Teaching Children to Save

starting the saving habit early in life

For parents, saving any amount of money can be a lifelong battle, more so when children enter the equation. Initially, kids know nothing about values because everything is there for them - food, clothes and especially treats. When they pester in the supermarket for something that takes their fancy and are told - "No, it's too expensive: we can't afford it." - they only understand the first word, having heard it so often. Others like "expensive" and "afford" are just mysterious excuses grown-ups use for not giving them what they want. Later, in school, they are taught purchasing in simple ways: John has two dollars. If apples are twenty cents each and he buys five, how much money is he left with? A practical example like this is used to teach basic arithmetic which will be expanded on throughout their schooling. By the time they are old enough to start managing their own finances, you'd think they'd have figured out that 2-1=1, which is good; whereas, in terms of dollars, 1-2 leaves them out of pocket. Maybe this will be merely a temporary setback, as long as the lesson is learned; if not, as is often the case, living beyond their means becomes a habit that is very difficult to break. The better alternative is to start their financial education early so that they don't fall into the live-now-pay-later trap.

The practice of giving children pocket-money is commonplace. It does teach them value for money to a degree; but when their weekly allowance runs out and they can't con any more out of the gullible olds, they just rely on whatever the home provides until next pay day. At some point, particularly when a favourite candy bar suddenly costs more than it did before, they discover inflation. Here's where the story really starts. Failure to stay ahead of this fact of life pretty much ensures a dismal future playing catch-up; and one way to guard against it is to encourage the savings habit from an early age.

Bear in mind that they think in materialistic terms; so the accumulation of money on its own will seem both boring and not worth the effort. What it can buy, however, is something they understand very well; and this can be used to counter their annoying childhood logic. As an example, our son wanted a new pair of sneakers: not the affordable Kmart kind, but designer-label like his mates at school wore. "You really want them?" we asked. "Yes, I really do," he replied, with that sucked-them-in-again twinkle in his eye. "Okay," we said, "We'll put in the cost of the Kmart shoes - you come up with the rest." The twinkle was replaced by a scowl, but we refused to be manipulated. I suppose we did compromise in a way, offering him extra cash for doing chores around the place. In effect it was still our money; but he saved it, plus a good portion of his weekly allowance until he had enough; and because he had invested in them, those sneakers lasted much longer than any we had bought for him in the past.

An important lesson was learned; not just by our son, but also by his siblings. Suddenly they were queuing up for work to earn money; so we agreed and drew up a roster. Although it was costing us, the affect it had on their attitude to money was worth it. The next step was somewhat harder - convincing them not to spend every penny on "stuff", but to keep some in reserve. To this end, we had help from the school which ran a savings program for students. In the main, parents funded this, and the suggestion that the children might also like to put some of their pocket-money into the account was met with the usual moans and groans. The son, however, was still very proud of his new sneakers and doubtless extrapolated the rewards for becoming a bit of a miser, so he started contributing. Sibling rivalry being a greater motivator than any advice from adults, the challenge was on to see who could save the most. Perhaps the surprising outcome of this simple exercise was the youngest daughter's eagerness to join in the game. She was still at that magical age, for parents at least, when shoes were just shoes. Her incentive, believe it or not, was in the money itself - in its acquisition, the saving of it, and in the pleasure of watching it grow.

This all happened long ago, and I am unsure if schools these days continue to provide the service. The banks, however, and some savings and loan companies do. They offer accounts for children that are usually better deals than those available to adults. They are simple to set up and don't require huge sums to open. Interest rates tend to be relatively attractive, and there is often an extra incentive for customers who make regular deposits. Some accounts may already be in existence, opened by relatives on the child's birth. Parents may put money in these occasionally and there is no reason the children themselves shouldn't do the same; perhaps by allotting a portion of their birthday cash gifts. Considering the inflation factor, every addition, no matter how small, helps money in the account to appreciate - left to its own devices, the starter sum will eventually be worth far less than it was when first banked. In fact, in Australia, any account that experiences no movement during a three year period - deposits or withdrawals - is taken into the government's coffers (presumably for safe-keeping!) and is the Devil's own job to reclaim.

Most youngsters having a short attention span, when watching money grow is the only apparent benefit, they will eventually lose interest; mentally, and financially as a consequence. Then it is back to the original incentive scheme of material rewards. There is bound to be something they would like to have that is out of their normal price range. It could be a ticket to a rock concert, usually costing a fortune. Avoid making them a deal - half the amount from their account while you pay the balance. All that will teach them is that you are still a soft touch. And, unless they have already saved a bundle, don't let them drain their account. Use it as an example: forget this concert, but save for a future one. Suggest a minimum figure that must remain in the account; anything over goes towards the next big event. They'll be glum at first, and you'll be the world's biggest party-pooper; but if they are desperate enough, they will go with the plan.

When we tried this ploy it actually worked. Money in the account grew to the point where there was enough over the top of the reserve to buy the ticket. By then, though, considerable effort and restraint had gone into accumulating the tidy sum which was suddenly regarded in a very different light. Withdrawing the cost of the concert made a huge hole in savings that were starting to look pretty impressive. This posed the question: is it really worth blowing all that hard-earned cash just to spend four hours being jostled by a crowd making so much noise that the band can barely be heard? Might it not be better - and a lot cheaper - to buy a couple or three CD's that can be played over and over in comfort? Actually having money had become more important than spending it.

This, of course, is the ultimate aim - to have money to spend. There will be the odd few who seem to be pathological spendthrifts - we have one of our own - and their idea of money-management is to blow the lot as quickly as possible so that there's nothing left to manage. No amount of sagely advice can cure their disease. On the brighter side, most children grow up to be responsible adults who recognise when the budget is starting to suffer and will hopefully recall the lessons of long ago that will set them back on the right road. There may even be some who learn so well that they become obscenely rich. It would be nice to think that these plutocrats remember who helped them towards their fortune; and that they will toss a little back by way of thanks.

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