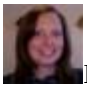
11 Ways to Teach Kids How to Save Money

By Miranda Marquit

My son loves saving money. He loves to watch the pile of coins and dollar bills grow in his big, re-purposed pickle jar and he loves emptying out this ceramic “cash cow” to take his money to the credit union – and receive a prize.

Watching his money pile grow and receiving prizes are two things that inspire my son to save. But there are additional ways to motivate your child to start saving.

The most important thing at the beginning is to make saving fun. Plus, the earlier you start teaching your children to save money, the better off they’ll be. Even toddlers can do it, but you have to teach this concept in a way they’ll understand. Then, as your children grow, you can introduce more sophisticated saving strategies.

Here are a few ideas to teach your children to save money at any age.

Making Saving Fun for Young Children

My son was introduced to saving as a toddler. We didn’t use money at first, and in fact, we weren’t even trying to teach him about money. What we had was a reward system for watching TV based off of coupons. He could earn “coupons” that could be exchanged for TV time and we labeled each of our DVDs with the number of coupons he needed to watch them.

The short episodes of “Berenstain Bears,” for example, required one coupon, while the long “Incredibles” movie required four. Pretty soon, he caught on that if he wanted to watch a longer movie, he needed to save his coupons. Then, when we started paying him an allowance around the age of five, my son easily understood that he could spend and save his money like he could his coupons.

When it comes to learning concepts like saving, visuals and physical interaction are important, especially for young children. With that in mind, here are a few ideas to teach your child how to save:

1. Use Different Envelopes/Jars
You may be familiar with the envelope budgeting system for your own money, but this can also work for children. On either envelopes or jars, have your child draw pictures of what he or she wants. You may also want to help your child understand that some items will take longer than others to save for.

For example, the short-term savings container might have a picture of a specific toy, while the long-term container might have a picture of a trip to Disneyland. Teach your child to set aside money for short-term and long-term goals, and have another container or envelope for spending on everyday items.

2. Make a Savings Goal Chart
Once you know what your child wants to save for, figure out how many weeks it will take and make a

chart. You can represent each week with a box and your child can put a sticker in that box once the money from that week's allowance is set aside.

We did this with my son, and he put a picture of the Transformer toy he wanted on the chart. We figured out how many weeks of allowance it would take to save up (after his long-term savings and church donations were taken out). Every time he received his allowance, he would divvy up his money and put a sticker in a square (he loved stickers at the time). This way, he could see himself getting closer and closer to his goal.

3. Offer Rewards for Saving Money
Consider rewarding your child for saving his or her money. Much like my credit union, which offers t-shirts and other prizes, you can offer prizes to your children.

For example, if your child doesn't spend any money for a certain amount of time, provide a small reward or treat. You can also make the prizes better the longer your child saves. Try stickers, an extra 1/2 hour of video games, toys, or whatever motivates your child.

4. Set a Good Example
One of the best things you can do is let your child see that you save money too. Put money in a jar while your child is watching and tell him or her it's your savings jar. This will show your child that saving is "normal." Plus, since most young children want to be like their parents, seeing you do it will provide them with money lessons that further inspire them to save.

5. Match Your Child's Contributions
A "savings match" can be a great way to encourage your child to save extra money and get an early peek at the benefits of a company match for a retirement savings program like the 401k. While we have a standard amount my son is required to set aside from his allowance, if he chooses to save more, we match it.

Helping Older Kids Practice Saving

As your child gets older, a goal chart may be less inspiring, and drawing pictures on an envelope tends to lose some of its charm. However, you can still set an example of saving and you can still match your child's contributions. Plus, it's always a good idea to have different envelopes, jars, or accounts for different purposes.

As your child grows, here are a few more ideas to teach him or her about saving:

1. Open a High Yield Savings Account
When your child is old enough to understand the concept of interest, you can look for savings accounts that earn interest. Help your child open a high yield account online and explain the importance of compound interest.

2. Help Your Child Prioritize
Have an older child write out a wish list of things he or she wants to spend money on and prioritize that list. Ask your child to think long-term as well. How about a nice laptop for college, a graduation trip to Europe, or even the down payment for a house someday?

