

# Building Your Preschooler's Financial Capabilities

## Information for Parents and Caregivers



**F**eeling able to manage financial resources is a life goal for most of us. It is also a skill we would like to teach our young loved ones. We have learned, often the hard way, that being good money managers doesn't just magically happen. We have

learned to manage money gradually, beginning in early childhood and continuing throughout our lives. This fact sheet offers suggestions for adults as they help young children develop their ability to manage money, also known as *financial capability*.

### How and when did you learn about managing money?

Let's remember how we ourselves learned to manage money. Take a few moments and jot down specific incidents in which you...

- learned how to tell the difference in value between coins:

---



---

- first spent money for something you wanted:

---



---

- first put money aside to save for something you wanted very much:

---



---

- found that you could not buy something you wanted for lack of money:

---



---

- were scolded because you spent money for something that wasn't wise:

---



---

- learned something about money the hard way:

---



---

After thinking about your learning experiences, list what have you learned about managing money that you want your child to know:

---



---



---



---



---



---



---

### Research findings about preschoolers' understanding of using money

Research shows that even very young children have some ideas about using money. They use their five senses and their new abilities to talk, listen, and make mental connections about real things and the electronic images they see on television. They gain good ideas but also some incorrect ones. As their parents and caregivers—their first and most important teachers—we need to model good financial management for them. We do that by taking time to show them about spending, saving, and sharing their money wisely.

What are many children capable of knowing about money by the time they are five years old? Experts on child development have determined that most young children can learn the following ideas when they have

hands-on experiences with them:

#### Spending and saving

- Spending, saving, and sharing are ways to use money.
- Money has value because you can trade (exchange or spend) it for what you want or need.
- Putting money aside to spend later is called saving.
- Saving allows you to buy something in the future when you do not have enough money now.
- You can keep track of money by putting it in a special holder at home.
- Saving money is a way to get something you want by yourself instead of hoping that someone will give it to you.

#### Shopping

- You can decide how and when to spend money before you go to the store, which helps you make better choices.

- You do not have to spend all the money in your holder. What you do not spend in one day you can save and spend another day.
- Shopping means making choices.
- Deciding to buy something at a later date, or not buying something at all, are also shopping choices.
- People make shopping lists to remember what they need to buy.
- Shopping is a chore in which family members help each other.
- Good shoppers compare prices and choose items that cost less or are on sale.

#### Working for pay

- Work is often paid for with money.
- Different jobs pay different amounts of money.
- A calendar is a good way to keep track of future payments and events.



#### Value of money and using it to purchase items

- The amount of money needed to buy something is called its *price*.
- Different items have different prices.
- Coins and paper money have different values.
- Buying something means giving up money for an item.
- Money you spend is gone for good.
- Buying something means making a careful choice.
- You cannot buy everything you want.

#### Activities that do not have to cost money

- Family members do things for each other every day without being paid.
- Fun, free activities can be done at home, alone, with family, or with friends.

- Some things that seem to be free, such as food, really cost money.
- Love, hugs, and friendship are also free and feel good to give and receive.
- Many gifts can be made at home and do not cost any money.
- Doing something fun with someone can be a special gift.
- Helping someone with a chore can be a gift.
- Giving a cost-free gift can express love as well as, or better than, a gift bought with money.
- Doing something for someone can feel as good as having someone do something for you.

As adults, we would be capable money managers if we understood and put into practice these concepts. By understanding them and

taking action to teach our young children, we help prepare them to be wiser citizens and to make stronger families. The amount of income or time parents have does not matter. Teaching little ones about money is investing in the future of the family and the nation.

### Children's developing concepts of money and time

#### Understanding of the future

The most relevant question about preschool children's ideas of money and time is their understanding of the future. The brain of a preschooler has generally not developed well enough to have much idea of the future. However, they know about the major events of the year to which they look forward, such as their birthday or the winter holidays. When their parents relate saving or spending money to events such as that, preschoolers may be able to develop a greater sense of the future as it relates to using money.

Young children have little concept of the meaning of an allowance, or the idea of payment, wage, or salary as an exchange for their own work or others'. Instead, they are apt to regard an allowance as a sign of their parents' approval of them or as an expected payment that they take for granted. They may not understand the full meaning of an allowance as



training in money management until their early teen years. Yet, learning to handle money early on is important practice for later.

