a long way.
- Keep your priorities straight – the last thing you want to pass on to your kids is the feeling that money is more important than family and friends!

Money can't buy happiness … or love, but learning how to manage money wisely will enable your kids to avoid many of the same money mistakes you may have made!

The Usual Suspects[7]

Everyone makes money mistakes. It's part of life. However, helping your kids recognize potential potholes on the road to smart money management is a great place to start!

Common Mistake	Money Smart Fix
Losing Money	Children should never have more cash on them than they need, simply because it is irreplaceable if lost or stolen. Making sure they have a safe place to keep their money is the key to fixing this money mistake! If the problem persists, try doling out allowances or other funds in smaller amounts, more frequently. Or set up a bank savings account to help them keep better track of their cash!
Borrowing Money	Get your kids used to paying back what they borrow early! By expecting them to return the "loan," you'll reinforce that money isn't free. The same works in reverse. If you borrow money from your kids, pay them back – with interest.
Inappropriate Purchases	If your child wants to purchase something you feel is unsafe, unhealthy or otherwise inappropriate, say no and stick to it!
Greed and/ or Miserliness	If you notice your kids aren't willing to part with their money for anything (i.e. buying gifts or charity) or if they hoard it, explain that money itself isn't valuable – it simply allows us to purchase the things we want or need. Helping your kids understand how rewarding sharing wealth with others can be is important to their overall attitude.
Credit Card Debt	Until they reach college age, credit cards are not a good idea. Once they have a card, however, encouraging them to pay off the balance each transaction period will help keep them financially balanced. If debt begins to get out of control, encourage them to stop using the card and set up a personal payment plan to pay more than the minimum each month.

to save or not to save

For kids, the thought of retirement is pretty much non-existent, but teaching them the principles of saving for the future – whether it's a car when they turn 16 or go off to college – or anything in between is of vital importance. By learning how to be financially literate, your kids will have a much better foundation for saving when they reach their 20s and beyond!

A Penny Saved …

As you're encouraging your youngster or teen to start saving for the future, here are a few "tricks" that could make things a lot easier!

Savings Trick #1: Pay Yourself First

Help your kids put their savings on "auto-pilot" by forming the habit of immediately saving a portion of their income (allowance, earned money, gifts, etc.). If your child has a savings bank account, use bank statements to illustrate the power of compound interest! If your child doesn't have a bank account, consider paying them "interest" for every dollar they save in their home "bank."

Savings Trick #2: Saving Is Linked to Expenses

A person with many expenses will have a smaller portion of money left over for spending or saving. A person with fewer expenses will have more disposable income. By helping your child understand the value of saving *as much as they can* while they have the opportunity to put more away, you'll be reinforcing the importance of planning ahead. Of course, your child will always save more if they pay themselves first!

Savings Trick #3: Where Is It Going?

A great way for your kids to learn how to stick to a budget is to keep a money journal. Have them write down all their income and subtract all expenses. A money journal isn't only helpful to see where their money is going, but it's also a great primer for balancing a checkbook!

Savings Trick #4: Slash Expenses

Pull out the grocery ads from your newspaper and go through the sales with your kids. Find ways to cut costs – such as buying sodas in bulk instead of through a cafeteria vending machine, or bringing their own lunch to school.

The Rule of 72

The Rule of 72 is an easy way to calculate just how long it's going to take for money to double. Just take the number 72 and divide it by the interest rate you hope to earn. That number gives you the approximate number of years it will take for your investment to double. Use this chart to figure out how many "doubling" periods your child's money can have!