Then, have your child allocate an amount of their allowance, or "income," to each goal. These are the beginnings of a financial plan and this type of thinking will serve your child well in the long run.

3. Let Your Child Make Mistakes
Sometimes the best lesson comes from a poor decision, especially when your child is young and the financial loss won't be so great.

When my son got his birthday and Christmas money last year, he rushed out and spent it without thinking. After spending most of it, he realized that he didn't have enough to get the video game he wanted. He wished he had thought about it first before he spent it. But now, he saves up for the things he really wants and thinks before he spends.

4. Play Games
There are a number of games available to teach financial concepts to children. Monopoly and The Game of Life, for example, can teach money management skills as well as the importance of planning ahead. Rich Dad Cashflow for Kids is another good option focused on money management.

My son's first move in Monopoly is to set aside enough money to buy Boardwalk so he is prepared if he lands on it. In addition to classic games related to money that you can use as family game night ideas, there are a number of online games as well such as Rich Kid Smart Kid.

5. Talk About Money
While you may not want to discuss your salary in front of your children, you may want to let them hear you discuss your financial plan and the arrangements you're making for retirement, for example. This could simply be having a conversation with your spouse while your children are in the room. In this way, your children can understand that saving is a lifelong endeavor.

6. Look for Good Deals with Your Children
One of the keys to saving money is looking for deals on purchases. When my son saw a book he wanted at the grocery store, my husband suggested we go home and look online for a better price. Together, they compared prices on different websites and even considered purchasing the book used.

Now my son loves looking for deals. He even reminds us sometimes to comparison shop before we pull the trigger on a purchase.

Final Word

Teaching your children how to save is an important step to prepare them for financial responsibility and a secure future. But it won't go very far if you don't "practice what you preach" and save for the future yourself. Whether we like it or not, most of us take after our parents and emulate the habits we observed in them during childhood. In other words, you need to act how you want your children to act when they grow up.

What are some of the most effective methods that you utilize to help teach your kids about saving money?

MONEY AS YOU GROW

20 THINGS KIDS NEED TO KNOW TO LIVE FINANCIALLY SMART LIVES

PRESIDENT'S ADVISORY COUNCIL ON FINANCIAL CAPABILITY

3-5 YRS

1
YOU NEED MONEY to buy things.

2
You earn money by **WORKING**.

3
You may have to **WAIT BEFORE YOU CAN BUY** something you want.

4
There's a difference between **THINGS YOU WANT** and things you need.

6-10 YRS

5
You need to **MAKE CHOICES** about how to spend your money.

6
It's good to shop around and **COMPARE PRICES** before you buy.

7
It can be costly and **DANGEROUS TO SHARE INFORMATION** online.

8
Putting your money in a savings account will **PROTECT** it and pay you interest.

11-13 YRS

9
You should **SAVE AT LEAST A DIME** for every dollar you receive.

10
Entering personal information, like a bank or credit card number, online is risky because **SOMEONE COULD STEAL IT**.

11
The sooner you save, the **FASTER YOUR MONEY CAN GROW** from compound interest.

12
USING A CREDIT CARD IS LIKE TAKING OUT A LOAN; if you don't pay your bill in full every month, you'll be charged interest and owe more than you originally spent.

14-18 YRS

13
When **COMPARING COLLEGES**, be sure to consider how much each school would cost you.

14
You should **AVOID USING CREDIT CARDS** to buy things you can't afford to pay for with cash.

15
Your first paycheck may seem smaller than expected since **MONEY IS TAKEN OUT FOR TAXES**.

16
A great place to **SAVE AND INVEST MONEY** you earn is in a Roth IRA.

18+ YRS

17
You should use a credit card only if you can **PAY OFF THE MONEY OWED IN FULL** each month.

18
You need **HEALTH INSURANCE**.

19
It's important to save at least three months' worth of living expenses **IN CASE OF AN EMERGENCY**.

20
When investing, consider **THE RISKS AND THE ANNUAL EXPENSES**.

moneyasyougrow.org

Time Required: 15 minutes

My Life, My Decision: Researching College Options

LESSON 4: STUDENT ACTIVITY SHEET

There's a lot to consider when deciding what you want to do after high school. What are your interests? Where do you want to work someday? How much money do you have to spend on your education, and how much debt are you willing to take on? Doing a little research can help you make wiser decisions. Get a head start by answering the questions below.

