

Teaching Your Kids About Money

CFN Podcast Transcript

Recorded by CFN's John Walker, Desiree Reil and Tim Joseph

John:

Hey, welcome to the "Your Life Your Wealth" show. I'm John Walker, Director of Business Development at Cordasco Financial Network. Today, I am joined by Tim Joseph, Financial Advisor, and CPA and Desiree Reil, Financial Advisor, two colleagues of mine at Cordasco Financial Network. Thanks for coming. Welcome.

Desiree:

Thanks for having us, John.

Tim:

Glad to be here, John. Thanks.

John:

We're going to tackle an interesting topic and I'm glad you are here with me to talk through this a bit. As summer ended, we've been talking a lot about back to school. All three of us have kids. We're taking care of summer reading and we're doing all the stuff that needs to get done like getting new book bags and lunch boxes. It reminds us that at this time of year there is a lot of preparation that goes into educating our kids. We spend a lot of time here at CFN helping people with their finances, and it's become an important thing for them to pass that information on to their kids, their grandchildren or nieces and nephews. They're happy to pass along the life experiences they've learned about money.

When we do financial plans for people, or when we build portfolios, there's a science to it. We know we're looking at individual holdings or risk profiles or things that have a little bit of a structure to them. This is a little bit more of a value-based conversation. It's not nickels and dimes and science. We've learned a lot over the years helping people, picked up a lot of tips along the way from our own life experiences, and from conversations we have had with others. These are important things to share with kids early on. We want to

educate young people about planning for their future while gaining an understanding of how money works.

It's kind of astonishing. My brother-in-law and I talk about this all the time. We went to college together and he loves to say, "I wish 20 years ago I had built out a rubric for a college class that taught basic economics." Not econ 101, but how to balance a checkbook and how to apply for a mortgage, all the practical stuff that you need to know in life to be able to function in a financial world. At this back to school time, I thought it'd be nice to share some tips that we've picked up along the way that involve teaching kids about money.

Tim:

John, as I'm sitting here and listening to you explain that, it took me back, honestly, to my childhood. I remember at a very young age, with my parents and my brother, playing the board game, The Game of Life.

John:

We still play that.

Tim:

It's a great game. They've actually come out with more versions. It's much more complicated now.

John:

It's got some different rules than when we played.

Tim:

Right from the get-go the game teaches you that your education determines exactly what your payday is.

John:

Right, you need to choose if you're going straight to work or going to college first? It shows the difference in earning capacity long term.

Desiree:

There's a card about having children and how much they cost.

John:

Spoken like the mother of two you are, yes.

Desiree:

Yes.

John:

But they pay off in the end, don't they? It's the neat trick. My nine year old daughter, loves to get as many kids as humanly possible during the game. Not just because she wants to be a mommy, but also because at the end of the day, you get money. You get 50 grand for each of them, or whatever it is. So it's a good point, you're right, games like that and the things we teach our kids really help.

Desiree:

That reminds me of when I was in high school. I went to catholic school and our senior project was a marriage project. You had to find a partner, or you could've been single. It was a semester-long project and you actually had to go out to the food store and get a receipt of how much weekly food would cost, and we had a budget. You choose an occupation, whatever you want to become when you grow up. We actually had to interview someone with that occupation. We had to go to a car dealership to choose what kind of car we wanted. We had to figure out how many kids we wanted to have. We actually had to go to the hospital and interview people on how much giving birth would cost. It was a semester-long project and we had to put it in a binder. It was eye opening because at that time, when you're a senior in high school, you don't think about those things. I still have the project and I'm going to share it with my daughter.

John:

I wonder how the math works today. Those are the kinds of things we're talking about. Unfortunately, I don't think that's part of the modern curriculum that they're teaching kids in school these days, so that type of education has to come from home. What that looks like may be very different for you listening, depending on who you're addressing or the age of your kids that you're working with. I'm sure you've picked up some things, and in our years of doing this, so have we. I thought they would be valuable lessons to share.

For example, teaching your children that things cost money is important. It seems so intuitive and simple, but you need to make a point of addressing it, and helping them understand the real cost of things. When you're with the little ones you may pull out a \$20 bill and they think, "Oh my gosh, you're rich." There's often no concept of how much things cost, particularly if mom and dad or grandmom and grandpop pay for everything. It's easy to keep asking for ice cream, but if everybody keeps saying yes, you don't learn how much ice cream really costs.

It's important to share the lesson that the things you want cost money. We just moved and my kids are at the age where it's hard to keep information from them. They're going on the internet themselves and looking at houses that we were considering. It was just mind-blowing to them to see the cost. Now, granted, they think we have that kind of money and I have to say we're getting a mortgage. That's how we're going pay for it. Daddy didn't write a check for that, but it was a good opportunity to start a conversation at an early age.

