

# How to Teach Children to Be Savvy Savers

► Saving money is for everyone—the young and the old. Knowing how to save money is key to building a secure financial future, and it is never too early to start.

Children encounter money at a very early age through parental interactions; however, many parents feel uncomfortable or unprepared talking about money with their children. Understanding the importance of these conversations and having tools to guide them can help parents educate their children in the whys and hows of saving money.

Children learn financial behaviors from their parents, whether good or bad. Practicing good financial behaviors sets an example for a child's future behaviors. The best overall approach is to model good saving habits, encourage children to save, and explain why saving is important.

It is unfortunate that many children grow up without any financial education. For children, learning how to save and paying themselves first is the initial step to investing in their future. In the same way that children learn how to read, write, and count, they can and should learn the value of money.

It is natural for parents to want the best for their children, including wanting them to be physically protected and financially secure. Teaching children about life in general is excellent. Laying a foundation for their financial future is even better. There are numerous steps and ways that parents can teach children how to become savvy savers, including teaching them about the values of and how to count currency, the differences between wants and needs, and ways to earn and save money.



## Teach the Values of Currency and How to Count It

- Purchase play money for your child to practice counting. When the child has mastered the concept of counting using play money, graduate to counting real money.
- Teach your child the different types of currency, and compare sizes and markings. Allow the child to explain the values to test their comprehension and mastery.
- Teach children why knowing how to count, add, and subtract numbers and money is important. Explain that money is used to buy things you want and need.
- Take your child to a store to reinforce the value of money and how to count it. Allow the child to select and pay for an item. Ask how much the product costs. Give them some money to pay for it. Allow them to count out the money.
- After mastering counting and valuing currency, it is time to start teaching your child about saving it.

## Talk About the Importance of Saving Money

- Help your child understand the value of saving money by teaching that money can be spent, shared, or saved. If you focus on the savings aspect first, the spending and sharing concepts come a lot easier.
- Explain what a savings goal is to help your child understand the purpose of saving.
- Help your child create a savings goal, and identify a specific purchase for which to save. Start small with a short-term saving goal that will take a week or two. It can be a toy or treat, an item, or a service.
- If your child is very young, ask questions and provide ideas to help them make a decision about what to spend their money on. Guide the child through the process through careful planning and consistency.
- After mastering saving for a short-term goal, move on to a longer-term saving goal that requires a month or more of savings.

## Explain the Difference Between a Need and Want

- Teach your child that they cannot purchase everything they want and that uncontrolled spending is a bad habit to develop.
- Teach your child that needs (shelter, clothing, shoes, food, utilities) are the things we must have for our benefit and survival.
- Explain why our wants are considered extras. Although they may want designer shoes and clothing, fast food, the latest technology, toys, and snacks, those are all for pleasure, or niceties, not necessities.
- Make a list of needs and wants to ensure your child understands the difference.
- Discuss how much everyday items such as food and clothing cost. Explain the cost differences between brand names and generic brands.
- Talk about the cost of other purchases such as cars, homes, education, entertainment, and extracurricular activities at school so your child has an understanding of minor purchases and major purchases.

## Give Children Opportunities to Earn Money

- Explain that money must be earned, and think of ways your child can earn money for saving and spending.
- Giving an allowance for completing chores is one way to help your child earn money. Another is to have them earn good grades, which in turn earns them money for doing so. Understandably, all parents cannot afford to give their children an allowance or reward them for making good grades. Other small, nonmonetary rewards can also be effective. For those who can provide an allowance, challenge your child to save 10 percent or more of their earned money. Saving at least 10 percent of their earnings is a way to teach them to pay themselves first.

## Provide a Piggy Bank or Open a Savings Account for Your Child

- For younger children, start with a piggy bank. When they are a little older, take them to the bank so they can see you making deposits into your savings and having a healthy banking relationship.
- Explain what you are doing and what is happening with your money each time you visit the bank. Let your child know why you are saving and how your savings grow each time you deposit money.
- Explain why it is not wise to withdraw money unnecessarily from savings and how saving money helps you meet financial goals. Use examples of how saving money now allows you to purchase or pay significant or unexpected expenses in the future.
- When you think your child is ready, consider opening a savings account for them. Several banking institutions offer fee-free Children's Savings Accounts (CSAs).
- Show your child what happens to their money when they continue to make deposits into their savings account over time. Use online banking and application features to watch the money grow.
- Talk about how their savings will grow slower if they make withdrawals. Continue to emphasize why saving money now is important.

## Incentivize Savings by Matching Funds

- If your child is not motivated enough to save, try something different. A practical approach offered by many employers to encourage employee saving is matching monies contributed. Tell your child you will match the amount they deposit each time they do so, when they reach a milestone, or when they reach their ultimate goal.
- Consider offering to match a percentage or a specific dollar amount of what the child has saved toward a particular goal. As a milestone match, consider an incentive of a specific dollar amount when they reach their first savings goal. For example, if the child aims to save \$500 to purchase a baseball card collection, you might give them a \$50 milestone match after they save their first \$50 toward the card collection.
- As an ultimate reward for saving the entire \$500 toward purchasing a baseball card collection, you might commit 25 percent, meaning you would contribute \$125 toward the goal. They then would have paid only \$375 and have the rest left to put in savings or put toward another goal, thus reinforcing that saving can pay off in big ways.

## Conclusion

Before anyone can save money, he or she needs to know and understand the value of money and saving. There are many useful resources and tips for teaching children how to save. The teaching process must be intentional, steady, and consistent. Building a saving habit will take time, practice, and patience. As your child learns and grows, so will their confidence and healthy habits grow to develop them into a savvy saver.

Parents who focus on making saving fun and a regular part of children's weekly routine help their children build a strong foundation and brighter financial future. Over time, saving will become a natural part of their everyday life. Practicing saving at a younger age allows children to understand how money works and learn to respect its power and value.



**Patricia Smith**, *Regional Extension Agent*, and **Portia Johnson**, *Extension Specialist*, Assistant Professor, both in Financial Resource Management and Workforce Development with Auburn University

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