

Six Simple Steps to Get Your Kids Started on a Savings Plan

Step 1:

Discuss Savings

Talk with your kids about the reasons to save:

- having money for the things they want in the days, weeks and years to come
- avoiding debt

Use examples they can relate to—a younger child might want to save for a toy, while older kids might want electronics or clothes.

One of the first lessons we teach people of all ages is to “pay yourself first” by saving at least 10% of everything you take in. Once you've set aside your savings you can consider spending.

Step 2:

Set Goals

Work with your child to set short-, medium- and long-term goals. Get them to think about the things they want and any associated trade-offs between what they want now and what they want later.

The examples show goal-setting for a hypothetical 9-year-old and 17-year-old.

	Short-Term Goals (weeks)	Medium-Term Goals (months)	Long-Term Goals (>1 year)
9-Year-Old	Candy Book Video	Leapster® game “Virtual” pet (electronic) Watch	CD player PlayStation Skateboard
17-Year-Old	Dinner out with friends CDs Video game	MP3 player Tickets to a concert The latest athletic shoes or jeans XBox	Car Laptop computer College Rainy-day cushion

After you have worked together to set goals, have a discussion about wants vs. needs. Do you see eye to eye on what is a want and what is a need? If not, talk through your different perspectives.

And finally, help your kids develop a plan for achieving their goals. What things are you willing to fund (in whole or in part), and what will they need to fund themselves? How much will they need to save to achieve their goals?

Saving and goal-setting help your child to learn that they can work for and eventually get what they want. It also teaches them to be more independent.

Step 3:
**Incorporate an
Allowance**

If you don't already do so, consider giving your kids an allowance. When kids have their "own" money, the lessons of short- and long-term trade-offs really hit home. Set the parameters of the allowance up front (how often, how much, etc.). Talk to friends and parents or guardians of your child's schoolmates to determine a reasonable amount, and set up the expectation that some of the money should be saved for the future.

Step 4:
**Establish a Savings
Vehicle**

Get them started in a savings vehicle. For younger children, a piggy bank may be sufficient, but you may want to pay them interest so they can start to understand how compounding can work. For older kids, open a savings account in their name. Some financial institutions offer special children's savings products (with no minimum balance requirements or fees) or you can open a custodial account in their name. Be sure to check into fees in advance to make sure your child's savings don't erode.

A great way to get your kids started in a savings plan is to match some of their savings. The extra incentive will help them to see how saving can pay off.

Step 5:
Review Progress

Periodically review their progress. Talk with them about whether they're reaching their savings goals, review their bank statements with them, and ask them how they feel about the process. Continue to reinforce the long-term benefits of savings and how it will help them reach their goals in life.

Step 6:
Stick to the Plan

Once you've established what they are going to save for and how much they plan to contribute, try hard not to contribute more than your agreed-upon portion—even if they beg. Although you may hear some complaints, the process will force your child to make trade-offs and learn the importance of setting a goal and sticking with it.

