

Teach Your Children the Value of Money

Ideas for early financial lessons

Topical Education for Today's Investor

LIFE MANAGEMENT

“Reading, writing, arithmetic” — too bad that list doesn’t include personal finance. Most kids learn the basics of money and making change in grammar school, but probably won’t learn how to manage money unless they choose finance as a career path. That means it is up to all of us to see that our children reach adulthood prepared to face life’s fiscal challenges.



Earlier Is Better

The benefits of teaching your children about money early on are both immediate and long term. In the short term, they may develop strong saving habits, learn how to make smart purchases, begin to understand the true meaning of “investment,” and perhaps even learn why they can’t immediately get everything they want. In the long term, you can help them avoid accumulating debt. And by teaching the value of saving for the future, you can help them plan for financial security.

As you think about how, what, and when to teach your children, consider letting them direct you by using their natural inquisitiveness. (But remember, it’s never too late to start teaching — even adults can be taught the basics of personal finance.)

Where Does Money Come From?

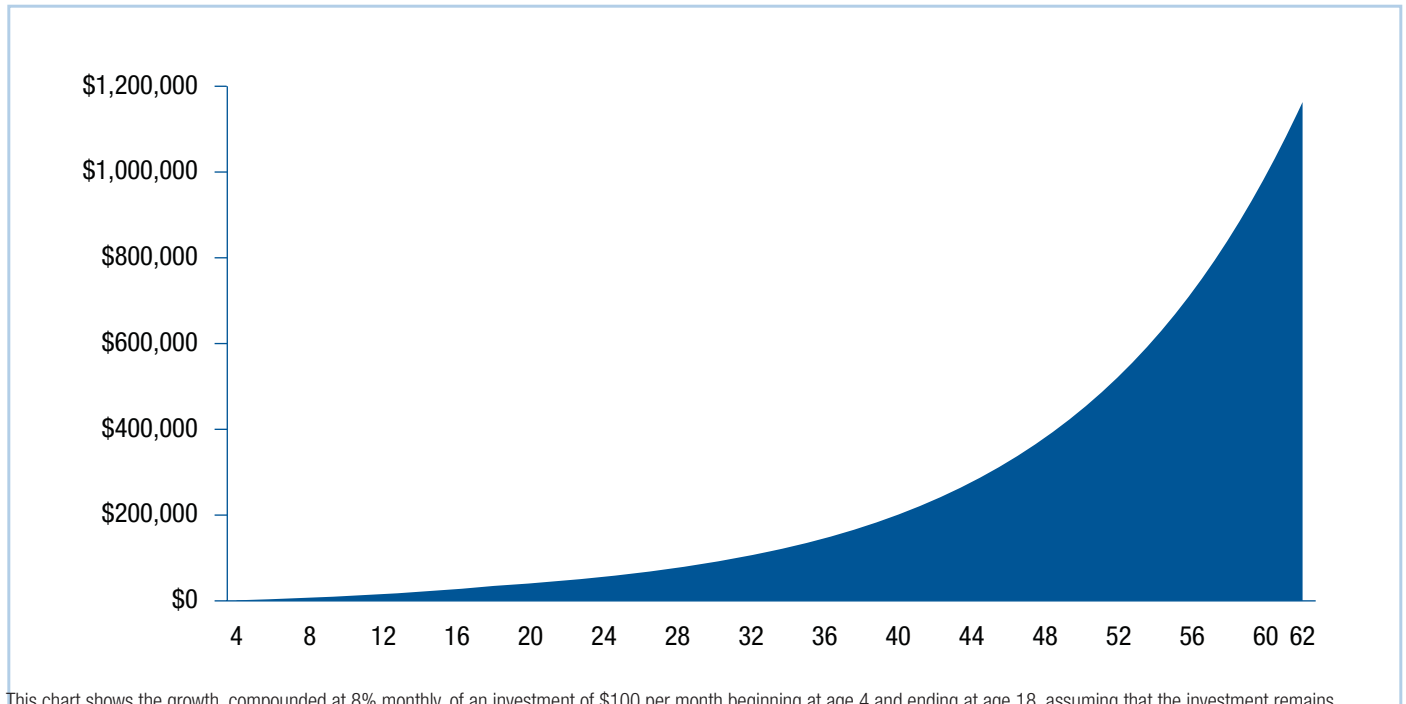
An ideal time to begin teaching your children about the basics of money is when they first begin to notice it. In a child’s world, money comes from Mom and

Dad’s pockets. And when Mom and Dad are tapped, a machine magically spouts dollars after merely pushing a few buttons. It’s natural for them to assume that money is readily available whenever it’s needed.

When they can’t understand why you can’t meet their every demand — and you’re about to use a standby response such as, “Money doesn’t grow on trees” — remember that a more constructive explanation may serve both of you better.