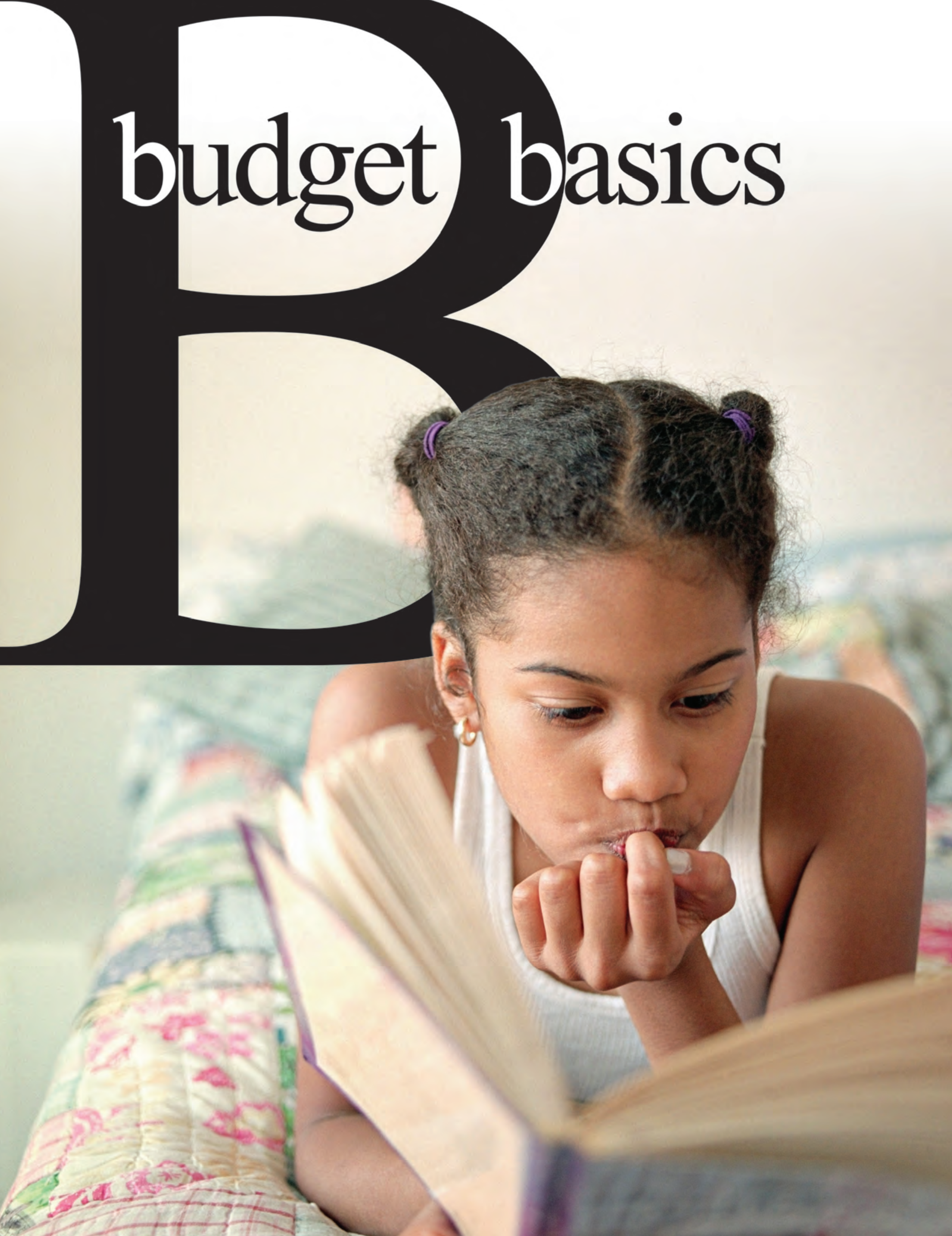
Dividing 72 by the interest rate

equals the number of years it takes your money to double.

Years	3%	6%	12%
0	$10,000	$10,000	$10,000
6			$20,000
12		$20,000	$40,000
18			$80,000
24	$20,000	$40,000	$160,000
30			$320,000
36		$80,000	$640,000
42			$1,280,000
48	$40,000	$160,000	$2,560,000

This table serves as a demonstration of how the Rule of 72 concept works from a mathematical standpoint. It is not intended to represent an investment. The chart uses constant rates of return, unlike actual investments which will fluctuate in value. It does not include fees or taxes, which would lower performance. It is unlikely that an investment would grow 10% or more on a consistent basis, given current market conditions.

budget basics



Use the money journal idea to help your kids set up a doable budget based on their income, or just to see where their money goes. Check out these sample budgets to get an idea of how to set one up for your kids![7]

Sample Budget #1

Income		Expenses	
Allowance	$6	New bracelet	$5.00
Babysitting	$14	Birthday gift for Dad	$8.00
Money from Grandma	$5	Money for savings	$2.50
Total	**$25**	Money for charity	$2.50
		Total	**$18.00**

