

6



The Building Blocks for Piggy Banks

Your children are probably close to the age (if not already there) where they want you to “Show them the money!” Some of their friends may have allowances and may boast at recess about how they are saving for a new K’NEX set with their own money (because don’t all kids boast about their saving achievements?).

They are *so* close to getting their hands on some real money. But first, for your children to learn to spend responsibly and understand the importance of saving and sharing, they need to learn some simple skills, such as prioritizing what they spend money on and differentiating needs from wants. Chapter 6 will also provide a blueprint for teaching your children how to make smart decisions. This will all lead to Part III, which will teach your children to apply these skills through spending, saving, and sharing—the *Piggy Bank Basics*.

BUILDING BLOCK 1: NEEDS VERSUS WANTS

For the younger children, the first concept to teach them is the difference between needs and wants. This concept seems pretty straightforward, but it’s not always clear cut. Water is clearly a need, but what about juice? If they have a good grasp on the difference between the two, they can get into the habit at a young age of asking themselves, “Do I really need this, or do I just want it?” This is a valuable skill and can curb impulse buys and overspending.

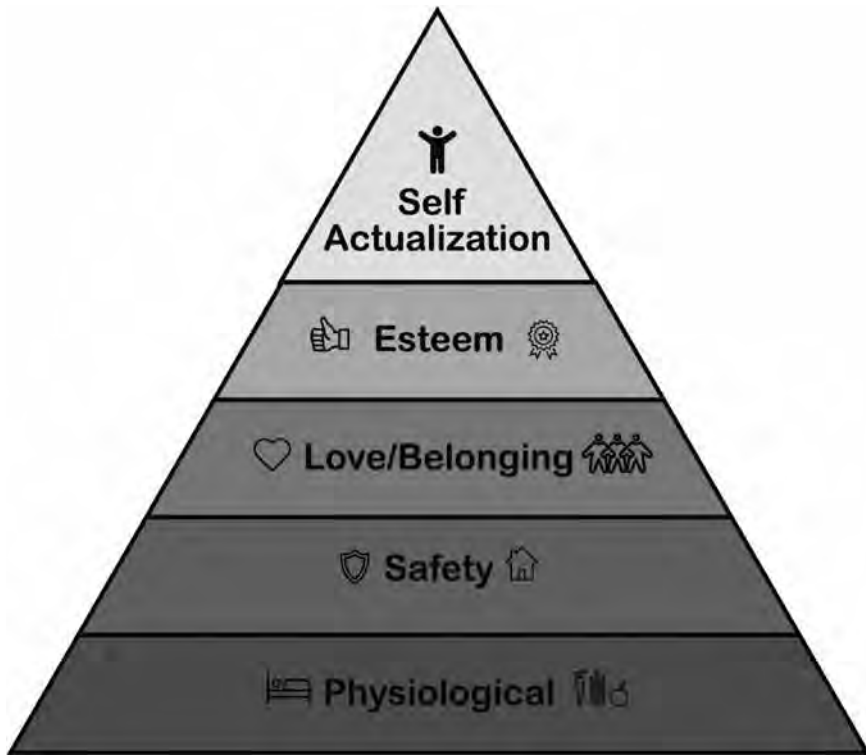


Figure 6.1. Maslow's Hierarchy of Needs. Kristen Buchholz.

A quick review of needs versus wants will take you back to your Psych 101 college class, with *Maslow's hierarchy of needs*, illustrated in Figure 6.1. This pyramid demonstrates Maslow's theory by showing the five basic levels of human needs. You may be saying to yourself, "I understand the difference between wants and needs, thank you very much." However, when your eight-year-old future interrogator starts grilling you, this can be a helpful guide. You'll be surprised how quickly this can get tricky.

While not perfect, all five levels of need are important, and the theory gives parents a foundation for teaching. With regard to finance and explaining to your children the meaning of a *need*, focus on the first two levels: physiological and safety. *Physiological needs* are the physical requirements for your body to survive, such as water, food, shelter, and clothing. The next level isn't always as black and white. It focuses on what a human needs to be safe, such as savings accounts, safety in the home, health care, and job security. The top three levels are important but not as clear cut when explaining needs and wants to children—better to stick with the bottom two for now.

