

## **The Best Ways to Raise Money-Smart Kids – Laura Rowley**

### **Working Hard for Fun Money**

While my husband and I save for college for our kids through 529 plans, it has occurred to me that you can't use that cash for pizza. When I was in college, I paid tuition and books, and my parents covered room and board.

If I wanted fun money, I worked. This was O.K., since I had a job at the newspaper, which provided relevant career experience, and a gig as an usher at Assembly Hall, where I was paid minimum wage to attend all of the University of Illinois home basketball games.

Although my kids are only 8, 6, and 3, I'm already working to teach them responsible money habits, particularly by connecting reward to work. I figure later in life, no one will pay them for simply getting out of bed, unless they're supermodels (you may recall the mannequin Linda Evangelista, who famously insisted, "I won't get out of bed for less than \$10,000 a day.") Although I think my daughters are beautiful, their odds of winning America's Next Supermodel are probably close to their odds of playing in the WNBA, which would necessitate Plan B -- the allowance thing.

### **Incentives That Worked Too Well**

Still, I have conflicts about paying for chores. I think of a household as a community, and they need to understand the value of contributing without expecting a handout. So instead of allowance, I instituted a "star system" for my older kids.

They earned a star every time they accomplished a specific task: Getting dressed and ready for school by themselves; making their own breakfast; picking up their clothes; setting and clearing the dinner table; getting ready for bed the first time they are asked; and reading 10 minutes a night. Once they got 50 stars, they could pick their reward -- an afternoon at the skating rink, a visit to the pottery painting place, etc.

My incentive worked amazingly well -- too well. It cost me a bundle. They accumulated 50 stars within a week and a half, and chose a visit to the Build a Bear Workshop as their reward. This set me back \$89. Admittedly, \$25 of that went to their 3-year-old sister, because leaving her out would result in an eruption somewhat akin to having a sports fan blow one of those power horns directly into your ear.

### **Don't Be Human ATMs for Your Kids**

Desperate to avoid another Build a Bear fiasco, I consulted Kevin McKinley, a certified financial planner in Wisconsin and author of "Make Your Kid a Millionaire" (Fireside, 2002). Like me, McKinley isn't keen on weekly allowances.

"The key is reciprocity -- you have an obligation to somebody who has done something for you," says McKinley, who has three kids. "We say things like, 'Mom made dinner, the least you can do is clean the plate off.'"

He recommends giving kids money for doing very specific tasks, such as leaf raking, and emphasizing the connection between work and the cost of material goods. For instance, a kid may get \$5 an hour for raking leaves. When he asks for a \$100 bicycle, the parent should point out that it would take 19 more hours of leaf raking to earn the bike.

McKinley also suggests parents avoid becoming human ATMs for their kids. "I firmly believe in putting a limit on how much kids can spend and giving them the freedom to figure out the possibilities and limits of money on their own," he explains.

"For instance, they get \$10 to spend on whatever they want. If they want to buy two pounds of sugar, that's all they get. It's amazing -- they become smart shoppers, they're able to delay gratification. If adults feel they have an unending font of money spewing forth, they'll keep spending until the font shuts off -- the same is true for kids."

In the case of my cousin-in-law and his daughter, the college freshman, McKinley recommends they work together and put a price tag on her monthly necessities, including the pizza and Starbucks. "Maybe it's \$1,000 a month," he says. "She knows if she spends \$1,000 the first day, that's it for the month."

### **Achieving a Balance**

I decided to act on McKinley's advice, removing some chores from the star system, such as setting and clearing the dinner table, since that's part of family life. I added other tasks, such as cleaning the basement playroom, helping their little sister on the computer, and putting laundry away.

They can earn up to 40 stars in a week. For 5-14 stars, they get 25 cents; 15-25 stars, 50 cents; 26-35 stars, 75 cents; and a \$1 for more than 35 stars. I'll match any savings account contributions 100%.

I figure this will help instill some money sense, and on their best weeks, I'll only be out \$4 -- so I can manage my funds a little more responsibly, too.