Leftover **$7.00**

Sample Budget #2 (similar to a check register)

Date	Paid	Received From	For What	Amount	Balance
8/6		Mom & Dad	Allowance	$5	$25
8/7	Bike Shop		Tire Pump	$15	$10
8/13		Mom & Dad	Allowance	$5	$15
8/17		Grandpa	Birthday	$10	$25
8/20		Mom & Dad	Allowance	$5	$30
8/25	March of Dimes		Donation	$3	$27
8/27		Mom & Dad	Allowance	$5	$32
8/31	Savings		Monthly Deposit	$10	$22

Needs, Wants and Goals

Your kids make choices every day – from what to wear to school to choosing free time activities. You prepare them to make good social choices, but learning to make sound financial choices is no less important! Helping your kids understand the difference between *wants* and *needs* could be the key to developing money savvy kids!

Getting Started

The best place to start is for your children to have money of their own.

- Allowance – some parents tie household chores to a specific amount, some parents simply give their children a set amount each week.
- Periodic jobs – depending on how old your children are, mowing lawns or babysitting could be great ways for kids to not only make some extra money but develop work ethic skills they'll use as they get older!
- Other money – birthday money and other monetary gifts provide extra funds.

Allowance Basics

A recent study found that 68% of Americans believe children should receive an allowance based on chores performed.[8] Of course, tying allowance to chores could backfire if your kids decide they don't want the money and refuse to do chores.

Many parents instead tie allowance to their child's age – giving a six-year-old $6, etc. As they grow up, however the things they want to buy may exceed their weekly allowance – so starting early with the concepts of budgeting and saving could help prepare them to make that money stretch!

Here are a few tips to help you come up with the perfect allowance system for your family:

- Make payouts regular and on time – pick a day and stick to it.
- Younger kids need a weekly payout schedule, but a monthly payout for teens would help them develop budgeting skills.
- Decide up front what you expect the money to cover – will they need to buy school lunches with it? Clothes or supplies? Or do you intend it to be spending money? Will you be giving them money when they go out with friends in addition to their allowance, etc.?
- Giving younger kids their allowance in small denominations is a great way to encourage saving, giving to charity and spending – i.e. $6 could be given as five ones, two quarters and five dimes.
- Ultimately, let your kids decide how they want to handle their money – the point of allowance is for your kids to learn how to deal with money themselves, so offer guidance, but don't direct (unless their purchase decisions are harmful or go against your family's principles).
- An important part of life is making mistakes and learning from those mistakes – so when this happens, take that opportunity to help your child make the right decision the next time!

Kids & Business

According to Federal Law, outside of a family farm, an employer can't hire anyone younger than 14 – but that doesn't mean your enterprising youngster or teen can't do odd jobs around the neighborhood to earn extra cash![9]

Make Extra Money

Here are some great ideas to score some spending money:

- Extra chores around the house or for a friend
- Baby-sitting (must be at least 12 years old and very responsible)
- Pet-sitting or dog walking
- Yardwork or gardening
- Washing cars or windows
- Tutoring or coaching – generally best for older kids

Start a Business

Does your teen have a great idea for a part-time business? Starting their own small business could be a great way to not only make some extra money, but also explore interests that may turn into life-long careers! These steps will get you started:

1. Map out a business plan – is start-up cash needed? Is this an idea that has potential to take off or is it more along the lines of a hobby? Are there any risks involved? Will they need help running the business, etc.?
2. Check out the market to make sure there's a need for the products or services your teen wants to sell – i.e. if there's already a landscaping crew in your neighborhood, chances are another lawn mowing service won't be very successful.
3. Think about advertising – how will people find out about this business? Flyers? Word of mouth or email?
4. Know the tax laws and requirements for your state – set up an appointment with someone from the Small Business Administration or Chamber of Commerce. Then talk to an accountant or someone in the know who can make sure your teen files the right paperwork and pays any applicable income or self-employment taxes.
5. Help your teen develop good business habits – dress appropriately for the job, keep track of receipts and invoices, deliver products or services in a timely manner, etc.

