Sterling Private Wealth

Teaching kids to manage money:

Age-by-age actions

One of the most valuable gifts you can give your children is the gift of financial security, which begins with strong financial habits.

Some studies suggest that money habits are established as early as age 7, which means that the sooner you start teaching your kids how to manage their money, the better off they may be[1].

Consider starting simple with age-appropriate financial lessons that help your children develop a healthy approach to financial management. Here is an age-by-age guide to engaging activities that can help your children establish a positive relationship with money.

Ages 3 to 5

Young children are curious about the world and thrive on interaction with trusted adults, which makes this a great age to start teaching them about money as a concrete concept. Focus on helping them recognize money, demonstrate the basics of exchanging money for items they desire and teach them that money is limited.

This is also a great age to start working on basic math concepts, such as greater than/less than, sorting, counting and comparing.

Some ideas of games and lessons at this age include:

- **Play store or restaurant:** Use pretend money to "buy" items or food, demonstrating how money is given in exchange for something else.
- **Use a clear jar or piggy bank to save money:** Establish a goal to save for something special, such as a new toy or a trip to get ice cream. "Save" by dropping coins into a clear container over several days or weeks. This allows your child to visually experience the act of growing savings over time.
- **Explain the difference between needs and wants:** Have ongoing conversations with your child about the importance of prioritizing spending. For example, when you're at the grocery store, point out, "We need food, but we want this toy. The toy will need to wait."

- **Introduce real money:** Start explaining the different values of coins and bills, and let your child handle currency. Support your child in counting and naming different pieces of money.

Tip: Keep things playful and fun so your child will want to continue engaging with your money lessons.

Ages 6 to 9

Children in this age range understand cause and effect, which makes this a great age to introduce the concepts of earning through effort and delayed gratification.

- **Give your child an allowance:** Establish simple chores, and pay your child a small amount ($1-$5) for completing them. This teaches the concept of earning money through work.
- **Use the three-jar system of spend, save and share:** Have your child divide his or her allowance between three jars with designated uses. For example, 50% of allowance goes to the spend jar, 30% to the save jar and 20% to the share/donate jar. This introduces the basic concept of budgeting.
- **Teach delayed gratification:** Encourage your child to save for a desired item instead of purchasing it right away and celebrate when your child achieves the savings goal.

Tip: Let your child make mistakes. For example, resist the urge to step in if your child decides to spend all of his/her savings at once rather than saving it for a special purchase. Mistakes and regrets are often the most powerful teachers.

Ages 10 to 12

At this age, children are ready for more independence and can better prioritize their decision making. It's a great age to help them strengthen their long-term priorities.

- **Increase allowance and responsibilities:** Consider increasing the amount you give your child each month, while also increasing his/her chores and household responsibilities.
- **Teach comparison shopping:** Before making a purchase, compare prices online or in stores to teach the importance of finding the best value.
- **Establish savings goals:** Help your child plan for large purchases by creating a savings plan with concrete timelines and a way to track progress.
- **Introduce the concept of interest:** Consider helping your child establish a savings account and explain how even small interest payments can add up over time.

Tip: Involve your child in family budgeting discussions and give him/her a say in certain decisions. For example, discuss as a family how much you plan to spend on a summer vacation.

Ages 13 to 15

This is a great age to shift from directing to coaching, as teens are ready to take on more financial responsibility.

- **Teach advanced budgeting:** Help your child create a monthly budget to guide allowance, gift and other earnings.
- **Open a bank account:** Teach your child how to use a debit card, track transactions and avoid overdrafts.
- **Introduce the basics of credit:** Explain how credit cards and interest work and discuss the risks of debt.
- **Encourage extra earning:** Support your child in earning income through babysitting, pet walking or a part-time job.

Tip: The goal at this age is to give your child freedom with guardrails. For example, establish accounts your child can manage, but be sure to check in regularly and offer guidance as needed.

Ages 16 to 18

At this age, children are preparing for adulthood, so it's important to start letting go of the reins.

- **Introduce investing:** Explain how stocks and bonds work, the importance of investment diversification, the value of compound interest and the need to start saving early for retirement. Consider opening a custodial account and let your child research and purchase stocks with a small amount of money.
- **Encourage your child to establish a full budget:** Use an app to help your child establish a budget that covers income, expenses, savings and giving.
- **Teach the concepts of emergency savings and insurance:** Discuss the importance of building a safety net to cover unexpected expenses, and teach the basics of maintaining car, health, renter's/homeowner's and disability insurance.
- **Discuss debt:** Share information regarding credit scores, loan interest, student loan debt and responsible credit card use.

Tip: Start coaching your child on real-world scenarios. For example, share how you handle budgeting, saving and investing. Also discuss the cost of real-world expenses, such as rent, food and insurance.

Building habits that last a lifetime

As you teach your child about money, remember that consistency is key. Engage in regular conversations over time, rather than one big talk with little follow up. Also, it's important to lead by example, but it's also okay to make mistakes. Talk about your money mishaps and share the lessons you've learned along the way. By maintaining an open, honest dialogue throughout the years, you can teach your kids real-world financial lessons that will stay with them throughout life.

[1] Money habits are set by age 7. Teach your kids the value of a dollar now

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