

# Teaching Children About Money

It's never too soon for money school



## Special Report

Even at an early age, kids can have a sense of the value and uses of money. It's a way to get the things they want. If you want, there are ways that you can help them understand it more fully.

### Money: How to get stuff

At an early age, many children recognize the importance of money. They may see you exchange it for food at the grocery store or for something that might mean even more to them – such as for toys at the toy store. To them, it's how you get stuff. But where does money

come from? How do you get more? Why isn't there an unlimited supply?

It may never be too soon to start teaching your children these and other lessons about money.

### “Money doesn't grow on trees”

Your parents may have said it to you, and you may say it to your children one day as well. Okay, so if money doesn't grow on trees, where does it “grow?” While every child develops at a different rate, most young children can understand the concept of earning money. Thus it is often possible to explain to them that you earn money by working, and that this is why mom or dad (or both) leave each day to go to work.

Once children understand that money is “earned,” one possible next step is letting them earn their own money through an allowance. To children, an allowance can feel like a first step to the adult world of finances. It's like getting their own regular paycheck, which allows them to buy the stuff they want. Here are some questions you may want to consider when thinking about providing an allowance:

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**How much will the allowance be?** An allowance might be directly tied to the child's age, as older children may need more money to cover certain expenses. If you expect the allowance to be used for expenses it should cover those costs. And of course, the family income is a big factor.

**Will it be tied to specific chores?** The decision of whether to reward an allowance for performing chores depends on what is best for your family. If you choose to enforce chores,

it may be a good idea to keep the rules clear and consistent and the chores age-appropriate.

**How can the child use their allowance?** You might consider imposing a rule that a certain percentage be saved from every allowance payment. You could also enforce percentages on how the money can be spent. For example 10% to entertainment or toys, 20% to clothing, etc.

## Saving lessons

One money lesson you may want to consider is the concept of saving. When setting ground rules for an allowance, consider requiring that the child set aside a portion of his or her money for future goals. You may want to make sure the goals are directly meaningful to the child, such as purchasing a new bike (as opposed to saving for college).

**For younger children** – One approach is to make the process of saving visible, fun and physical. This can be done by using a large jar with a picture of the target purchase taped on it or a brightly-colored piggy bank shaped like a favorite cartoon character. It's also possible to

use creative ways to help the child count and record his or her money.

**For older children** – One option is a savings account at your local bank, which can teach the concept of interest. Many banks offer "kids accounts," with simple recordkeeping that makes it easy for a child to track his or her account.

**For larger purchases** – One technique used by parents is matching the child's savings – for example, contributing a dollar for every two dollars saved towards the purchase of a new pair of brand-name sneakers. Or contribute a flat amount of, say, \$30, and let him or her come up with the rest.

## Simple investing concepts

Children as young as eight years old can begin to learn financial concepts, as long as they're explained to them in simple terms:

**Compounding** – With the interest earned through a bank account, money can be used to make money. The longer the money is left alone, the greater the effect of compounding, as the new money earned earns additional interest on the original money.

**Stocks** – Many companies they know (for example, Burger King, Mattel, Disney) have many owners who own

a small part of the company, called a share of stock. A parent may give a gift of stock of a favorite company, explaining that this stock makes the child an "owner" of the company.

**Mutual Funds** – Mutual funds may be explained in terms of sharing, with lots of people sharing all the interest earned on a big pool of money that's being invested in things like stocks. You might compare it to the family DVD player, for example: the whole family owns it, but it's there to benefit each person.

## Teaching by example

As with other topics, your children may start to take their cues from you about money management at an early age. Is money a frequent bone of contention between you and your spouse? If so, how do you resolve your differences? What purchasing standards do you set for your own spending? Do you buy on impulse, or only after a careful canvassing of user or expert ratings? Are you a spender or a saver? Do you save for your children's education, but

not your own retirement? You may want to consider the take-away that your children could be getting from what they see.

While money is only one of many factors affecting family dynamics, family financial guidelines can be relatively easy to implement. Creativity, clear communication and careful planning can be helpful here.

## Money Schooling

**Teaching children about the basic concepts of money – how money is earned, how it's saved and how it's invested – is one way to help them become financially responsible as adults.**

**If you would like to learn more about teaching your children about money and investing for their future, contact your Voya representative.**



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