There are all sorts of ways to earn money – and learning to be proactive about income will prepare your kids for all the responsibilities that come with an actual paycheck! What you teach them *now* will affect what they do *later!*

Cultivating smart shoppers

Learning how to manage money wisely means learning to make your money go *farther!* Chances are, your kids are watching how you select the items you purchase, and that's the kind of behavior they will model. For example, if you *only* purchase name brands or skip outlets in favor of higher priced retail stores, your kids pick up on those habits and are likely to do the same.

So how do you create money-savvy children? By helping your kids understand the concept of value – and comparison shopping!

It Pays to Comparison Shop

Brand vs. Generic

Superior Brand cake mix, 16 oz. = $2.24 or $0.14 per oz. (unit cost)
Generic cake mix, 16 oz. = $1.60 or $0.10 per oz. (unit cost)

Many times you'll find that although you pay more for brand name products, the generic products work just as well. It's up to you to decide whether or not you want to pay the difference.

Regular vs. Economy

12 oz. can of green beans = $0.96 or $0.08 per oz. (unit cost)
20 oz. can of green beans = $1.80 or $0.09 per oz. (unit cost)

You can learn whether or not the bigger size is really a better deal or just … bigger! In this case, the smaller can of beans is a better buy.

Unit Costs & You

Just because a product is bigger, doesn't mean it's a better value. Companies package their products in such a way that you think you're getting more for your money in the economy size, but taking a closer look at that unit cost sticker on the shelf might reveal a different story!

The next time you go grocery shopping, take your kids with you. Have them help you choose the best value for the money you want to spend on each item. Let them decide between brand name and generic as well as regular and economy sized. For each item, they should write down what the unit cost is. Then, have them calculate the price difference between the higher and lower priced items.

The Cost of Cool

As a parent, you already, no doubt, are well aware of just how much it costs to look "cool." When you buy a brand name product, you often are paying for the label – not necessarily a higher quality than its corresponding generic counterpart. Teaching your children to shop around for the best value is the best way to help them get more for their money!

The key is to understand the concept of "value." Each individual has to ultimately assign their own value to an item they want to purchase. For instance, let's say you are only willing to spend $30 on a pair of jeans and not a penny more, but the brand name jeans you like cost $50.

The value of the jeans for YOU is $30. The value of the jeans for the SELLER is $50. In this case, the "cost of cool" is $20 more than what you were willing to actually pay.

A great way to put this concept into action is to give your kids a specific amount they can spend on necessities – clothes, items they need for school, etc. As they shop around for the best buys, help them keep track of what they're spending. If your child absolutely "must have" an item that would put them over budget, let them come up with the difference with their own money.

Credit and investing

In today's world, where debt is spiraling out of control (the average American household has over $16,000 in credit card debt)[6], teaching your kids how to handle plastic responsibly is vital.

The danger of any kind of "invisible" money is just that – purchases are made on an electronic account, without actual cash. Anything that isn't cold, hard cash – even debit, has the tendency of being perceived as "free" money.

However, many college freshmen have at least one credit card. If your son or daughter will be one of them, getting them started while still at home will help you guide their credit choices so they'll be better prepared for the relative freedom of college life.

Start out by explaining that using credit is a privilege, not a right, and abuse of that privilege will result in its loss. Then, do some homework. Experts suggest you start off with a Student Card or a "secured card" which works much like a pre-paid account.

More Than It Seems[7]

Using a credit calculator is a great way to explain what a credit card purchase actually costs if not paid off immediately. Take a look at this example:

If you use a credit card with an APR* of 18% to buy a $500 tablet …

You Pay	Bill Is Paid Off In	Your Total Cost
$25/month	2 years	$598.91
$50/month	11 months	$545.81
$100/month	6 months	$523.77
$500/month	1 month	$500.00**

*Annual Percentage Rate (your interest rate)
**Assuming you pay the full amount on time and owe no interest

Investment Basics

The biggest difference between investing and saving is how much time and risk are involved. Investments typically represent a long-term commitment and are a great way to grow your money for long-term goals. They might have more risk, but they also have more earning potential. Savings accounts, however, are much more accessible for fulfilling short-term goals.

Although minors cannot trade stocks or open bank accounts on their own, you can certainly do it for them. Here's what you need to know to get started:

Investment 101

Low-risk investments such as CDs generally fall into the "savings account" category. CDs and savings accounts are FDIC insured up to $250,000. Some higher-risk (and therefore higher return) investments are as follows:

Bonds

Government bonds can be purchased at banks. The money is not insured, but is fully backed by the U.S. government. Corporate bonds are less safe, but usually pay higher interest rates. Bonds range from less than a year up to 30 years.