Your children probably have an idea of what wants and needs mean, but it's the kids' version. So it sounds something like "I need ice cream" and "I want water." To start with your children, ask them what babies need every day. They will probably answer with things like milk, mommy, toys, sleep, and a bed. With each item they list, explain whether that's something they *need* or something they *want*. "Toys are fun for babies, and they like to play with them. But they can live without toys." Next, ask your children what they need every day. Repeat the same activity as you did with the baby.

Now that they have an idea of wants versus needs with regard to their own lives, you can dig into what it really means. Simply put, *needs* are things that are essential, or important to your survival. *Wants* are things that are nice to have, but you can live without. Even still, this can get murky. You will have to determine for your family what is considered a need versus a want on some items, like a car. For many, a car is considered a need that is necessary to go to the grocery store, doctor's office, and school. For others, a car may be a luxury item that they cannot afford.

Along the same lines, while a car may be a need for some, a *luxury* car with all the bells and whistles is not. That would more likely be considered a want instead of a need. Food is a need, but ice cream is not. "But ice cream *is* a food!" your too-smart-for-their-own-good children will argue. You can explain to them that food is a need because it gives your body vital nutrients. Although ice cream is a food, it doesn't give your body those same nutrients. Then, you'll probably have to take a trip to the ice cream store since it was brought up. Sorry.

This leads to setting some financial expectations about what you expect your children to buy with their own money. Tell your children that while they are young, you will always buy them anything that is a *need*, such as food, their home, and clothes, but they have to buy the things they want with their own money (except for special occasions, of course). You can use opportunities at the grocery store as examples. If they ask for a certain type of cereal, tell them that's a need, so you will buy it for them. If they ask for a cake pop from the bakery, that would be considered a want.

This understanding of needs versus wants is a major building block in terms of learning smart spending. It will become critical once they start learning about budgets and making decisions on how to spend their hard-earned money. They should understand that while it's OK to spend money on things you want, need items should always come first.

Anytime Activities: Need versus Want

- Give your children the choice between two items and tell them to decide which is a need and which is a want. Start simple, like "bread

and baby doll.” Once they’ve got the basics, try to trick them with items like “shoes and barrettes,” “Band-Aids and popsicle,” and “house and beach house.” It’s not always as clear cut as you’d think, right? When the questions get trickier, ask them which one is *more* of a need than the other.

- Do the same game, but reverse the roles. Have your children name two items and you have to tell them which you think is a need and which is a want. It’s interesting to see how they choose which is which.
- Ask your children to list needs and wants that don’t cost any money. The obvious free needs are air and water. Ask for examples of what they could use to fulfill their needs while camping. If they needed shelter, they could build a fort for free with trees and branches. They could eat certain types of berries from the bushes. Examples of free wants are easier to come up with, like swimming in the lake, playing at the park, or exploring the woods.

Discussion

Keep this conversation going. It’s amazing how kids absorb this type of information. But beware; your children are guaranteed to use this against you the next time you say, “I really need a bigger yard” by replying, “Mom, you don’t need it. You just want it.” Right, thanks, kids.

Practice Activity: At the Store

The thought of being at the store with your children usually conjures up some combination of fear and dread with most parents (for good reason: “I want this!” “I’m bored” “Another store? Ughhhhh!”). Unfortunately, learning firsthand from you is the most effective way for children to learn anything. So take your kids to run errands with you! What better way to teach children about spending than to show them how you spend? Any type of store will do, as long as you are buying a product or service in exchange for money.

Point out products on the shelves and ask if they are needs or wants. You can do the same at a service-oriented business, like a laundromat. “Is getting my clothes cleaned at a laundromat a need or a want?” Each time something falls into the gray area, you have a great opportunity to explain the concept further. “Washing my clothes is a need. But I *could* do it myself for less money. So paying extra to have someone else wash them is a *want*.” Again, try to trip them up with these; don’t make it too easy!