Tim:

John, they say another good technique with your children is when you're at the convenience store for example, or maybe out for lunch, hand them the money that you're going use to pay the bill. It helps them understand the concept of a certain dollar amount. Let them pay the bill. Those little, simple experiences can add up.

John:

Here's another piece of good advice. Kids often use a piggy bank, but using a clear jar actually helps a little more with young kids. There's a visual component to that. They can actually see it grow. They don't know what's in

the piggy bank until they dump it out. Actually using a clear jar and letting them see the money build and grow is the exciting part. When we go to the coin machine and cash it in, they can see that all those pennies and nickels they've saved along the way add up to a lot of money. It's exciting for them. They get the experience of going to the bank to see how money adds up over time. Subconsciously, that teaches them the idea that putting a little bit away over time helps money grow. It's an important life lesson to learn, and the earlier you can instill that, the better off the kids will probably be.

One of the things that is difficult with kids, and even adults, is discerning the difference between want and need. How often do we hear, "Dad, can we get ice-cream?" The answer may be "Well, we have ice-cream at home," or, "You don't need it every Tuesday night just because you had practice." It helps them understand want verses need, and the difference between the two has a financial component to it. We may teach them the difference between want and need, but it's also an opportunity to talk about costs and tradeoffs. In my family, the kids often want to go to Rita's after practice and grab a water ice, but showing them that three gelatis at Rita's costs mommy and daddy 20 bucks. When we go grocery shopping at Giant on Sunday, dad can get a gallon of Breyers for \$3.99 and that's ice cream for the whole week. So showing those differences between want and need helps put that perspective in place early.

Desiree:

Absolutely, and Rita's sends coupons that my kids love. We get them in the mail and it's often a two-for-one gelati. I tell them, "Since we have a coupon, now we can go to Rita's." It's also important to teach them that you almost never have to pay full price for anything, and things often go on sale.

John:

Now in this modern world, coupons can be received online and you can get them on your phone. It's even easier to make sure that you're getting value and taking advantage of discounts. The savings adds up. We're not going buy Rita's at full price, but when I get the coupon we can go get a treat. The lesson here is that there's a reward to taking advantage of discounts and taking advantage of good buying opportunities.

Desiree:

With the information available on the internet, John, when my daughter needs soccer cleats she already has them priced out at all of the local stores, so I don't have to drive all over to find the best deal.

Tim:

How often does a tech-savvy teenager today know so much more than their parents know? How often do we hear, "There's an app for that?" Well, maybe they can help the family's budgeting with the newest app they just found.

John:

Absolutely. Tim, that takes us to a good point. One of the challenges, and one of the things that we talk about even to the people we work with, is having a good budget. It's important to teach young people how budgets work and how to use them. Budgeting is an important part of the process that we go through when we're doing financial planning work for people. Opening up and sharing your budget with the kids is a good idea. You may not be forthright with all the dollar amounts, but you can help your kids understand that we have a certain amount of money allotted for certain things, and to be comfortable we need to stay within these boundaries.

Desiree:

No impulse buying.

John:

Exactly. Your kids may want something, but we have a budget to stick to so you'll have to wait. That helps them understand the need to sometimes delay gratification. We're finding when speaking to people, that it's more challenging, in this current environment we're in, to teach the lesson that waiting to make a purchase is often the best approach. Tim, you said there's an app for that. There's a way to get things at your fingertips immediately these days. That's the instant gratification and our young people today are exposed to it. Social media and the internet make things so easily assessable.

The desire for instant gratification is even more challenging for us to overcome with our kids. It's even compounded by the fact that with credit cards there's a

delayed payment for everything, too. I tease my wife all the time. If her car ever broke down she wouldn't have a penny in her wallet to pay for a tow. She relies on credit cards almost exclusively. We're so used to using Venmo and credit cards, it is challenging sometimes for young people to realize that things do cost money, especially little kids. They don't know how a credit card works. Mommy and daddy just swipe the card and we get everything we came for. So maybe there's some value in showing them how actual cash works.

Desiree:

Here's an idea for the older kids. I have a seventh and eighth grader. My eighth grader has a teen credit card. I preload it with money and she understands that she only has a certain dollar amount on that card. That's all she can spend. So when she earns money either babysitting or dog walking or whatever she does, money gets added to the card. If there's \$100 on the card that's all she has to spend. So it stops impulse buying because she knows she can't go over. If she does go over the \$100 limit it gets automatically rejected. So for the older kids, that often works for them. I find it works for my kids.

