

Teaching Children Financial Stewardship

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What are the basic personal finance principles that we need to teach our children? I've listed five suggestions below. There are undoubtedly more we could add, but this list gets us started. I'm assuming that we're talking about "children" between the ages of five to fifty! If your children are young, you will want to adapt this list accordingly.

1. Pay a full **tithing** and be generous in your offerings.
2. **Save** at least **10 percent** of your income.
3. Develop and maintain a **record-keeping system**.
4. **Keep track of expenditures** by using a budget.
5. **Start investing now!**



With these five core habits in place your children will have a solid foundation. But, there is one more vitally important element. It is **perspective**. Financial stewardship is more than teaching money skills. More importantly, **we are sharing a value system with our children**. Without a value system in place, financial skills lack meaning.

Tithing and Offerings

Tithing is the Lord's law of finance. Paying tithing to the Lord is a privilege. Moreover, it is an important step toward living a consecrated life. Those who faithfully tithe can know that they have kept one of the Lord's commandments with exactness. Offerings should be generous. Children love the opportunity to share and can be naturally generous if simply shown the pattern by their parents.

Save At Least 10 Percent of Income

"If you wish to get rich, save what you get. A fool can earn money; but it takes a wise man to save and dispose of it to his own advantage."

-Brigham Young, *Journal of Discourses*, 11:301.

Tithing, the Lord's law of finance, is meant to teach us a valuable lesson, namely that a portion of our income is dedicated to Him. It also suggests that a portion of our income should be dedicated to ourselves—in the form of savings. If a ten-year-old girl were to save 10 percent of her annual income (assuming modest income figures throughout the lifecycle), when she is sixty-five she will have over \$225,000 in her savings account—and that's assuming no interest earnings! If all the saved money earned 6-percent interest per year there would be nearly \$830,000 in the account. At 10-percent annual interest, she would have over \$2,500,000 by age sixty-five. Retiring with a comfortable nest egg is more a function of our persistence in saving than the size of our income. Time is the key element in building up a savings account. The more time the better. So, start now!

Young children usually respond well to tangible processes. In other words, they are more likely to save money if they have a cool piggybank or snappy trappy box. For older children, starting a savings account at a local bank can be motivating. One of our children, for example, started an investment account in a mutual fund with money earned from his paper route. The key is to help the child by finding something that motivates them to save. Be creative.

Saving money is a bit different from investing money. Money "saved" is typically put in a bank account. There is no stock market risk, but also no chance of earning stock market returns. Investing generally involves opening several mutual fund accounts (more about that later).

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"If there is any one thing that will bring peace and contentment into the human heart, and into the family, it is to live within our means."

—President Heber J. Grant

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Develop and Maintain a Record Keeping System

Nobody was ever meant

To remember or invent

What he did with every cent.

-Robert Frost



Record keeping is vitally important, but Robert Frost has a good point. Clearly, not all information is equally important. Moreover, record keeping should not turn us into neurotic zealots who track every penny like an FBI agent gone mad. Record keeping is creating and maintaining a system for preserving or documenting anything of financial, personal, or familial importance. If it's important, keep it—and keep it organized.

You can help your child by purchasing some folders that they can label. A folder for Pokemon cards, a folder for their report cards from school, a folder for treasured letters or e-mails they want to save, a folder for pictures, and so on.

Keep Track of Expenditures by Using a Budget

For young children this will be a very simple project with a very profound impact. On a piece of paper (or better yet, in a notebook) help them write down the money they have to spend and how they plan to spend it during the month. As they spend money, encourage them to record their expenditure on the “budget sheet.” If the child wants to use a computer to keep track of his or her spending, that works too.

It's not uncommon for young children (up to age twenty-five) to have no clue regarding the cost of running a household. One helpful exercise is to sit everyone down and with the use of play money (for example, Monopoly money) start out with a stack of money representing the total monthly net income (take-home pay). Then, with all eyes on the stack of money, start physically allocating it to the various budget categories (in little sub-stacks): house payment, utilities, tithing, food, insurance, medical, and so on. Kids get the point real quick. This lesson has a half-life of about two weeks, so it has to be repeated every now and then. But, don't do it too often because the object of the lesson is not to create a neurotic obsession with expenses. It can be discouraging to children if we fixate on money too much. So, we have to walk a fine line here.

Start Investing Now

For which of you, intending to build a tower, sitteth not down first, and counteth the cost, whether he have sufficient to finish it? -Luke 14:28

Most people invest in stocks and bonds by choosing several mutual funds. A stock mutual fund is a portfolio (or collection) of stocks. An investor needs several different mutual funds to be “diversified.” Diversification helps avoid a large loss if one particular mutual fund (say, the one that invests in large U.S. stocks) has a bad year. By spreading investment dollars across four different mutual funds, the chance of a big loss in any particular year is minimized.

Homestead is a mutual fund company in Virginia that allows investors to start an account with as little as a \$1 investment per month IF the investment process is automated—that is, you authorize Homestead to electronically withdraw your monthly investment from your checking or savings account. There is no fee for that service. (<http://homesteadfunds.com>). Their phone number is 1-800-258-3030. They have eight different mutual funds. Choose 3-4 to build a portfolio for yourself and/or your children.

Help others with what you've learned here. Teach others—ideally your children—about investing so that they might better prepare for their future. After all, our greatest investments will be in each other.

Savings Growth Calculator

Occasionally when we are teaching our children how to save money it is hard to keep the end result in mind. It takes a lot of discipline to teach our children to save but it will pay off. Just how much is all this effort worth? Let's take a look at a savings growth Calculator.

If you start a bank account for your children with \$1,000 dollars and if you add a monthly deposit of \$100 dollars what will the account look like in 5, 10, and 20 years?

	5 Years	10 Years	20 Years
3% Interest	7,623.39	15,320.13	34,646.41
4% Interest	7,846.84	16,210.86	38,892.66
5% Interest	8,078.64	17,168.40	43,804.75
6% Interest	8,319.14	18,198.28	49,497.83