1. What are your interests? Is there anything you know you want to study in college? Do you have any career fields in mind?

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2. Which colleges offer programs in your fields of interest? Review websites such as Collegeboard.org and College.gov or pick up a copy of College Board's Book of Majors to help you find the strongest college programs in your area of interest.

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3. How much is tuition at the schools you researched? What other costs would be involved in going to school there (e.g., room and board, commuting to and from home, books and supplies)?

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4. What are the starting salaries in your career or field of interest? Websites such as salary.com can help you get a better idea.

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5. By what age do you want to have paid off your college loans? What else do you want for your life that could affect loan repayment (e.g., staying home for a time with small children)?

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Where to Stash Your Cash

LESSON 10: STUDENT ACTIVITY SHEET 1

There are lots of different choices when it comes to saving and investing your money. Understanding your options will help you make more informed decisions. Study the table below to familiarize yourself with different savings and investing strategies.

Strategy	What is it?	What's the risk?	What are the pros?	What are the cons?
Certificate of Deposit (CD)	Savings certificate issued by a bank or credit union	Minimal risk because it is insured by the Federal Deposit Insurance Corporation (FDIC) through a bank and the National Credit Union Share Insurance Fund (NCUSIF) through a credit union	- Higher interest rates than a traditional savings account - Not risky - The longer the term, the higher the interest you usually earn	- Must be left in the bank for a fixed amount of time - Steep penalties for withdrawing money early - Minimum balances required
Savings Account	A deposit account that earns interest and is issued by a bank or credit union	Minimal risk because it is FDIC or NCUSIF insured	- Not risky - No restrictions on withdrawals - Low or no minimum balances required	- Lowest interest rates - Some banks charge fees for opening and maintaining accounts
Money Market Account	A type of checking and savings account issued by a bank or credit union to hold your money	Minimal risk because it is FDIC or NCUSIF insured	- Higher interest rates than a savings account - Can withdraw money (with some restrictions)	- Higher minimum balance required - Some withdrawal restrictions (e.g., limits on number of withdrawals per month) - Subject to fees if balance below certain amount
Retirement Account	An account such as an IRA and 401(k) that helps you set aside money for retirement	Investment choices range from very secure government bonds to higher risk stocks	- Tax-deferred growth - Some employers will match contributions - Helps create long-term savings	- Steep penalties for withdrawing money before retirement - Contribution limits

Continued on the next page.

Where to Stash Your Cash

LESSON 10: STUDENT ACTIVITY SHEET 1

Strategy	What is it?	What's the risk?	What are the pros?	What are the cons?
529 Savings Account	A savings account designed specifically for educational expenses	Risk varies depending on investment choice. Some accounts offer FDIC or NCUSIF insurance while others can be invested in higher risk stocks	- Low minimum starting balance - Some states offer tax breaks - Tax deferred growth	- Have to use the money for college or face a 10% penalty
Mutual Funds	A collection of stocks, bonds or other investments that are professionally managed in a portfolio	Risk varies depending on the type of mutual fund	- Creates an opportunity to diversify investments	- Return is not guaranteed - If portfolio is professionally managed, it may be subject to high fees
Stocks	A stock is a share in the ownership of a company	Risk varies depending on investment choice	- If the market value increases, there is potential for great gain	- If the market value decreases, there is the potential for great loss - No guarantee for a return on investment and principle could be lost - Managing stock options may require professional help
Bonds	A bond is a loan in which you are the lender and the government is the borrower	Risk varies depending on investment choice	- Usually provides more security than stocks	- Historically lower return rates

STUDENT TIP

When you invest your money in CDs, savings accounts or money market accounts, a bank will insure your money through the Federal Deposit Insurance Corporation (FDIC) and a credit union insures your money through the National Credit Union Share Insurance Fund (NCUSIF). While the interest rates may be lower than other investment options, your money is always protected.

