parents league
of new york

the review
2018

Essential Articles on
Parenting & Education

Kids and Money Talk

Beth Kobliner, Personal Finance Author and Journalist

Sex, drugs, and alcohol. As parents, we've gotten pretty comfortable discussing these topics with our kids. And even if we're not comfortable, we know that we need to have these talks, and can easily Google the latest advice and research on how and when to have them.

Money, however, is different. And it's perhaps one of the last taboo subjects.

There are a few reasons I think that's the case. For one, money can be terrifying to many parents; some of us are deeply ashamed of the way we've handled our own finances. Still others have tried to coast by without knowing much at all ("I just swipe my card and hope for the best!"), and now worry about passing along the wrong lessons, forever messing up our kids with our own money know-nothingness.

Personally, I was never shy when it comes to talking about this topic. Maybe it's because my parents, who grew up during the Great Depression, were determined not to hide their money values from us. Money conversations were frequent, even though my folks didn't have a lot of it (my father was an educator in the New York City school system, my mother was a chemistry-teacher-turned-stay-at-home-mom). And while most families in our middle-class Queens neighborhood headed to the park on Sunday afternoons to play catch, the Kobliners huddled around the kitchen table to watch our parents balance their respective checkbooks. (I am only half-kidding.) It's not that we didn't know how to have fun. We did. It's just that we were attuned to saving, spending smartly, and never getting into debt. (Don't ask any of us to throw a curveball, though.)

So it made sense that I ended up becoming a financial journalist. In addition to spending the last three decades writing about money issues, I was a member of President Obama's Advisory Council on Financial Capability for Young Americans. Working on that council made one thing clear to me: Parents want to know how to teach their kids the financial facts of life. And so I wrote my guide for parents, *Make Your Kid a Money Genius (Even If You're Not)*.

As I traveled around the country giving talks on my book tour, I kept hearing the same five questions from anxious parents of just about every socioeconomic background. Here are those questions, along with my best answers.

This article first appeared in the 2018 issue of *Parents League Review*.

1. How soon can I start teaching my kids about money?

Believe it or not, you can begin when your kid is still in Pull-Ups. According to research from the University of Wisconsin–Madison, children are already beginning to grasp a few basic money concepts by age 3. Like exchange: I give you money, you give me a toy. Or value: The fact that a car, for example, is worth more than a pair of shoes. When they enter preschool, children can start to understand the critical distinction between needs and wants. The next time you're together at the supermarket, try showing your kid the difference. At the dairy case, point out that you need regular milk, even if what you really *want* is chocolate milk. And then make it clear that you're first going to buy the things you need—"but if we have money left over, we might grab a few 'wants.'"

And try to get those conversations started soon. A survey by the University of Cambridge found that by the time kids turn 7, behaviors that will guide how they deal with money as adults—such as delayed gratification (see question No. 3)—are in many ways set. Now, that doesn't mean you missed the boat if your kid is already 8; there's still plenty of time and plenty you can teach him. What's important is to start using those everyday teachable money moments—buying a car, attending a PTA auction, opening a bank account, taking your kid to work—to point out how money is made, saved and spent.

2. How do I talk to my kids about money?

Parents converse fluently in kid-ese about everything from the merits of light-up sneakers to Harry Potter's internal conflicts. When it comes to money, however, it's like we're speaking a foreign language. I developed a set of rules for spreading financial smarts to children of any age. Here are a few pointers to get you started:

First, you don't want to overshare. Take a page from the most recent studies on drugs and alcohol that suggest parents shouldn't go into details about their past indulgences. Similarly, your well-intentioned attempts to scare your kid straight with tales of past money foibles might just backfire. Maybe you ran up a shocking credit card debt by charging a vacation to Paris—and it took you years to pay it down. Tell your kid this, and all she might hear is "Paris vacation, yadda-yadda, credit card—what a fantastic plan!"

Next, keep your lessons age-appropriate. For example, if you suffer a setback like a job loss, your 3rd-grader doesn't really need to know all the details, only that you'll be eating home-cooked meals instead of dining out for the time being. If your kid is in high school, though, you may need to arm yourself with all the facts, and then talk about what the loss of a salary might mean for long-term family plans including college choices. (Just be sure to let your kid know that you'll help find a college that's good for her—probably with the aid of some low-interest-rate federal loans—and affordable to you.)