Mutual Funds

A mutual fund is an opportunity for you, together with many other investors, to pool your money. Professional money managers invest the "pool" for you, keeping the investments under constant supervision. The money managers use their knowledge of securities and changing market conditions to invest the pooled assets in many different companies within a variety of industries.

Collectibles

If your kids choose to collect, warn them that there's no way to be sure items in their collection will increase in value over time.

When your goal/timeframe is	Consider
Long Term – 5 years or more (i.e. saving for college)	GROWTH investments like: **STOCKS**
Short Term – 1 to 5 years (i.e. buying your first car)	INCOME investments like: **BONDS**
Immediate – less than 1 year (i.e. going to basketball camp this summer)	CASH equivalents like: **SAVINGS ACCOUNTS**

Investing entails risk, including loss of principal, when redeemed and may be worth more or less than the original value.

5 Ways to Create a Wall Street Mogul

What better way to prepare your growing kids for the adult world than by guiding them through the maze of investing? Use these simple tips to navigate – and see how far they go!

Start Out Slow

An investment in a money-market account is a great place to start out. Money markets are short-term securities that allow users to write checks against the balance.

However, a money market account is not guaranteed or insured by the FDIC or any other government agency and though the fund seems to preserve the value of your investment it is possible to lose money.

Build Confidence

Returns from these set-term investments may be small, but they're a good way to build confidence.

Get Diversified

Jumping right into the stock market with individual stocks may be a little too risky for your child. Starting out with a diversified fund through a mutual fund might be the best way to start building a strong portfolio while getting some experience at the same time.

Play It Out

Look for investment-themed games online to further educate your child on the ins and outs of investing. They're fun – and may fill any learning gaps you've missed.

Go Professional

When you think your child is ready to start investing on his or her own, consider setting up a minor account with a mutual fund broker.

The Rule of 72 & Compound Interest

The Rule of 72 shows the dramatic effect of time and compounding. Using a simple formula – dividing the number 72 by the interest rate earned – you can figure out the approximate number of years it will take for your money to DOUBLE!

An integral part of the Rule of 72 is letting the power of compound interest work for you. Let's say your kids deposit $50 into a savings account earning 6% interest. After the first year, 6%, or $3 was credited to the $50 making $53. The next year $3.18 of interest was earned on the $53 giving your child a total of $56.18 in their account.

You can see where this is going … as the account continues to earn interest, it continues to grow – without your child ever adding a penny! Imagine what could happen if they *continued* to save!

If your kids already have a savings account, you can illustrate how powerful these two concepts are by applying the "Rule of 72" to their current balance and interest rate! If they don't have a savings account, now would be a good time to get them started!

Investing entails risk, including loss of principal, when redeemed and may be worth more or less than the original value.

Time Is Money

If your child's goal is to save $600 for a new computer for college at age 18, look at the difference time makes! The sooner they begin to save, the greater the growth on their initial investment.

Goal: $600 at age 18

Monthly Savings Required

Begin at:	Save:	Cost to Wait:
Age 10	$4	
Age 12	$6	1.5 times more
Age 14	$10	2.5 times more
Age 17	$48	12 times more

The High Cost of Waiting

$10/month at 9%

Begin At:	Total at 18:	Cost to Wait:
Age 10	$1,409	
Age 12	$957	$452
Age 14	$580	$829
Age 17	$126	$1,283

Notes: Assumes a hypothetical 9% constant rate and growth in values. Subject to applicable taxes. Rate of return is a nominal interest rate compounded on a monthly basis.

Giving back

Becoming financially responsible isn't just about saving or spending or investing – it's also about giving back to your community. In addition to contributing to a worthy cause, your kids will feel a sense of accomplishment and pride when they see their money put to good use.

Charity Checkup

Never give to a charity you don't know about. These three national charity watchdog groups can help you determine which charity is the best match for you – and ensure they're on the level:

- The American Institute of Philanthropy
  www.charitywatch.org
- Better Business Bureau's Wise Giving Alliance
  www.give.org
- Charity Navigator
  www.charitynavigator.org

Fun With Fundraising

Fundraising can be a fun and profitable way to raise money for a specific cause or charity. Whether you plan to hold a sale of some sort or sponsor an event – or even something as simple as a jar to collect loose change – keep it simple!