HOUSEHOLD AND FAMILY NEEDS

Once your children have a firm grasp on the difference between needs and wants, you can dive into the needs that are critical (but not as obvious) to running a household and family. To start with, power for your house is a good example:

- Ask your children if you need your oven? You can explain that the answer is yes because you need it to cook food.
- Ask your children if you need electricity/lights? The answer is yes for safety reasons. You need heat in the winter and air-conditioning in the summer. Plus, you need lights because you could trip and hurt yourself at night if it's too dark.
- Explain to them that power runs the oven, keeps the lights on, and heats the house up during the winter. Therefore, power is a need.
- Walk through the rest of your household bills as examples for your kids. Cable and internet are great examples to discuss. These probably *feel* like needs to most kids (and many adults!), so it's important to explain that these are most likely want items (unless you use it for work, then it could be considered a need). These conversations with your kids not only help differentiate between needs and wants, but discussing household bills introduces important items to be discussed later when exploring budgets.

BUILDING BLOCK 2: PRIORITIES

Through learning needs versus wants, your children have been learning how to prioritize, even if they don't know what this word means. A simple way to explain priorities to your children is to ask them what is really important to them. Maybe you are one of the lucky and rare parents where your children will tell you that their family is most important. More than likely, they list things like their friend Sam, their bike, frogs, or cupcakes. Tell them that these are their *priorities*, which means these are the things that are most important to them. Explain to them that a need is always more important than a want, so it's a *priority*.

Practice Activity: Prioritizing

Write a list of 10 items unique to your children, including a mix of things they like and dislike. Ask them to rank the items in importance from 1–10

Table 6.1. Rank Priorities

<i>Rank (1–10)</i>	<i>Priority</i>
	<i>The Incredibles 2</i>
	Pickles
	Ninjago LEGO Set
	Mom
	Cleaning your room
	Fudge brownies
	Baby brother
	Sleep
	Math homework
	Spaceships

(with 1 being the most important and 10 being the least important). Make it fun, creative, and challenging. Include items whose rankings may surprise you . . . such as their baby brother.

This should be something that initiates lively discussions as your children decide what they like most, and you will probably learn something new about your children (such as, Does Mom rank above brownies?). Table 6.1 provides an example list. Walk through the list and explain to them that #1 is more important than #2, so it's more of a priority and so on down the list.

BUILDING BLOCK 3: DECISION-MAKING

Psychology expert Jim Taylor states that decision-making is one of the most important skills children need to develop to become healthy and mature adults. In the article "Parenting: Decision Making," Taylor explains why.

Decision making is crucial because the decisions your children make dictate the path that their lives take. Teaching your children to make their own decisions has several benefits. When they make a good decision, they can gain the greatest amount of satisfaction and fulfillment because they chose it. When your children make bad decisions, they may suffer for it, but they can learn from the experience and make better decisions in the future.¹

Responsible spending stems from smart decision-making. However, it's important for your children to learn how to make not only smart financial decisions but also good decisions regarding health, education,

safety, and general well-being. Although this chapter focuses on financial decisions, the lessons and information can be applied to any type of decision your children face.

Right or wrong, your children are already experienced decision-makers. Decision-making is a skill your children use all day long. Many of their decisions are small and set on autopilot, like deciding to put their shoes on in the morning. Others are larger decisions and may require some thought, like which friend to play with at recess. Start pointing out when your children are making a decision or compliment them when they make a well thought out decision, even if it's small.

Explain to your children that they make decisions all the time, and often their decision means they are choosing one thing instead of another. When they decide they want vanilla ice cream that means they're deciding to eat that flavor instead of the chocolate ice cream. Same with spending. When you spend your money on one item, it means you can't buy something else with that money—it's all about choices.