Time Required: 20 minutes

Bank It

LESSON 10: STUDENT ACTIVITY SHEET 2

If you had $100 and wanted to put it into a savings account, which institution and type of account would you choose? Choose two local banks or credit unions and write their names in the chart below. Then research specifics about each type of savings account at the two institutions, such as whether there are fees or minimum balance requirements. Record notes on your findings in the chart. Based on your research, which bank or credit union would you choose?

	Bank or Credit Union #1:	Bank or Credit Union #2:
Certificates of Deposit (CDs)		
Savings Accounts		
Money Market Accounts		
Retirement Accounts		
529 Savings Accounts		
Mutual Funds		
Stocks		
Bonds		

Continued on the next page.

Bank It

LESSON 10: STUDENT ACTIVITY SHEET 2

Scenario 1

Aiden's car is 12 years old and he's worried it might break down, so he's trying to save three months of expenses for unexpected repairs, while also saving for a new car. What are the best savings strategies for Aiden so he can keep his money accessible for repairs, but also save for a new car?

Scenario 2

Madeline's friends invited her to go to Cancun next year for vacation. She really wants to go, but she's not sure if she can afford the $1,000 trip. She has $500 saved in her dresser and has one year to save the rest, but she's not sure where to keep her money so she can maximize her savings. What is the best savings strategy for Madeline and why?

Scenario 3

Scott is a freshman in high school and plans to attend college someday. His grandparents gave him $5,000 to start his college savings, but he's not sure where he should keep this money until he's ready to go to college. What would be the best savings strategy for him?

STUDENT TIPS

When assessing the pros and cons of each savings option, remember to consider:

- Minimum and opening balances
- Contribution limits
- Service fees
- Withdrawal penalties or restrictions
- Interest rates
- Risks (is the account FDIC or NCUSIF insured?)

To get started with your research, check out:

- FDIC Bank Find: fdic.gov
- Credit Union National Association: creditunion.coop

Time Required: 15 minutes

Deal or No Deal: Understanding Car Loans

LESSON 3: STUDENT ACTIVITY SHEET

Down payment, interest rate, loan term—the lingo involved with buying a car can seem overwhelming. Find out more about the car-buying process and terminology by following the steps below.

STEP 1: Decide on a make and model. Visit truecar.com or Edmunds.com to find the price of the car you would like to buy; then record it here.
Total purchase price: $_______________.

STEP 2: Determine how much money you will need to borrow. Subtract the money you have for a ***down payment*** (the amount you give to the dealer on the day of purchase) from the total purchase price. For this exercise, imagine you have saved $5,000 for a down payment. The resulting total is the loan principal; record that amount here and in the chart below.
Loan principle: $_______________.

STEP 3: Get quotes from several lenders. The term and interest rate of the loan will vary and both of these factors will affect your monthly payment. (For this exercise, pretend that you have received the rates below.)

STEP 4: Calculate your monthly payments and total amounts paid. Your monthly payment is your principal divided by the number of months in your loan term, and then multiplied by your interest rate. Next, multiply the monthly payment by the loan term to determine the total amount paid. Record your monthly payments and final amounts paid in the chart below.

More Questions to Ask When Buying a Car:

What's the gas mileage? Cars with a higher gas mileage require less fuel.

Why do you need a car? A long commute or a big family could affect your choice.

What's the resale value? Some used cars are more desirable than others—visit kbb.com to find the resale value of yours.

How long do I plan on needing a car? This may influence how much debt you decide to take on.

Can I find a better price? Costs vary—do your research to get the best price.

Lender	Loan Principal	Loan Term	Interest Rate	Monthly Payment	Total Amount Paid
Scenario 1		36 months	6.75%		
Scenario 2		48 months	4.75%		
Scenario 3		48 months	5.99%		
Research your own					
Research your own					

STEP 5: Decide which loan makes the most sense for you. Which do you think is the best option above? Why?