Tim:

It works just by default. That puts you in a scenario where you're doing tradeoffs just by instinct. They know math real well as teenagers, so that's a great example. I like that one, and it solves the physical cash on hand issue.

John:

It's teaching the idea of tradeoffs. If I do this, I can't get that. It also teaches the modern dynamics of how payment works. It's real money that's tied to that piece of plastic that's in your wallet. The other thing that we need to talk about is letting kids make mistakes, which is really difficult for us to do as parents. You never want to see your kid fail. You never want to set them up for failure, but sometimes you have to let them make a mistake.

Desiree:

That's how they grow. Failure's hard.

John:

It's often difficult to stick to what you know is best. You let them take their birthday money and buy the really expensive video game. Then they want something else, but now they can't afford it. It's very difficult to say no. Sometimes while teaching them good lessons about how finances work in the real world, you need to let them overspend on the thing that you know they don't need, and pay full price for that brand new Xbox game that just came out. They really could have waited a while to get it.

Desiree:

And it'll go on sale.

John:

Des will get a coupon.

Desiree:

Yes, I will. I'll get an alert.

John:

I just had an experience where my son had a bunch of money and he wanted to get something for his Xbox. We were at the store, and the guy from the videogame store was a heck of a salesman. I was watching and listening and I stepped in and said, "Hey, bud. Let's hold off on getting that here because I bet you we can get it cheaper somewhere else." It gave me an opportunity to show him that pricing things out and doing some due diligence and research can pay off. He understood the lesson I was trying to teach. I could've let him buy it and the lesson could have been, "Now you can't get that other game you wanted."

So there are teaching moments in all of these interactions, but the key lesson we've learned over the years and it is a good takeaway for you, is that sometimes you've got to let them screw up. Allow them to do so in a constructive way, in a safe way, in a way that's not going to hurt them or anybody else. This is a good way to do that and it shows them how tradeoffs really do work with finances.

Tim:

John, you made a good point. One thing that comes to mind with my 12 year old is how the advertising he sees influences him. He sees so much advertising on TV, that he now tries to sell me on the ideas. I find that amazing at times. You have to be well aware of that as well.

John:

It's a great point. We're a consumer driven culture. We like to be comfortable. Many of us have the means to be comfortable. Many folks know where their vices lie. Young people are watching and they're just as influenced. We used to sit around on Saturday mornings and watch cartoons. That wasn't only for our own entertainment. That was so Hasbro could sell me the new GI Joe that I just had to have. My mom would just say, "These damn commercials!" So it does work. It's an industry for a reason and we're all influenced by it. Some of these good tips can help us have those positive conversations with kids early on enabling us to set good behaviors. It only gets more difficult as they get older.

You know, these are the things that if you do them early and often, and get the right routines in place you will set them up for understanding how money works. We teach them to budget, so when they get out of school and land their first job, they may not be able to get a BMW. They might have to get the Honda, so that they can afford the apartment and all those other things including paying off student loans. So the good, basic, fundamental values of learning how to save, learning how to budget and learning how to make good decisions with tradeoffs, will help them in the long run.

You may be thinking to yourself how is this relevant to me if I don't have kids. Maybe you don't have kids but you may have nieces, nephews, or other important people in your life you'd like to help. You probably got to your own success either through self-reliance, trial and error, or maybe somebody helped you develop this discipline. Early education can get you on the right path when it comes to your finances. Maybe listening to some of these tips will give you the confidence to impart some of the wisdom that you've picked up along the way, and help other people have a head start on good financial independence.

There's that old adage, "If I knew then what I know now," and it's often really relevant when we think about the financial decisions we've made and how they've changed where we are today. Often we reflect back and wonder if we always made prudent decisions. Most of you have figured it out through your own self-discovery, or your own hard work and commitment to educating yourself. Others may have received help to get a leg up to where they are today.

So our hope is that you're able to take some of what we have shared and use it. You may share it with your children or grandchildren. It's much easier for young people to find success if they have some of these good disciplines in place from an early age?

This is the kind of thing we do here at Cordasco Financial Network all the time. Tim, Des and I are working with folks just like you. We can help the children of the people we work with decide on colleges or work through budgets. We've had great conversations to give guidance around how pop-pop can have that conversation with little Johnnie or little Suzie. They can teach them that it's good to save money and do it in a way that actually resonates, and actually gets through, so that they understand the message we're trying to share.

We'd love to hear from you. If what we've shared has been meaningful or if there are some best practices that we're not thinking of that you've used with great success, please let us know. Email us at asksteve@cfnplan.com or give us a call at 215-558-3500. We've also put together a handy Cordasco Financial Network tip sheet for educating young folks about their finances. If you're interested in that, please drop us a line.