Brian Smith

Try these innovative ways to show kids how money can grow and why they should start saving early.

Teach Your Child To Be Smart About Money

BY ANDREW TOBIAS

I'M KEENLY AWARE THAT THEY are your kids, not mine, so I offer these suggestions with humility. But your kids have 70 years of financial security ahead of them if they get this right, so let's try. Not least because, if *they're* financially secure when they're grown, *you'll* feel more secure.

The overall ideas are so simple that any child can easily grasp them: *Spend less than you have. Save the difference. Watch it grow.* But how to bring these notions to life?

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Teaching your child to save can be fun—and lay the groundwork for her future security.

GAME ONE: Magic Cookies

Robin Thomas

"Your mother and I want to give you some money," you might begin. (This is likely to capture almost any child's attention.) "But we want to have some fun with it, to let you in on one of the most important secrets in the universe. It's called compound interest, and it's very important in determining whether people are rich or poor.

"Normally," you continue, "compound interest—though incredibly powerful—is slow. We're going to speed it up. We're going to give you $1 right now, here in this cookie jar, as if it were a bank. And then every night at dinner we're going to pay you 10% interest. Ten percent is awfully generous, but we love you—and it's easy to calculate. And instead of paying you 10% a year—the way it works in real life—we're going to pay you 10% a day. Not *forever*—we'd go broke—but as long as we can. At the end, we'll take this money over to a real bank and open up your first savings account." And off you go.

Make it fun. The games here are sure to capture almost any child's attention.

The first night, there being $1 in the jar, you add a dime—10% interest. The second night, there now being $1.10, you add 11 cents. The third night, you teach your child about "rounding." (You'd either round down to 12 cents on $1.21 or—what the heck—up to 13 cents.)

Three Basic Lessons

All you need to make these lessons fun is a refrigerator, a cookie jar and a couple of crayons—and you really don't even need that.

- **GAME ONE teaches your kids the power of compound interest.**
- **GAME TWO teaches the importance of starting early—and how a little sacrifice now can pay off big down the road.**
- **GAME THREE teaches a lesson that could keep your kids from ever getting caught in the debt trap.**

Obviously, you could vary the game based on your child's age, math skills and your own resources. But after a month, there would be $17.45 in the cookie jar; and after another month, if you choose to go that long, $304.48. (After six months, $28 million!)

Of course, you need to put it in perspective: It normally takes money a year, not a day, to grow by 10%. And even 10% is a lot to expect. You won't get it from a bank, and you can't count on it from the stock market today.

"And there's that little thing called taxes that you hear Mommy and Daddy wailing about when you're supposed to be asleep," you explain. "You'll understand when you're older."

Still, the power of compound interest is very real.

GAME TWO: Timing Is Everything

Robin Thomas

Now, suppose you do this with *two* kids, giving them $1 each. But tell them you happen to have something they both like—say, a bag of Reese's Pieces—and if one of them doesn't mind waiting three days before starting to earn interest, he or she can have it.

A battle ensues for the Reese's Pieces. If tears are involved, all the better. Only one child gets them, and he/she doesn't have to share. Two months later, the kid who grabbed the candy has seen his sibling's $1 grow to $304 vs. just $228 for him or her.

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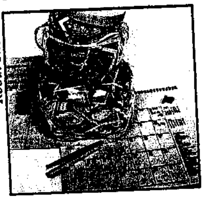
The lesson, of course: Not only is compound interest incredibly powerful, but starting early also makes an enormous difference. Forgoing something now pays off handsomely down the road. Even if it's just a little, save something now to get compound interest working for you.

Given a chance to do it over, would Junior still fall for the Reese's Pieces trick? Probably not.

Weeks pass. You announce that you want to try something new.

GAME THREE:
Feed Not The Cookie Monster



Robin Thomas

With luck, the kids are very fond of the cookie jar by now. "This is the last cookie jar game we're ever going to play," you warn them (you don't want to go broke), "but it's even more important than the last one."

All little eyes are now keenly fixed on you. (At least, that's how it worked in my family. I got $5 for turning 5 and waited excitedly all year to get $6 when I turned 6.) "This time," you announce, "we're not going to pay 10%. We're going to pay what credit cards typically charge their customers—more like 20%."

You give each kid $1, adding 20 cents the first night, 24 cents the second night (20% of $1.20 is 24 cents) and so on.

Indeed, why not, as part of Games One and Two, draw up a 60-day "Cookie Jar Calendar" for your refrigerator door? In the first-day box, you write "$1" in black for one kid and write "$1" in red for the second, tracking their daily progress.

Now come back to the same calendar and, in a different set of colors, start with a fresh $1, adding 20% each night. (No Reese's Pieces this time.) After 19 days at 20%, each kid has $32—a heck of a lot more than the $6 the calendar shows they had on Day 19 at 10%!

After 35 days, if you can keep going that long, the cookie jar would be bulging with $590, while the refrigerator door would show that, on the same day at 10%, the kids had only $28.

At some point in this exercise, ask them: "Which would you rather be? Someone who goes through life spending carefully and earning 10% on your savings—eventually living a very comfortable life? Or someone who goes through life buying things on credit, paying 20% to the credit-card companies and crying the way we do when the bills come each month? It's fun *getting* 20% interest. That's for sure. But imagine how hard it must be to have to *pay* it!"

Next time you're at the mall, you might whisper in your child's ear: "Don't say anything to embarrass anyone, but about half the people you see in this mall are smart with their money, and half are...not so smart. We try very hard to be in that first half, even if it means not buying you all the Reese's Pieces we'd like, because we know that, if we're careful, we'll never have to worry about money."

Any child—whether rich, poor or in the middle—eventually learns that not everyone lives the way he/she does. Your kids need to understand that their spending choices will affect the way *they* ultimately live.

These kid-money ideas just scratch the surface, but they're a start. For your older kids, feel free to leave this article out on the kitchen table. Or, if that's too subtle, attach $20 and a note: "There's another $20 in it for you, darling, if you read this."

Andrew Tobias, PARADE's Personal Finance Editor, is the author of "The Only Investment Guide You'll Ever Need."

A Game That Really Pays

Can your children mow lawns? Sit babies?

"The best money training I ever got," says Ted Strange, 74, of Kelowna, British Columbia, "was from having a paper route. You have to be reliable. You have to collect. You have to make change. You have to get new customers."

No kid with a paper route—or some equally tough job—ever failed to learn the value of money. But take it further: Suggest that your child put his or her earnings into a Roth IRA and watch it grow, forever free of tax. Sock away $6000 as a teenager and have $1 million at porch-rocking time. Make this palatable by augmenting your child's allowance by nearly as much as he or she salts away in the IRA—say, $20 from you for every $25 in savings.