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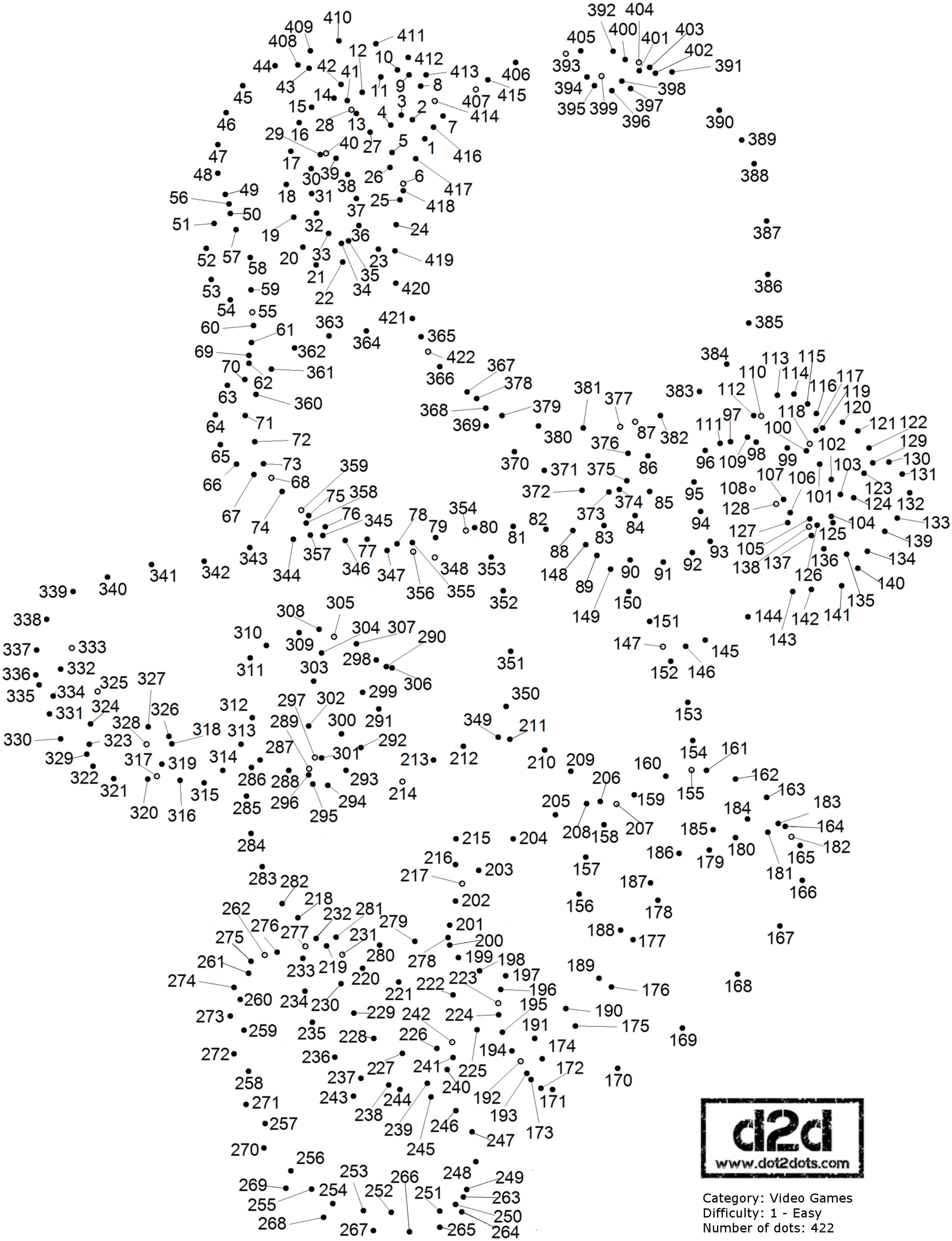

www.dot2dots.com

Category: Video Games
Difficulty: 1 - Easy
Number of dots: 422