A Parent's Guide To Raising Financially Savvy and Independent Children

Practical Ways To Develop Your Child's Financial Intelligence

4. "The Money Box"

You and your child are running errands. You drive up to the front of the bank, dash to the ATM, and get $100. As you walk back to the car, you count the twenties to make sure you have them all. As you get back into the car, you hear a voice from the back seat: "Does money come from the money box?"

This question is the financial equivalent of "Where do babies come from?" It may be easier to answer the "babies" question than the "money box" question. Both can open an extensive dialog the child may *not* be ready for. The key is to answer the question according to your child's developmental stage.

Answer the "money box" question according to your child's developmental stage

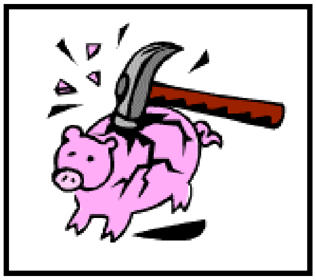
If your child is …	The answer is …
3 years old	"Yes"
4 years old	"Yes, this is where I keep the money I make at work"
5 years old	"I keep the money I make at work in this bank. The bank gave me this card. I use the card when I need to buy things like food."

The "money box" question opens up other topics for the older preschooler

For the older preschooler, you can use this opportunity to discuss topics such as earning and saving. Use real examples as much as possible. Here is an outline of discussions for each of these topics.

Topic	What you might talk about	Examples
Earning	• Earning money by working for an employer or boss. • Earning money by running a business.	• Explain how one or both parents earn money. • Explain how the dentist or the local hardware store run their business to make money.
Saving	• Why the child might want to save money. • What the savings institution does with the money. • The longer the money stays in the savings institution, the "bigger" it gets.	• Save money to buy a video game player or a bicycle. • Savings are stored in a vault much larger than a home safe. A vault is really a very large "piggy bank." • $100 can grow into $105 if you keep it in the bank for a year.

14. The Problem with a Piggy Bank



What's the problem with a piggy bank? The obvious advantage is that the cash is available any time. The problem is, no matter how much cash is in it, the money is losing value every day it stays in the piggy bank.

Explaining how the piggy bank is losing money is a way to introduce the advantages of saving and investing to your child.

Here are the steps involved in this introduction to savings and investing.

1. **Present the problem**
   Ask your child to count the money in the piggy bank. If there's no money or no piggy bank, start with an amount such as $100 or $1,000. Explain that if your child left the money in the piggy bank for five years, the amount would not change. On paper, apply a reasonable annual investment percentage. Continue for the next four years. Your results look like this.

Year 1	$100 X 1.10 = $110
Year 2	$110 X 1.10 = $121
Year 3	$121 X 1.10 = $133.10
Year 4	$133.10 X 1.10 = $146.41
Year 5	$146.41 X 1.10 = $161.05

2. **Review the difference**
   Ask what amount your child would rather have after five years, $100 or $161? Mention that this concept is called compounding.
3. **Show more examples**
   Expand the table started in the first step. Show that the longer the money compounds, the faster it grows. A graph shows the exponential growth with a steep curve. Ask your child to start another table with the same starting value, but a different percentage. Your child should graph this new set of numbers.
4. **Compare the examples**
   Review the two graphs to see what happens when the percentage changes.

When you explain the value of compounding, be ready for plenty of questions. Your child will want to know where, how, and how soon he can invest his money. Depending on his age, he might even have a few investing objectives. You can find more information on savings and investing in **#21, Investing for the Future**, page 25.

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