Third, keep your disagreements about money behind closed doors. Every couple has the occasional argument—er, somewhat loud discussion—about family finances. But in front of the kids it's important to present a unified front. Research shows that college kids whose parents argued openly about money are three times as likely to have credit card debt of $500 or more than kids whose parents kept the wrangling under wraps.

Finally, talk to your girls as much as your boys. According to surveys, parents are more likely to talk to their sons about money than their daughters—especially about investing. Not surprisingly, parents report that they think their boys have a better sense of the value of a dollar. You might be doing this without even realizing it. A progressive-thinking guy I know recently took me aside to make an embarrassing confession: "I read your book and realized that I tease my daughter about shopping a lot. But with my son, I talk all about the stock market." Considering the pay gap, don't reinforce the money gap by not discussing financial basics with your daughter.

3. What traits should I instill in my kids to make them better with money down the road?

Number one: delayed gratification. The ability to postpone a short-term reward for a greater—and later—one lies at the heart of saving, investing and smart spending. For your kids, you can explain it like this: We wait for our turn at the swings. We wait for our birthday to come. (I remember waiting a whole year at a time for the annual TV broadcast of *The Wizard of Oz*.) Well, the same goes for money. We have to wait and save up for something we really want. And sometimes we have to give up buying something now so that we can save money to buy something better in the future.

My dad, Harold, is my shining example of delayed gratification. He grew up poor during the Great Depression. In his Bronx neighborhood, home phones were almost unheard of. Telephone calls would come in to the local social hub, the candy store. When he was 10—with his father out of work and his mother making ends meet as a seamstress—my dad hit on his first entrepreneurial endeavor. He sat by the candy shop counter and waited for the phone to ring. When it did, he'd answer, and then run to one of the nearby tenements and shout, "Mrs. Jones! Phone call for you!" For his efforts, my dad would get a tip—maybe a few pennies or a nickel per call. What does a 10-year-old boy do with pocket change in a candy shop? If you're Harold Kobliner, you bring it home to your mother—every cent—to help the family make ends meet.

Your kid doesn't need to have Harold's level of self-restraint, but kids of all ages can learn to be better waiters by setting a goal and saving for it. Let's say your daughter really wants a new Lego set. But she already has five of them, and her birthday isn't anytime soon. You can say, "Let's set up a jar in your room. Any money you get from allowance, holidays or grandparents goes right in the jar. When you've saved up $20, you can buy those Legos."

Now let's say you're walking home from school, and she asks you to buy her a bag of Doritos. Here's your chance to teach another key financial concept: opportunity cost. "Well, you could have those Doritos, or we could put that money in your Lego jar instead and have a free snack at home." Later, when your daughter gets to actually buy that Lego set, she'll connect the dots: Waiting is a big part of everyone's financial life, and it has its rewards.

4. How do I teach the value of a dollar in our cashless, consumer-driven society?

Those Sunday afternoons around the Kobliner kitchen table watching my parents pay bills and balance the checkbook are mostly a relic of a lost age. These days, with mobile banking and automatic bill pay, having a tangible family finance experience is hard. Kids rarely even see cash changing hands in a bookstore or supermarket. And this has a bigger impact on the way they value money than you might think.

When we use plastic or our phone to make purchases, what we're spending can feel more like play money, and we value it a lot less. A famous MIT study showed that people spend up to twice as much when buying with credit cards than when using cash. That's partly because when we hand over dollar bills, we experience something social psychologists call the "pain of paying." (It actually shows up in MRIs of consumers' brains.) Plastic, on the other hand, is relatively painless. (The same probably goes for handy mobile payment systems like Venmo and Apple Pay.) Another phenomenon, which psychologists call "future discounting," might also play a role in the way we feel about credit cards. The idea is that suffering in the future means less to us than pain we feel in the present moment. When we swipe, we know that whatever we spend on a credit card won't be withdrawn from our savings until the bill is due and we make the monthly payment. Out of sight, out of mind.

