"It's All about the Benjamin's"

Tuesday, November 26, 2013

November is here again. My six year old son has now started asking the same recurring question: "Mom, when am I getting my 'Benjamin'?" His birthday is in November, and the 'Benjamin' is you guessed it, a $100 bill. Yes, my son is looking for his cold hard cash. He also knows that a Benjamin is equal to five Jacksons, and that a Jackson is two Hamiltons, one of which is two Lincolns, and that a Lincoln is five Washingtons. He's also learned that two fairly decent Hot Wheel track sets will cost about two Jacksons, and that a BIG track will set him back the entire Benjamin. I am usually the anointed keeper of good ole' Ben, while my son scours the isles, checking prices underneath each brightly colored, power boosted, track set he can find.

I also serve in a dual capacity as his trusted advisor. "Will I have some Jackson's left, if I buy *this* one?" he asks. "Nope, that one will take *all* of your Benjamin" is my response. A bit frustrated, he promptly moves on to another choice. My son is emphatically not interested in spending the *entire* amount of his birthday windfall, so finally, after careful consideration and over an hour of back and forth price consultation he finally chooses two items that cost him about forty dollars. As he races down to checkout knowing that he will leave with plenty of cash in hand, he confidently points out, "in case something better comes along [I will have some money to spend] in a few weeks, closer to Christmas, and maybe it will be on sale, so I can save even *more* money"…..his words, not mine.

The best part about getting his Benjamin, and the subsequent annual shopping adventure, is that it continues to happen each year. Since all three of my children were about 4 years old, my parents have continued the much anticipated tradition of giving my children a "Benjamin" for their birthday instead of buying them toys or clothes. The wonderful unintended result is that by doing this, now all of my children have learned a lot about the value of money, i.e. how many toys, outfits, jewelry, makeup, shoes, candy, etc. a given amount of money can buy. It also has taught them patience and discipline, and that having money in the bank is a good thing when you want a bigger toy, outfit, pair of shoes, (insert your want here, etc.) *later*.

Learning financial independence and financial decision making can successfully begin at an early age, and not enough of us teach these important life skills to our kids while they are still under our roof. Children will never learn about the true *value* of money unless you teach them by giving them their own money and letting them practice using it with confidence. Here are some simple ways you can begin teaching your children how to critically think about, and manage their own money:

Pay Them A Regular Allowance

This is not a new concept, but I recommend a twist on the traditional allowance model. First and foremost don't use the allowance as a threat or a discipline tool (i.e. are you always trying to find ways to "take it away"?) The purpose for the allowance, is that it helps familiarize your child with a regular and sustained flow of money to manage (think your paycheck). The trick is to neither set the bar too high, nor too low to receive it (you want them to receive it, and start using it). Some examples of performance hurdles in order to receive payment could be, getting good grades, being respectful of what others ask you to do, keeping your room clean, helping out around the house, etc. Let them know that you have discretionary control over the payment, but always be mindful that you really *want* them to receive it on a regular basis. In addition, it is much more of an incentive to receive it [and therefore not want to spend it all at once], if it comes in a larger lump sum. Instead of paying $5 a week, pay $40 or $50 *every two months*. Lengthening the pay intervals creates not only a bigger payout, but anticipation and appreciation for the larger amount of money received.

Open A Joint Checking Account

I did not say savings account, I said a joint checking account….. *with a debit card and a check register that you help them manage.* You can incorporate a savings account as well, but the purpose of a checking account with a debit card is to get your child used to: 1) having money in an account to which they have constant access (with supervision, of course), and 2) learning to use a debit card and record transactions in order to keep up with how much money they have or do not have. One of the most memorable experiences I had with my then, nine year old daughter and her debit card, was when she went to make a purchase and was declined at the register for insufficient funds. Puzzled, she pulled out her check register and quickly did the math on her balance. She then looked up at me in a confused way, because she was still showing a balance in her account according to her calculations. Confidently, she had the clerk re-swipe her card …. and it was…declined, again. The clerk was very patient, and everyone in line was so impressed that she even had a debit card and a check register to begin with, that it really transformed what could have been an embarrassing situation for her into a " Yes, I *am* an independent girl! " moment.

I ended up paying for the item and when we went to the car, she instructed me to deduct the amount from her next allowance, and wanted me to call the bank and express her concern because surely, *her* figures were correct. When we got home, I checked her account online and saw a monthly service charge, hence the discrepancy. The unfortunate bonus here was that she got her first introduction to bank service charges….lesson learned.

One last note about the importance of practicing with a debit card…..kids learn that it is *not* a credit card. It looks cool like a credit card, you can buy stuff online and at stores in the mall like a credit card, and it is convenient like a credit card. But it is NOT a credit card, because the money used to purchase something *has to be in the account* for it to work or your purchase will be declined.

After my daughter had her debit card for a few years, she asked me one day to explain the difference between a debit and a credit card. I simply told her that a credit card allows you to borrow money that *you don't have*, to make your purchases. Your obligation to the card company in return, is to pay the money you used back within a certain amount of time, plus a lot of extra money on top of it (interest) along the way. Her response to me was, "*Why would anyone ever want to do that?*" Her reaction illustrated, that the concept of spending money you didn't have, seemed foreign to her already.

Ultimately the point is, having access to money at an early age hard-wires your thinking about saving and spending, your own money.

Give Them Cash At Birthdays and Holidays

As my personal experience has revealed, giving children cash and letting them be in charge of it, instead of showering them with lots of excess toys, clothes, electronics, etc. can be very meaningful in terms of teaching them about money. Now, I am not advocating against gifts, because thoughtful gifts are always a welcome treat for kids, and anyone for that matter. My thought process is that giving money on special occasions is a great way for children to learn responsibility as well as teaching them the difference between 'needs' and 'wants.' At an early age kids learn that when they are spending someone else's money, they will spend often and freely. However, when you give them their own money to manage their savings become like the refrigerator during a power outage; open sparingly, and only when necessary. Just like the food in the fridge, their hard earned cash has become a precious resource not to be wasted or depleted. Gift them money on special occasions, and let them manage it. It works.

Discuss Your Bills, Household Expenses And Major Expenses

I know many people that will not discuss money, bills, or expenses in front of their children. I understand not wanting to unnecessarily stress children out, or overwhelm them about family financial matters, and that is entirely appropriate. However, I would like to point out that it can be a tremendously teachable moment to walk a child through a cell phone or cable bill. First of all, they usually have no clue how much it costs monthly for them to have the privilege of using a cell phone, or watching their favorite movies and TV shows. Secondly, if they are managing their own money in the bank, it hits home pretty fast how quickly they would deplete most of their own money if *they* had to pay that particular bill instead of *you*.

I also recommend discussing the costs of vacations, gas, and food, etc. All you have to do is point out the expenses of daily living from time to time and discuss ways to control them, while asking for their input. Remember, one day you will want them to have the skills to manage their own households, and a great way to learn this is from you.

Bottom Line

"Do not save what is left after spending, but spend what is left after saving." –Warren Buffet

Children are fully capable of learning simple financial concepts at an early age. More parents need to realize that if we aren't teaching them how to manage personal finances while they are growing up, they are in danger of learning bad habits on their own, or from others, along the way.

Best Regards,

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