- Start small and keep it hands-on. Bake a batch of cookies for a school sale or help your child pick out a toy for a toy drive.
- Encourage personal involvement. Letting your child spend their own money to buy a doll for a young cancer patient will be meaningful for both the giver and the receiver!
- Don't just mail off a check to your favorite charity. Talk with your kids about what you're doing and why you chose that cause.
- Change jars for charity. Keep a jar in the house for loose change and let your kids pick the charity they want to support when the jar fills up.
- Time is valuable, too. Spending time with an elderly neighbor or shut-in is just as important as sending money to a cause.

Age matters

So, now that you know the basics, it's time to put all the financial concepts explored in the previous pages into practice. Depending on your child's age and maturity, some concepts may be difficult for them to understand. Check out these age-appropriate tips to help you present the *right* topics for your child.

Financial Education: Ages 3-5

The first time your kids start asking you about money is the time to start building the foundation. The best place to start is by explaining what exactly money is!

When you go to the store or eat out at a restaurant, show your kids what you're doing so they see how money "works." When you write a check or use the ATM at your bank, talk to your child about the different ways to use money. Explain that a check functions just like cash – as long as you have money in your account. Make every outing a learning adventure!

Keep It Concrete

- Use cash around preschoolers – credit cards are too abstract.
- Let them collect coins in a clear container so they see the money.
- Show them that five pennies equal a nickel, etc.
- Play age-appropriate games that build math skills.

Financial Education: Ages 6-10

When your child enters school you can start giving them a weekly allowance and teaching them the basics of savings and budgeting. Letting them have their own money to "practice" with is the perfect way to build on the financial foundation you've already laid.

Allowances & Budgets

- Age six is the perfect time to start a weekly allowance.
- Take your child shopping with you to give them hands-on experience making need vs. want decisions.
- By age nine, children can grasp the basics of budgeting.
- Open a savings account for them at your bank if you haven't already.

Financial Education: Ages 11-14

Middle school is an important time in your child's financial growth. They'll be facing increasing peer pressure from their friends, plus they'll be bombarded by advertising from every conceivable source, to have the latest gadget or newest designer jeans. They usually have more cash at this point, too. All of this makes your job even more complicated!

The key is to keep reinforcing the ideas of saving (paying themselves first), budgeting and planning expenses! After all, with some smart shopping, your pre-teen just might be able to get everything on his or her wish list!

Take Stock & Foster Responsibility

- Eleven is a great age for a basic introduction to the stock market and the concept of compound interest.
- At 12, encourage them to look for extra money outside the house, such as mowing lawns, baby-sitting, etc.
- Consider opening a checking account for him or her and extending weekly allowance to twice a month.
- Depending on how responsible you feel your kids are, introduce them to credit with a debit or pre-paid credit card.

Financial Education: Ages 15-18

About one in three high school seniors uses a credit card.[10]

A statistic like that should send a shiver up your spine and get you fired up about giving your kids accurate information about their finances! College may be looming in the future and you don't want to send them out on their own without a good financial foundation!

Focus on the Future

- At 15, if your child has a part-time job, discuss tax-related issues.
- If your teen has a part-time job, encourage them to save a portion of their paycheck for college expenses.
- Reinforce the negative power of compound interest on credit card purchases!
- Emphasize the importance of a budget – and learning from your mistakes.

Growing Up Money Smart

Your children are faced with money choices every day – from small choices like buying a candy bar to larger ones such as saving for college. While you can't control all the outside influences trying to affect their decisions, you CAN prepare them to make the RIGHT decisions.

Remember, your children will model your behavior so it's important to start out with the right financial attitudes *first* and then pass along those healthy attitudes to the next generation.

YOU can do it! YOU can raise money smart kids … kids who are ready to grow into adulthood with all the tools they'll need to make their way through the maze of financial responsibilities they will all too soon encounter!

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You should carefully consider a mutual fund's risk, fees, charges and expenses before investing. The prospectus and/or summary prospectus contains this and other information about mutual funds. You should read and carefully consider this information before investing. Prospectuses are available from your PFS Investments registered representative.

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