Teaching children the virtues of delayed gratification is among many challenges on the kids-and-money front. A few columns back, I asked readers for their best ideas on how to teach kids about money.

Readers responded generously, and some of their techniques follow:

At the end of every year, whatever our nephew saves and invests -- in stocks -- we match. That includes Christmas money, birthday money, and anything else he manages to save up. We started last year and bought him a few shares of Disney ([DIS](#)) since that's what he wanted to buy. It worked. We have him reading to tell us how the stock is doing, how much it goes up and down. Next December, he's thinking about eBay ([EBAY](#)). He has from Christmas until the second week of January to decide where his "401(k)" is going.

-- **Rebecca A. Gushue**

As you might imagine, clothing can be a huge money pit with teenage girls! What I've found to work wonders is giving our 13- and 15-year-old a set amount once or twice a year. They choose how to spend this money, be it on one or two high-priced items or a multitude of moderately priced items.

At first I was wary of this plan -- I thought they might actually only buy one or two items, and I'd be stuck with the problem of how to clothe them for the rest of the year. It never happens! The fact that they have to physically shell out the money and see the pot dwindle is an amazing motivator for good shopping sense!

-- **Nancy Gilmore**

Our seven-year-old began getting an allowance of \$1 when she started kindergarten. This is not tied to anything -- she's expected to contribute to the household in ways that are age-appropriate without being compensated. My objective in giving her a dollar was simply to teach her how to manage money. Every week I count out 10 dimes, and then she has to contribute to three areas that I want to make second nature to her: 20% for giving, 20% into savings, and the remaining 60% she can spend on whatever she wants.

-- **Mark Brown**

I've found that kids learn the most when they're playing. If you play with your child "shop keeper," "bank," or other games with simple, real-world applied rules such as profit and cost, they tend to get a much better sense about money.

-- **Manuel Flores Kuri**

I encourage my kids to live in an eBay world, where closets of unused sports gear can be turned back into cash. It also shows them depreciation when they say, "That cost me \$100, and all I got for it was \$10!" I also point out car commercials and teach them about

leasing vs. buying, new vs. used. I invest in real estate and often take my kids to the closing. I explain what it means to pay rent vs. receive it. I think that it's important for kids to understand the process and not to be afraid of investing.

-- **Mark Adams**

I, too, have used a similar system of chores and rewards, but we would sit down together and decide on a "value" for each chore. The system keeps them from "cherry picking" the most rewarding ones and skipping the not-so-rewarding ones.

-- **Ken Neef**

Chores and helping around the house are not optional but part of being a family member. Meanwhile, I view school as their job, and to that end, I pay them for the grades they receive. (They earn more by doing well, and that sounds a lot like the real world). I use \$20 for an A, \$10 for a B, \$0 for a C, with a \$10 kicker for straight A's. (The amounts are changed with age).

The twist is that they only get half the money, as the other half is deposited into their savings account. It teaches children that they need to plan and save, and also how to budget since they won't get "paid" again until the next report card.

-- **David A. Bruno**

Now that my son is 16 1/2 and can drive, I pay him \$10 to do the family grocery shopping (which I hate). It takes him about one hour, so he realizes the pay is very good for someone his age. He loves the independence and is learning comparison pricing and how to estimate food usage for a family of three. He's learning about price and quality (cheaper off-brands are sometimes horrible products, sometimes remarkable values). He's looking at labels for fat and salt content, too -- on his own!

-- **Karen Steinle**

We encourage my son, 10, to take on additional tasks around the home to earn money: Raking leaves, sweeping walkways, doing laundry (not just his own but everyone's), etc. However I don't offer him an amount, I encourage him to negotiate a price for the job. I first tell him what I need done and make sure he understands the scope of work and the expectations for quality. Then I ask him how much he wants in terms of pay for the job.

If his bid is too high, I negotiate with him a lower price, all the while coaching him when he makes an error. If he bids too low I sometimes take the offer immediately. He quickly catches on and realizes that he has left money on the table. Next time, for the same or similar task, he shoots higher on his initial bid. Sometimes we negotiate an incentive for either higher-than-required quality or expediency.

-- **Robert J. Rivera**