My advice? If you want your kids to grasp the value of money, use cash around them as much as you can. And whenever you're banking or paying bills, online or off, have them watch, and tell them exactly what you're doing, blow-by-blow. It's the closest you'll come to those old-school family finance sessions at the dining room table.

5. What do I do about college?

When it comes to kids, no money topic is as emotionally charged as college. The numbers alone can give you heart palpitations: After adjusting for inflation, college now costs *three times* what it did when Baby Boomers were attending. (Which means you might be in for some sticker shock!) Meanwhile, Direct, or Stafford, Loans haven't kept pace with the increases. The numbers can be terrifying: Members of the class of 2016 who borrowed money to earn their bachelor's degrees graduated with an average debt of $37,000.

Okay, deep breaths, everybody.

And money is just part of the equation. There's a big dose of separation anxiety in there too, making the idea of college a confusing mess of guilt and worry. Our babies grow up—I can't do anything about that—but I can help ease your financial concerns. As with all money matters, the key is to talk openly but optimistically and (as I said earlier) keep the conversations age-appropriate. The good news is that there are steps you can take at every age.

Even for little kids, you can do a surprising amount to lay the foundation for your future coed. First up, begin saving in a 529 College Savings Plan today. The obvious benefit: You'll be stockpiling money tax-free. But here's the surprising thing: You might also raise the chances that your child will attend. A study out of the University of Kansas School of Social Welfare found that kids are more likely to go to college if a dedicated college savings account has been set up in their name—even if the amount of money is small. When your kid hits middle school, you can impress him with the dollar figures: Tell him that, on average, he'll earn between $300,000 and a million dollars more over his lifetime if he gets a degree than if he stops his education with a high school degree.

As your kid enters high school, it's time to get down to brass tacks. In 9th grade, start talking about things like how much college might cost, how you'll pay for it, how much you'll borrow, and, given all that, which schools should be on his radar. Seem too early? Remember, you have four years to plan, and you'll want to take advantage of all that time.

Your first stop should be the Department of Education website. The FAFSA Forecaster at FAFSA.gov isn't perfect, but it will help you to figure out what your family will be expected to pay for college. From there, you can begin investigating schools that roughly fit your budget and your kid's academic or career leanings. You can get a ballpark idea of a particular school's potential cost for you by using its net price calculator, which can be found via collegecost.ed.gov/netpricecenter.aspx.

You should know that most students today rely on loans to bridge the cost gap. If your kid needs to borrow, go with federal loans all the way if possible—their interest rates tend to be much lower, and they offer more repayment options such as tying monthly payments to your income level, which could be critical after your kid graduates. But how much is too much to borrow? One rule of thumb I like is that students take on no more debt than they expect to earn their first year working after graduation. Consult a site like glassdoor.com or payscale.com to find out what different positions pay in specific markets. Let's say your nursing major hopes to get a job as a pediatric nurse, and salaries start at $36,000; he should aim to cap his borrowing there.

High school is also a good time to encourage your kid to save her own money for school, if she takes on a part-time or summer job. Even if this doesn't put much of a dent in the college bill, getting your kid to pitch in financially has unexpected benefits. Students who participate in paying for their own college education—whether in the form of federal loans or by directly paying tuition— have, on average, higher GPAs.

By junior year of high school, it's time to have a frank conversation about what you expect when your kid is enrolled in college. Let him know how important—and cost-effective—it is to finish school in four years. Only half of students manage to do this, and it costs them a bundle more in tuition—not to mention the paychecks they miss out on by being in a classroom instead of a workplace for those additional semesters.

Of course, there are hundreds more questions—and just when I think I've heard them all, a parent comes up to me with a new issue. The most important rule to remember is this: Keep talking. Because financial stress is real. If you can give your kid the gift of understanding money basics, you will be making his life more fulfilling and less stressful long after he's flown the nest.

Beth Kobliner is a personal finance journalist and the author of two books, *Get a Financial Life: Personal Finance in Your Twenties and Thirties* and *Make Your Kid a Money Genius (Even If You're Not)*. She served on the President's Advisory Council on Financial Capability for Young Americans, and developed the online resource "Money As You Grow." bethkobliner.com.