Even very young children can begin to understand the concept of earning money. Explain to your children that money is earned by working, and that you can only spend what you earn. To help them understand what it’s like to get paid on a schedule, begin paying an allowance. Some parents focus on the concept of spending and saving by having children split their allowance into different “buckets,” or objectives. Then help them set goals for how they spend and save their allowance. It’s important, however, to make sure that you stick to the payment schedule; otherwise the lesson may be lost.

Your Child Could Become a Millionaire



This chart shows the growth, compounded at 8% monthly, of an investment of \$100 per month beginning at age 4 and ending at age 18, assuming that the investment remains untouched until age 62. This example is hypothetical and does not represent the performance of any actual investment.

Children and Allowances

Experts differ on whether or not allowances should be tied to household chores. Although many people say children will learn more about personal responsibility if they are NOT paid for pitching in around the home, others feel it teaches them valuable lessons about working and earning. You might consider paying your children for chores outside of daily duties, such as helping to garden or wash the family car.

Make Saving Interesting

You hear it every time you walk by a toy store: “I want...Buy me this...!” Again, pause and take a moment before responding. This situation presents a great opportunity to teach another important lesson about personal finance: savings and interest. Explain

that people often save their money for items they want to buy.

A simple savings lesson involves using a piggy bank, shoe box, or an empty jar. Make the lesson fun by having your children decorate the “bank,” while explaining to them how you also use a real bank to save your money. Encourage your children to save a portion of their allowance for a special goal. As they save money, you might reward them with a small additional amount, just like a bank pays interest. At the end of each month, calculate how much they have saved and then chip in a certain percentage as interest.

Last, to further encourage the learning process, you might consider plotting a visual chart of their savings (include the goal) so they can easily see their savings grow. Remember to keep it as simple as possible, geared toward each child’s level of understanding.

Banking and Investing

Once your children have been saving enough to accumulate \$10 or \$20, take them to the bank to open their first savings account. Most community banks will allow children to open first accounts with low minimum deposits. Some even have accounts especially marketed to kids to make the learning process fun. Make sure that your children receive a passbook so they can see the progress of their savings efforts, as well as the interest that accrues.

Once your children have mastered banking with an institution, you can begin to teach them about investing. When your children want something that they can't quite afford, discuss the value of saving versus borrowing. If you do extend credit, use a written IOU, establish a repayment schedule, and charge interest. By doing this, you establish the framework for teaching your children that bonds and certificates of deposit are IOUs representing loans from investors to institutions.

Compounding

As your children get older and perhaps take on part-time jobs to earn more money, their savings will likely amass at a quicker rate. Now is the time to review the lesson of compounding, or the ability of earnings to build upon themselves. Explain how compounding can be more dramatic over time; the longer money is left alone, the greater the effect. This can lead into a discussion about investing and how certain investments can have a greater ability to compound over time.

Giving a gift of stocks of well-established or kid-oriented companies can be ideal ways to teach your children about investing. Most children would love to think of themselves as owners of Ben & Jerry's, Disney, or Toys "R" Us. Some companies even have shareholder meetings directed to children.

Mutual funds may be good vehicles as well. Like banks, some fund companies have specific programs to teach children about investing. Often such funds have low initial investments, as well as marketing materials designed to make the investing process fun.

The Lesson Plan

Consider teaching your kids lessons about money in the following order:

- Money is earned.
- Money is saved to meet goals and to earn interest.
- A bank is often used to save money.
- Money that is borrowed is repaid with interest.
- Compounding can increase savings over time.

A Little Learning Can Pay Off

Teaching your children about our complex financial system may seem daunting, but you can help put your child on the right track by encouraging smart habits at an early age. Then it is important to reinforce those same lessons through their teenage years so they have a solid foundation for when they ultimately move off on their own. There are also organizations (such as Junior Achievement) that offer well packaged educational programs that may be taught through your child's school or community center.

Is it worth your time and effort to help your children learn about money? As Benjamin Franklin once said, "An investment in knowledge always pays the best interest." Answering your children's questions honestly and in terms they'll understand can help them begin life on sound financial footing.

Points to Remember

1. The benefits of teaching your children about money can be both short and long term. Let your children help you determine how to teach them. Use their questions to develop lessons.
2. Explain to children that money is earned. Consider paying them for helping with certain chores.
3. Use a piggy bank or other savings mechanism to help teach about savings and interest. Set a savings goal to encourage your children to save some of their allowance. Calculate how much is saved each month and chip in a certain percentage as interest.
4. Take your children to the bank to open a savings account requiring a lower minimum deposit.
5. If you extend credit, issue an IOU, set a repayment schedule, and charge interest.
6. Review compounding, or the ability of interest to build upon itself.
7. Once your children begin earning their own money through part-time jobs, introduce them to investments such as stocks and mutual funds.

For more information, please consult with your financial advisor.

Important Additional Notes

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