### Concepts of exchange and value

As children move out into the world beyond the family, they must learn to judge the value, quality, and price of items they want to buy. The ability to compare the prices of items they want to buy comes with hands-on practice alongside parents or other respected adults, as well as their development of logical reasoning.

### Questions that may help you as a parent discuss money with your young children

- How can we create a friendly place in which our family can discuss money issues?
- How should our children receive money to spend and save? Will we give them allowances or use another method?

- What are our family's values and attitudes about money that our children may be observing?
- As adults, what do we communicate to our children about money?
- How can we plan learning experiences for our children about money?
- What should we say to our children when we think they are asking to buy things because advertising media and their friends are putting pressure on them? See *Media Advertising and Your Child* (FCS7-210) for more discussion of this question.
- What should we tell our children about severe financial struggles our family is experiencing?

### Guidelines for educating young children about using money

The following suggestions may help resolve the questions listed above.

- Encourage and praise children for their good decisions rather than criticizing and scolding them for unwise actions. They will learn from the consequences of their mistakes.
- Set ground rules for the use of money before situations arise. For example, before taking your child to the supermarket, explain that she can choose one box of cereal, or one snack, but that is all you have money for this time. Clearly and calmly explain the consequences of violating the rules.
- Be consistent in your guidelines, but take your children's differences into account. One child may not be likely to speak up for his likes, whereas another child may loudly demand more than his share.
- Include all family members in money management discussions and decision making as much as you can, depending on ages and abilities.
- As children get older, increasingly include them in discussions of limits and consequences.
- Expect all family members to perform unpaid, routine household chores based on their abilities.
- Express aloud your desire to have things you can't afford and that you have decided against buying. Children need to know that parents say "no" to themselves, too.
- It is best not to talk about family financial struggles in front of young children. They do not have the capacity to understand the issues. They would likely feel frightened and stressed. Suggest instead what activities the family can do that do not cost money. If they ask to do or buy something that is too expensive, say matter-of-factly, "Our budget does not have money in it for that." Then, as a substitute, point out something fun to do or make that does work.

Using such guidelines will help create a family atmosphere of reassurance, trust, and safety. All of you will know what is expected, and children will gradually learn how to manage money.

---

Developed by Carole A. Gnatuk, Senior Specialist for Child Development, University of Kentucky Cooperative Extension Service, and Nancy Granovsky, M.S., CFP®, Professor and Family Economics Specialist, Texas AgriLife Extension Service, The Texas A&M University System

---

### References

- Credit Union National Association (CUNA) (2005). *Thrive by Five™: Teaching your preschooler about spending and saving*. Available at [http://www.creditunion.coop/pre\\_k/index.html](http://www.creditunion.coop/pre_k/index.html).
- Danes, S.M., and T. Dunrud (2008). *Teaching children money habits for life*. St. Paul, MN: University of Minnesota Extension. Available at <http://www.extension.umn.edu/family/youth-and-money/teaching-children-money-habits-for-life/>.

eXtension. Talking to Children about Money: Fact sheet (2010). Available at <http://www.extension.org/pages/62428/talking-to-children-about-money>.

eXtension. Teaching Children the Value of Money: Fact sheet (2009). Available at <http://www.extension.org/pages/28812/teaching-children-the-value-of-money>.

Holden, K., C. Kalish, L. Scheinholtz, D. Dietrich, and B. Novak (2009). *Financial literacy programs targeted on pre-school children: Development and evaluation*. Unpublished report to the Credit Union National Association. Madison, WI: University of Wisconsin-Madison.

Marshall, D. (Ed.) (2010). *Understanding children as consumers*. Thousand Oaks, CA: Sage Publications.

*Be consistent in your guidelines, but take your children's differences into account. One child may not be likely to speak up for his likes, whereas another child may loudly demand more than his share.*



Educational programs of Kentucky Cooperative Extension serve all people regardless of race, color, age, sex, religion, disability, or national origin. Issued in furtherance of Cooperative Extension work, Acts of May 8 and June 30, 1914, in cooperation with the U.S. Department of Agriculture, Nancy M. Cox, Director, Land Grant Programs, University of Kentucky College of Agriculture, Food and Environment, Lexington, and Kentucky State University, Frankfort. Copyright © 2014 for materials developed by University of Kentucky Cooperative Extension. This publication may be reproduced in portions or its entirety for educational or nonprofit purposes only. Permitted users shall give credit to the author(s) and include this copyright notice. Publications are also available on the World Wide Web at [www.ca.uky.edu](http://www.ca.uky.edu).