

Department of Family and Consumer Sciences

DEVELOPING A SAVING MINDSET: TEACHING YOUR CHILDREN TO SAVE

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“Money is burning a hole in your pocket.” “A penny saved is a penny earned.” “Money doesn’t grow on trees” ... or Mom and Dad. Though tired and cliché, we are all familiar with these phrases. Many of us have used them. My favorite, and my kids’ least favorite, is the last one. These phrases aptly express our desire to teach our children the value of saving money. So, why is it so hard to realize the meaning of these expressions? Why does it seem so hard to influence our kids’ spending habits? Saving is a mindset that comes with maturity and practice. It is a way of thinking about money that parents can teach to their children. Here are the three things you can do to teach a saving mindset and prevent the rolling eyes, sighs, puffs and that general glazed-over look when you talk to your kids about money.

Start Early to Identify Wants and Needs

Kids are perfect consumers.

From the moment they are born they consume food, clothing, resources and our love. We provide for their every need, no questions asked. However, somewhere along the way, “need” becomes confused with “want.” Our kids have learned to use and extend the word “need” to their advantage: “Mommy, I ‘ne-e-ed’ that supersonic lightning speed thing-a-ma-jig,” or “Dad, I ‘ne-e-ed’ that insanely overpriced gold-gilded designer purse.” Adults footing the bill for these purchases know that neither the toy nor the purse are needs, but we want to make sure our kids understand this concept. Next time your child approaches you with a “need,” consider presenting her with the following questions: “Does it feed you, clothe you, house you, or transport you to a job? Okay, so it is not something you need. Are we going to buy it anyway?” Have a conversation with your child. It doesn’t mean you shouldn’t buy these things, but if you are teaching your child to have a saving mindset, wants and needs should be identified correctly so there is no confusion.



Practice Money Awareness

Children are impulsive.

Professional marketers are well aware that they are often marketing to children, and position toys and high-sugar cereals at toddler level, and game controllers in the electronics aisle too low for dad to comfortably play with but just right for junior. Marketers depend on kids' abilities to talk parents and grandparents into a purchase based on impulse. Giving a child an allowance can short-circuit that strategy. Allowances help teach a saving mindset by developing money awareness in children. Kids learn the money stream has an end and that it really doesn't "grow on trees." Consider this conversation: Johnny: "Mom, I want that cool new hyper-electronic sports game." Mom: "Do you have the money to pay for it?" Johnny: "Yes." Mom: "Well, then, it is your decision." At this point your child may pause ... mine does. The thought of depleting allowance funds always hits kids a bit hard. Children are much less impulsive with their own money. What Johnny wanted to hear was, "Okay, dear, I'll buy that for you." He didn't expect to have to make the decision himself. So, there are a few ground rules for *parents* in regard to allowances. One, don't bail your child out. If your child runs out of money and something else comes up, let him wait until he has enough money. Two, don't loan your child money unless you are going to charge interest. This is the real world after all. Three, don't give your child an allowance and constantly pay for everything anyway. That doesn't mean you won't buy anything for your children, but anything you pay for is a gift, and gifts don't happen every day.

Incentivize With Matching Funds

Make saving attractive.

Once your child has identified "wants" and has practiced making decisions to manage her supply of money, you are more than halfway to teaching a saving mindset. Now, your child has to learn to actually save money and put it away untouched for a period of time. Parents can encourage saving habits by offering incentives or rewards. We all like to be rewarded for our good behavior so offer something to your child for saving well. One possibility is matching funds. When kids are thinking about saving for something costly, they sometimes get discouraged because it can take so long to get there. If you match your child's saving efforts, she can reach her goal a little faster. For example: Parent: "For every \$5 you save, I will give you an additional \$5." Or: "For every \$10 you save, I will give you \$5." You can match as little or as much as you'd like. The point is to reward the behavior you want to see. There are some ground rules here as well. One, don't match everything! Some things are reachable within a typical allowance. Two, make sure you require your child to stretch and struggle a little ... just not enough to become discouraged. Another option is to supplement the allowance with money you would spend anyway. For example, my daughter's school held book fairs every year. My spouse and I decided it was something we would pay for and it would be outside my daughter's allowance. We wanted to encourage her to save and avoid buying books on impulse, so we gave her a set amount of money and informed her she could keep whatever she did not spend at the book fair. She was also allowed to use her allowance at the book fair if she chose to do so. After the book fair, we noticed something miraculous had happened. My daughter took longer to buy her books, she didn't come home with books she didn't read (impulse buys often wind up at the bottom of the toy box virtually untouched), and she only spent half of the money we gave her. She came home talking about the prices of everything and she did not spend any of her allowance money. She

had become a pint-sized penny pincher! So, whether you decide to match savings or use supplemental funds to provide rewards, using saving incentives will pay off.

The most valuable reward.

Tired and cliché phrases like, “A penny saved is a penny earned,” may still invite rolling eyes, sighs and puffs, but there will be understanding behind those gestures because the concept has been lived and practiced. Identifying wants, controlling impulses by practicing money awareness, and learning to save encourage the saving mindset we so desperately want to teach our children. With patience, encouragement, and persistence, we can teach our children to make good money decisions and develop financial skills that will last a lifetime.



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