



Tough times are an opportunity to teach children financial concepts

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During this economic downturn, one of the more difficult tasks for parents is explaining their financial situation to children. Adults shouldn't assume children don't know or don't care about what is happening in the economy—years in a classroom have taught me kids are more aware than you'd think. Children hear the media blasts about job losses and bank failures. They hear teachers talk about economic issues as a part of current events. They may even hear friends repeat comments about financial problems made by other parents. So how should we approach the topic and how much information should we give kids?

These trying financial times can be a segue to help children become more financially literate. Because the media is focused on money issues, why not use the news as a

springboard to discuss money topics, such as financial decision-making, learning to budget and economizing to spend less money?

Begin the discussion by assuring children that even if the situation looks bleak for your family and finances may be tighter this year, things are going to be OK. Tell children some cut-backs in spending may be necessary, and give concrete examples: no new video games for a while; fewer trips to the mall; a summer vacation locally rather than Disney World. Ask them if they have any questions about these financial changes. Most responses likely will be about the impact on their own lives, such as, "Will I still have my birthday party?" Or, "What about summer camp?" Teens may ask more pointed questions, such as, "Do we still have money in the bank?" Or, "Will we have to move?" Answer these questions truthfully to quell anxiety.

Explain to kids that your family will be making financial decisions more carefully and invite them to help in the process. For example, you could use the decision-making grid shown on Page 26 to choose an affordable vacation spot this summer. List possible locations as alternatives and write them in the far left column of the grid. Decide on criteria, or ways to judge each alternative and list them across the top row of the grid. Useful criteria might include: Is this location agreeable to all family members? Is it within the budget? Once the grid is ready, go across the first alternative row, asking each criterion aloud for a family vote. If a majority agrees, put a "+" in the box; if not, put a "-" in the box. Count the number of pluses in each row. The winning vacation spot will have the highest score.

Now involve children in preparing for the chosen vacation. Introduce them to the word "budget" as a plan that shows how to earn, spend and save money. Use the budgeting chart shown on Page 26 to help them visualize



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the plan. From my classroom experience, I've learned money burns a hole in kids' pockets, so emphasize the importance of planning three to six months ahead to set aside an adequate amount for vacation. Ask them to write down their weekly earned income from any allowance, chores, gifts or jobs. Next have them list their weekly expenses, including food, entertainment or any other purchases. Ask them to subtract their total expenses from their total income to find their balance. This amount will be the beginning of their vacation fund. Point out the less they spend weekly, the more they will have in their fund. (This may be a time to suggest putting the balance in a savings account to add the concept of earning interest to the mix.) Keep a running total of budget savings and continue the process for as long as needed before vacation time.

Teens can help in the actual planning and budgeting process for the trip. Ask them to use approved Internet sources to find the cost of lodging, meals, entertainment and transportation for the family destination. Have them record the amounts needed for a grand total of vacation costs. Then ask them

to project how much the family should save weekly to afford the trip. Once weekly totals are set, try to put aside the required amount and check in with your teen about the family's progress toward their savings goal.

Don't forget to encourage good financial decision-making once the vacation has started. (This might serve as a reminder for adults, too.) Ask children to keep a spending diary, where they record items bought and amount spent. This accounting of purchases should help them focus on their spending habits and become more aware of "where my money went." Discuss their diary with them and ask if they made any poor spending decisions, so they can learn from the experience.

If a family vacation isn't possible, try this approach on a smaller scale, such as a family night out, or even a trip to the grocery store. The important thing is to apply these budgeting principles to real-life situations to make the concepts meaningful for children. Be positive in your approach and kids will develop perspective and insight financially, which will benefit them now and in the future.



Financial Education Resources

The Kansas City Fed is committed to promoting economic and financial literacy and greater knowledge of the Federal Reserve's role by providing resources for teachers, students and the public.

"The Money Circle"

A personal finance curriculum that includes a "Money Logic" lesson, teaching financial decision-making and budgeting strategies for high school students.

"The Piggy Bank Primer: Saving and Budgeting"

A workbook that looks at making choices, tracking spending and developing a savings plan for ages 6 -10.

"So Few of Me" by Peter Reynolds

A children's literature lesson accompanies this book and emphasizes the importance of decision making for ages 7 - 9.

For teacher tips and materials,

including information on in-service training, and to order publications for all ages, visit KansasCityFed.org/TEN.

Family Budgeting Guide



Sample Decision-Making Grid:

Criteria

Alternatives	Is this location agreeable to all family members?	Will this vacation be a memorable trip?	Is this vacation within the family budget?	Total
Vacation #1				
Vacation #2				
Vacation #3				
Vacation #4				

Put a "+" in each box when the majority of family members agree on the criterion for each vacation. Put a "-" in the box if the majority of family members disagree on the criterion.

Total the number of pluses in each vacation row to find the family winner.

Sample Budgeting Chart:

Week	Earned Income	Income Amounts	Expense Items	Expense Amounts	Balance Saved
Week 1	Allowance Babysitting Total:	\$10.00 +12.00 \$22.00	Snacks Art supplies Total:	\$4.00 +5.00 \$9.00	\$22.00 -9.00 \$13.00
Week 2					
Week 3					
Monthly Totals	Earned Income Total:		Expense Item Total:		Monthly Balance Saved: