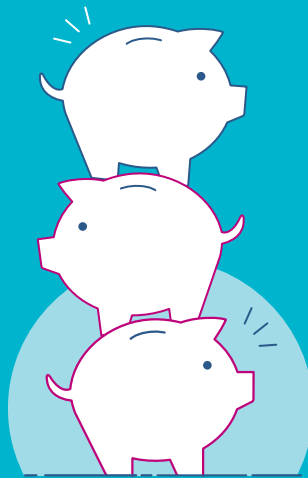


# HOW TO TEACH YOUR CHILD ABOUT BUDGETING



A financial literacy education brochure for parents

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# INTRODUCTION

Rearing children entails guiding them in their development. Aside from ensuring that they grow up in a caring and safe environment, you also help them to broaden their knowledge and teach them skills. On the one hand, you teach them many practical things like talking, walking, cycling... On the other hand, you will also try to give your children the values and standards you hold dear.

By equipping your children with these various skills, you try to prepare them for adult life and independence. Teaching your child how to budget is an important part of that. Children who are taught how to manage their money from an early age are less likely to run into financial problems later on in life.

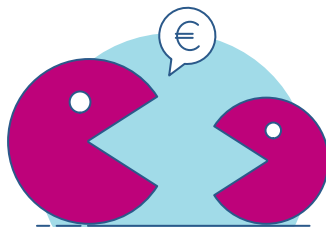
This brochure goes into the very concept of 'financial literacy education' and what it entails. Next, we discuss a few methods you could consider implementing. And finally, we offer you a few tips and pointers on safe and responsible spending.



## 1. WHAT IS FINANCIAL LITERACY EDUCATION?

Financial literacy education is about teaching your child how to manage its money responsibly. This means that:

- ▶ you teach them to make do with a limited, fixed amount for a given period of time;
- ▶ you teach them how to cut their coat according to their cloth;
- ▶ you teach them to choose between what they need and what they want.



## 2. BASIC PRINCIPLES OF MAKING YOUR CHILDREN FINANCIALLY LITERATE

### **AS A PARENT, SET THE EXAMPLE**

Do you tend to leave money lying around or do you keep it in a specific place? Children watch how their parents do certain things and will unwittingly copy that behaviour. As young people faced with certain choices will ask themselves what their parents would do, it is essential that you, as a parent, lead by example and explain why you do certain things.

### **TAKE YOUR CHILD'S BEHAVIOUR INTO ACCOUNT**

How and when you teach your child about money will depend on your child's personal development. Some children are interested in money from an early age while others couldn't care less. Every child is different and develops at its own pace. Bear this in mind and tailor your financial literacy education to the individual child.





## 3. METHODS TO TEACH YOUR CHILD HOW TO HANDLE MONEY RESPONSIBLY

### TALK ABOUT MONEY WITH YOUR CHILD

You can discuss money with children at any age, provided you do so in an age-appropriate manner. With young children you could talk about buying brand products in the supermarket for instance. With older children you could discuss the concept of borrowing. Some may even ask you how much you earn. Make sure that money is not a taboo subject in the home and that your children know that they can come to you with any questions they may have but don't burden your children with your financial worries.

### ALLOW YOUR CHILDREN TO LEARN FROM EXPERIENCE

'Learning by doing'. By handling money, children also learn the value of money. You could start by giving your child money to go to the baker for a loaf of bread. It will learn how to pay for things and to check that it gets the correct change.



**LEARNING HOW TO HANDLE MONEY ALSO MEANS THAT CHILDREN MUST BE ALLOWED TO MAKE MISTAKES. THESE MISTAKES CAN PROVE TO BE EXTREMELY EDUCATIONAL.**



### 3.1. POCKET MONEY

#### BY NO MEANS COMPULSORY

Parents are not obliged to give pocket money. However, it can be a great way for children to learn. Whether you give pocket money and how much will depend on a number of factors and will vary from family to family. One crucial factor will be the family's disposable income. Some parents are far too stretched as it is and simply can't afford it. There is absolutely no reason to feel guilty about that. As you will read in this brochure, there are umpteen ways to make your children money savvy. If you do decide to give pocket money though, the following tips may make for useful reading.

#### WHY POCKET MONEY?

It is important to regard pocket money as learning money. From a young age, your child will learn to span a given period of time with a limited budget. As a result, your child will better be able to appreciate the value of money later on in life.

Giving children money to go and buy some clothes is a fun and excellent way to teach children how to manage money. And let's face it, most youngsters will enjoy picking out their own clothes. It is one way of giving your child more financial responsibility.



## FROM WHAT AGE?

A good time to start giving pocket money is when your child goes into **first class**.

At that age, they are taught arithmetic at school. They learn to count and to recognise the various coins. It goes without saying that you, as a parent, decide when your child is ready for this.

**From the age of 12** you could start giving them money for clothes. At that age, children are able to think in the longer term.

## HOW MUCH POCKET MONEY?

The amount you give will depend on:

- ▶ your own financial situation;
- ▶ the child's age;
- ▶ what the child has to cover with its pocket money.

Please understand that the actual amount of the pocket money is irrelevant but that the idea of giving pocket money is to teach your child to manage money responsibly.



## THE RULES OF THE POCKET MONEY GAME

### 1. A fixed amount

Agree a fixed amount with your child. Don't give any extras.

### 2. A fixed time

Give pocket money at a fixed point in time. This will teach your child that the amount is meant to cover whatever period you agreed on. As primary school children are not really able to think long term they would benefit more from a weekly arrangement. Come secondary school you can give your child a two-weekly or monthly allowance.

### 3. Gone = gone

When the money is gone it is well and truly gone. Discuss the reason why your child ran out of money with your child. Explain that the purpose of the exercise is to make do with a fixed amount. Top-ups are not part of the plan.

### 4. Who pays for what

Make sure that your child understands what it has to pay for itself and what not as this is how it learns to think about what it wants to spend its money on.

### 5. No punishment or reward

Do not use pocket money as a means to punish or reward your child. Once you have agreed on an amount, your child must also be able to bank on getting that amount.



### A PERSONAL BANK CARD

12 is the right age to give your child its first bank card. The bank card will teach your child how to monitor its budget, via Internet banking for instance. A smartphone app will enable it do so at any time. It will also allow you, as a parent, to look over its shoulder and steer matters in the right direction, for instance by setting a maximum monthly amount that can be withdrawn.

Take the time to explain how to use the bank card. Show how you withdraw money (safely), how you check the balance of a current account and use a savings account. You could for instance explain to your child that it should never disclose the PIN code to anyone and to always make sure that no one is looking over its shoulder while it is keying in the code.

### MONEY FOR CHORES

It is important that your child learns that helping out with the chores comes with being part of a family and does not merit payment. Getting your child to Hoover its own bedroom, to make its own bed, to lay the table are examples of household chores.

For certain chores, like mowing the lawn or washing the car, you may decide to pay a small fee. Never feel under any obligation to do so though! You could always reward your child with a hug or a compliment.



**TIP: MAKE CLEAR ARRANGEMENTS ABOUT THE CHORES  
WHAT YOU ARE PREPARED TO PAY FOR AND WHAT NOT.**



### 3.2. SAVING

#### WHY?

When we think of saving we all think of regularly putting an amount into our savings account. But we can also look at it in a different way. Saving is necessary if we want to be in a position to deal with unexpected expenses (e.g. a fridge that needs replacing) or pay fixed costs (e.g. a final gas or electricity bill). Saving is about putting money aside and looking ahead. It is something we have to do if we want to balance our budget. For that reason alone, it is important that we teach our children that skill.

By teaching your children to save, they don't only learn that they can't always get everything they want at the drop of a hat but they will also learn to plan their spending.

#### WHEN?

The manner in which you teach your children to save will depend on their age:

- ▶ At the age of 6 they are old enough to start saving. From that age they could start putting money in a piggy bank for instance. As the piggy bank gets heavier, your 6-year-old will understand that the money is accumulating.
- ▶ Come 8 years of age, children are able to set money aside for longer. They are able to work out how long it takes to save for something.

- ▶ At the age of 11, saving becomes a less abstract exercise and children are able to understand what saving 'for later' or 'a rainy day' means.

### HOW?

Not everyone is in a position to give his/her child pocket money or money for its birthday. It starts with what you, as a parent, can spare without upsetting the household budget. You certainly don't have to give your child large sums of money to teach it how to save.

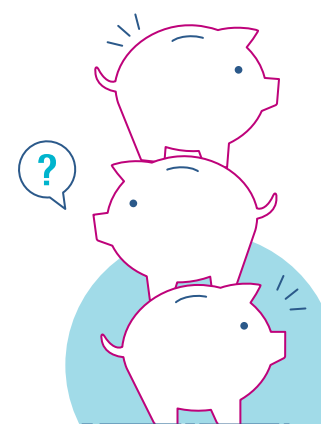


### SAVING TIPS

- ▶ Young children need a concrete savings goal. Check with your child what it could save for.
- ▶ Make sure that the savings goal is realistic.
- ▶ You could draw up a savings plan with your child. This can be done on a calendar, a sheet of paper or a page on the computer, where you write down the following:
  - the savings goal (with a picture perhaps)
  - the cost of the savings goal
  - any money your child may have already
  - the points in time your child receives or earns money
  - how long it will take to get the money together
- ▶ If your child is a little older you could suggest putting the money in a savings account.

### TYPES OF SAVERS

Children don't all manage their money in the same way or have the same interest in dealing with money for that matter. Some children will spend nothing. All they do is save. Other children can't spend their money fast enough, often on useless things. Between these two extremes there are many different types of savers. That doesn't make one type of saver better or worse than the next. Regretting an impulsive purchase may actually make your child think twice before it spends its money foolishly again. As a parent, try to figure out what kind of a saver your child actually is and tailor your financial literacy education to that behaviour.





### 3.3. EARNING MONEY OF THEIR OWN

Once your child reaches a certain age, it can make a lot of sense to encourage it to earn some money of its own. In that way, youngsters learn to manage larger amounts. It will also teach them a number of administrative skills such as figuring out a payslip and reading an employment contract.

#### MAKING ARRANGEMENTS

Is the money your children are earning mainly meant to use as they see fit? Or is it the idea that your son or daughter also spends it on certain essentials, like buying clothes for instance? If your child is also made to spend its money on necessities, the learning effect will be all the greater. Make proper arrangements beforehand!

#### HOLIDAY JOB

From the age of 15 (and once your child has completed the first two years of secondary education) your child is officially allowed to work. As a parent, make it your business to check the conditions a holiday job must meet. Did you know for instance that youngsters are only allowed to work a certain number of hours? Exceeding that limit will among other matters have repercussions for your child benefit.



**TIP: CHECK OUT THE VDAB AND STUDENT@WORK WEBSITES FOR USEFUL INFORMATION BEFORE YOUR CHILD TAKES ON A HOLIDAY JOB.**

### 3.4. A CONTRIBUTION FROM LIVE-IN YOUNGSTERS WHO HAVE AN INCOME OF THEIR OWN

More and more young adults continue to live at home even though they have a job of their own. 'Hotel mum or dad' is a most attractive proposition as standing on your own two feet can be financially challenging.

#### CONSEQUENCES FOR THE FAMILY BUDGET

Having a child that earns its own income living at home may prove to be a costly exercise as you could lose your child benefit and tax credits for your other, dependent, children. What's more, single parents in receipt of social welfare (income support or unemployment benefit) may lose part of their benefit because they are no longer qualified as single. Also the rent of parents living in social housing may go up.

#### CONTRIBUTION FOR BED AND BOARD

If your son or daughter goes out to work but continues to live at home, you are quite entitled to ask for a contribution: in that way they contribute to the overheads. At that, you teach your children to manage their initial earnings consciously. It teaches them that a certain part of their earnings must be set aside to cover overheads before they can spend the rest as they like.



There are no rules, be it in law or elsewhere, to tell you how much you can charge your child. We would advise you to trash this out with your son or daughter. The amount of your child's contribution will depend on a number of factors: the parents' income and the difference in income now that your child is working, the income he/she is earning. It goes without saying that the contribution must be reasonable. For one, it only stands to reason that the amount the young adult contributes to the household is proportionate to his/her income. Aside from the fact whether you actually need your child's contribution or not, there is no harm in asking your child to contribute to the common costs such as rent, energy, Internet... By doing so, you teach your child what (financial) independence is all about.



## PREPARING YOUR CHILD FOR INDEPENDENCE

The step from living at home to living independently is enormous. Youngsters living at home can often spend their money on things they like while the parents are left to cover the essentials. Once they leave home they soon realise that their spending power is no longer what it used to be and they will find it hard to adjust.



**TIP: TO EASE THE TRANSITION TO INDEPENDENT LIVING YOU, AS A PARENT, CAN PREPARE YOUR CHILD:**

- ▶ Show your child how you keep the day-to-day administration. By way of example: what do you do with the post? Where do you keep your invoices?
- ▶ Do you make an overview of your monthly income and expenses every now and again? Explain why and how you do this.
- ▶ Tell your children what expenses a household has each month. What are the fixed costs such as rent, electricity and Internet? What are the variable costs? Many young people couldn't even hazard a guess at these amounts.
- ▶ If you decide to ask your child for a contribution, you could come to an arrangement that your child pays certain household expenses, like Internet and television for instance. By doing so, they will practise a number of skills such as reading invoices and transferring money.



## 4. SAFE AND RESPONSIBLE SPENDING

### 4.1. ADVERTISING LITERACY

We are swamped with ads: on TV, the Internet, social media, in online games, in magazines... There is no way of avoiding them. Making youngsters resilient to the power of advertising starts with understanding how advertising works. This is also known as 'advertising literacy'. Once you realise that advertising is designed to influence you, you become more critical about the ads you are presented with. You will spot ads a mile away and look at them in a different light. Children must be allowed to discover what advertising is all about themselves, what advertising techniques are used and how you can spot an ad.

It is impossible to make children under the age of 6 aware of the power of advertising because they are simply too young to process that information. From the age of 6 it is a good idea to, as a parent, consciously deal with advertising.

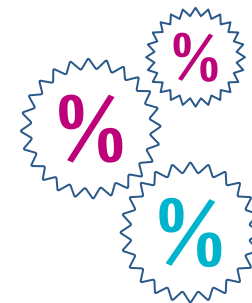


**A LOT OF YOUR CHILD'S MEDIA CONSUMPTION TAKES PLACE AT HOME. MAKE THE MOST OF THAT FACT TO TALK TO YOUR CHILD ABOUT THE MANY ADVERTISING MESSAGES THAT END UP IN YOUR HOME VIA TV, THE INTERNET AND THE POST.**



Some examples:

- ▶ Go through the leaflets that drop into your letterbox in the run-up to the festive season. Ask your child what toys it thinks are great and why. Are they really as wonderful as they are depicted and described?
- ▶ Together with your child, check TV programmes for hidden advertising messages. Many TV programmes resort to product placement. For instance, everyone drinks Tönissteiner at home; James Bond drives a BMW...
- ▶ Discuss the commercial breaks with your child. Ask your child for its opinion about a certain promotional film: is it over the top, realistic or funny?
- ▶ Check product packaging together with your child. Explain to your child that advertisers spend enormous amounts of money on trying to convince children to spend their money on products that are often unhealthy. One of the most popular ways to do this is by means of kids' heroes like cartoon characters, sport stars and famous (TV) personalities.



## 4.2. MAKING CHOICES

Being good with money is often a question of being able to make choices. It is important to teach your child that you can only spend every euro once. That means that children must learn to choose because 'gone is gone'.



### A FEW TIPS ON HOW TO TEACH YOUR CHILD TO GET BY ON A LIMITED BUDGET:

- ▶ Does your child want to buy something or are you planning on buying something for the entire family? Involve your child and compare prices together. Don't hand over your money straight away but compare prices, the quality and characteristics of similar products first. You can compare prices by going from shop to shop or via the Internet.
- ▶ Explain to your child that some items cost more than the advertised price. Is your son or daughter looking for a mobile phone? If so, also the price plan and the cost of the case must be factored in.
- ▶ Make your child aware of ads. Check together whether a certain offer really is as good as it is made out to be. Is 2+1 for instance always a bargain? You buy two T-shirts and you get the third one free. But what if you only need one T-shirt?

## 4.3. TEENAGERS

As children get older, peers will play an increasingly greater role in their life. Being part of the gang and being considered cool is extremely important to teenagers. As a parent, it is important that you teach your child how to cope with peer pressure! Even though you may think that you are fighting a losing battle, youngsters often value their parents' opinion far more than is commonly thought.



## 4.4. MOBILE TELEPHONY

Sooner or later your child will be looking for a mobile phone. Most secondary-school children either have a mobile phone or a smartphone. This can be an excellent learning experience for your child. If your child does get a mobile phone go and look for the one that suits your or your child's budget best. You could start by asking your child a number of critical questions:

- ▶ What do you want to use your mobile phone for? Making calls, texting and going on the Internet? How do you feel about that as a parent?
- ▶ Do you go for a pay-as-you-go or a bill-pay phone? Which one is cheaper?
- ▶ How careful are you with expensive equipment?

During that chat, you will have to come to a number of arrangements. Who is going to pay the bill or pay for the top-up? What if your child loses the phone?

### TYING PRACTICES

Mind! Don't get taken in by tying practices. Did your son or daughter spot a really expensive smartphone for 10 euro somewhere? Chances are that you can buy the smartphone at that price provided you sign up for an expensive 12 or 24-month contract. If you work out the overall cost, the smartphone will probably turn out to be far more expensive than if you were to buy it outright without signing up for a price plan. Check the conditions and read the small print!



#### 4.5. ONLINE RISKS

Online games and apps are incredibly popular among children. Many games and apps can be downloaded on your smartphone or tablet for free. Do bear in mind though that, more often than not, you will ultimately end up parting with money. (Young) children often don't realise that they are actually spending money while playing one of these games. Make sure that your child has to enter a password before buying anything online.

What can you teach older children about this? That there is no such thing as a free meal; that 'free' games are only a ploy to get you to play the game. Once you start playing, there are all sorts of payment options to get you to progress faster in the game.

#### 4.6. BORROWING MONEY

Borrowing money can have its uses. Borrowing for a house or a car is quite different from borrowing for a television. Before you teach your child about borrowing, check your own attitude towards borrowing. Do you want your child to copy that attitude?

The amounts your child borrows (from friends to buy a snack or sweets for instance) are only small. It is a good idea to get your child to think about the concept of 'borrowing' and about the risks that come with it.

Explain to your child that:

- ▶ borrowing means using money you don't have yourself;
- ▶ the money must be paid back;
- ▶ problems can arise if you do not pay back the money (on time);
- ▶ saving for a major

#### STANDING GUARANTOR

Mind! Parents often guarantee their children's loan(s). However, when reimbursement becomes a problem, the creditor will come knocking at your door. So think carefully before you guarantee a loan.



#### 4.7. YOUNG ADULTS

As a parent you are financially responsible for your children until they turn 18 years of age. After that, your children are liable, meaning that they must settle any arrears, fines and debts themselves. Once your child turns 18, it no longer needs your permission to sign contracts such as a mobile phone contract. From that age, banks can even give your child an overdraft.

Prepare your children for this as best as you can. Warn them for instance about 'easy' credit such as chain store credit cards and tell them never to sign anything without reading the small print.



## 5. DOS AND DON'TS OF FINANCIAL LITERACY EDUCATION



### DOS

- Talk about money with your child.
- Make arrangements with your child about money.
- Step by step, give your child more responsibility.
- Give your child pocket money as learning money.
- If you do give pocket money, give a fixed amount at a fixed point in time.
- Allow your child to decide what it does with its money.
- Be consistent.
- Allow your child to make its own mistakes.
- Lead by example.



### DON'TS

- Don't take over all your child's financial affairs.
- Don't use pocket money as a means to punish or reward your child.
- Don't give your child extra money without good reason if it ends up being penniless one week. Gone = gone.
- Don't just give your child free rein but guide it along the way.
- Don't punish your child if it makes a mistake. Making mistakes is part of the learning process.

## 6. IN NEED OF HELP?

If, after reading this brochure, you still have questions the following organisations will be happy to advise you:

- ▶ an 'opvoedingswinkel' (parenting advice centre) in your area
- ▶ the 'Huis van het kind' (Children's House)  
via [www.huizenvanhetkind.be](http://www.huizenvanhetkind.be)
- ▶ the 'CAW' (Centre for General Well-being) via [www.caw.be](http://www.caw.be)

For budget-related issues, we are happy to recommend the following websites:

- ▶ [www.allesovercenten.be](http://www.allesovercenten.be)
- ▶ [www.eerstehulpbijschulden.be](http://www.eerstehulpbijschulden.be)

If you, or your child, are struggling financially you can contact a 'CAW' or 'OCMW' (Public Centre for Social Welfare). To find an organisation in your area, check out [www.eerstehulpbijschulden.be/contact](http://www.eerstehulpbijschulden.be/contact).

## 7. SOURCES



Financial literacy education guide, from pocket money to earning your own money. NIBUD (National Institute for Family Finance Information).

Money savvy. Teaching children how to manage their money. Anke Plante & Annet Dries-Heetman.

Focus on financial literacy. More than handing out pocket money alone. Gezinsbond (Flemish Family Association).

Ad savviness in children and youngsters Verolien Cauberghe, Patrick De Pelsmacker, et al.

[www.cebud.be](http://www.cebud.be)

[www.nibud.nl](http://www.nibud.nl)

[www.allesovercenten.be](http://www.allesovercenten.be)

[www.groeimee.be](http://www.groeimee.be)

