Building Your Preschooler’s Financial Capabilities

*Information for Parents and Caregivers*

Feeling 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:

  ____________________________________________________________

  ____________________________________________________________
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.
- You do not have to spend money to events.
- Money you spend is gone for good.
- Buying something means giving up money for an item.
- Money you spend is gone for good.
- Buying something means giving up money for an item.
- Money you spend is gone for good.
- Money that cost less or are on sale.
- Buying something at a later date, or not buying something at all, are also shopping choices.
- Spending money to events 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 giving up money for an item.
- Money you spend is gone for good.
- Buying something can be a special gift.
- Helping someone with a chore can be a special gift.
- Giving a cost-free gift can express love as well as, or better than, a gift bought with money.
- Giving a cost-free gift can express love as well as, or better than, a gift bought with money.
- Doing something for someone can be a special gift.
- Helping someone with a chore can be a special gift.
- Giving a cost-free gift can express love as well as, or better than, a gift bought with money.
- Giving a cost-free gift can express love as well as, or better than, a gift bought with money.
- 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 special gift.
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Children’s developing concepts of money and time

**Understanding of the future**

The most relevant questions 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?

**Guidelines for educating young children about money**

The following suggestions may help resolve the questions listed above.

- **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* (FCST-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 money**

- **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 and share 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.

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**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)