

How Can We Teach Our Children the Value of a Dollar?

Do you remember getting your first bank account? Did your parents give you an allowance? What was the first thing you saved up to buy?

While not everyone has children of their own, most people either through their extended family or involvement in the local community interact with children on a regular basis. And chances are you'll have opportunities to influence how they think about money. While no small endeavor, here are some suggestions for teaching children about the value of a dollar.

Some people suggest that a good place to start is by teaching children at a young age that money is earned by working and that it is wise to spend less than you earn. To help children understand what it's like to get paid on a schedule, you may want to consider paying them an allowance. Then help the children set goals for how they choose to spend and save their allowance. It's important, however, to make sure that you stick to the payment schedule; otherwise your lessons about financial responsibility may be undermined.

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.

Instill the Saving Habit

Many suggest that you should also encourage children to save a portion of their allowance for a special goal, even if

they're just putting money in a piggy bank each week. 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 the child has saved and then chip in a certain percentage as interest.

To reinforce your discussions about saving, you might also consider plotting a visual chart of their savings so they can easily monitor their financial progress.

Most community banks will allow children to open first accounts with low minimum deposits. Some even have accounts designed specifically for kids to make the learning process fun. Make sure that the child receives an online or printed statement so they can see the progress of their savings efforts, as well as the interest that accrues.

Borrowing and Compounding

When the children want something that they can't quite afford, consider discussing the value of saving versus borrowing. If you do extend credit, consider using a written IOU, establishing a repayment schedule, and charging interest. By doing this, you'll be teaching them about financial responsibility.

As children get older and perhaps take on part-time jobs to earn more money, their savings will likely amass at a quicker rate. This is an ideal time to review the lesson of compounding, or the ability of earnings to build upon themselves over time. 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 risk -- how certain investments with a greater ability to compound over time may also entail greater short-term risks.

best interest." So remember that answering children's questions honestly and in terms they'll understand can help them begin life on sound financial footing.

As Benjamin Franklin once said, "An investment in knowledge always pays the

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