This is an example of *opportunity cost*: giving up the benefit of one thing for another (more in Chapter 11). If your children choose vanilla ice cream, the opportunity cost is that they can't have chocolate ice cream. If your children have two birthday parties at the same time and they choose to go to Josh's party instead of Megan's party, the opportunity cost is they miss Megan's party.

STEPS TO SMART DECISION-MAKING

Let's look at an example that every parent (unfortunately) knows all too well. You are with your children at the local carnival, mall, fair, or amusement park. Your children have some money from their allowances burning a hole in their pockets. The first toy they see is a cheaply made, knock-off stuffed Minion doll (insert latest movie character here), which they decide they *must* have. Every urge in your parent body is screaming to tell them not to buy it because you know in 20 minutes it will either fall apart or they will find something else they want. However, this is a perfect time to let your children make their own decision and help guide them through the decision-making process. These steps can be applied to a financial decision like this or any other situation your children are in.

1. *Stop and identify the decision.* Because your children are young, they are naturally impulsive and often jump at their first whim. Your children may not even realize they are making a decision. So the first step is to encourage your children to slow down and recognize that there is a decision that needs to be made.

Minion example: “OK, Bella, I understand that you really want this doll. Before you make the decision to buy this doll, let’s stop and think about it for a minute, just to make sure you’ll be happy with your decision.”

If you immediately tell her she shouldn’t get the doll, it makes her defenses rise, meaning she will now insist on getting the horrid doll. By acknowledging that she has a decision to make, it not only slows her down but also lets her know that this is *her* decision and gives her a feeling of control.

2. *List the options.* Make sure your children understand that any time they make a decision, they are choosing one option over the others. Ask your children what their options are and discuss the possible opportunity costs.

Minion example: Ask Bella what her choices are in this decision. She may say, “I can buy this Minion doll, or I can buy a different toy.” Help her see that there may be other options, such as saving her money for something later. Another option could be waiting a day, and if she still really wants it (she won’t), she can then come back and buy it. The opportunity cost for buying the Minion is she can’t buy another toy or save that money.

3. *Evaluate your options.* Walk your children through the pros and cons of each option. This is the time to ask questions, such as “Why do you want this?” and “What are you going to do with it?”

Minion example: “Bella, it seems like your options are to (1) buy this doll now, (2) wait a day before buying it, (3) find another toy to buy now, or (4) save your money for later. Let’s think about each option. If you buy it now, you could have a lot of fun playing with it, but how will you feel if it falls apart tomorrow? Or if you buy it now, will you be upset if there’s something you want more when we go to the Disney store tomorrow, but you already spent all your money? What will happen if we wait and walk around a little? We can always come back if you still want it.”

Clearly every parent reading this is trying to gently guide her children away from the hypnotic Minion, but be sure to make it known that this is *their* decision.

4. *Make your choice, then analyze.* Ask your children what their decision is. Then, bite your tongue and roll with it. Note that obviously “rolling with it” may not always be appropriate. Children don’t have the maturity and experience to make important decisions. If it’s a large decision or one with real consequences (such as buying a dangerous toy or choosing a sleepaway camp), parents may need to step in to decide for the children. However, if it’s a decision where the worst-case consequences don’t harm your children (or others), then just let them choose. Letting them fail and feel the disappointment of a

wrong decision will encourage them to avoid bad decisions in the future. Later, discuss with your children if they are happy with their decision and what they wished they had done differently.

Minion example: After all of this, Bella decides to get the wretched doll. Even though you are screaming inside, let her make the mistake. If you tell her she will regret it, you will most likely get either an eye roll or an emphatic “No, I love Minions, I will play with this *all* the time!” The only way she will learn is to go ahead and buy the doll and realize on her own that she made a mistake.

When she inevitably regrets this decision, avoid the temptation to tell her that you knew she would. Ask her why she regrets the decision and what she wishes she had done. Try to get to the root of why she regrets her purchase. Is it because the toy is falling apart? If so, talk to her about the importance of quality, and suggest she study a toy carefully first to make sure it won’t break. Maybe she regrets it because after walking around the carnival, she found a toy she wanted more than the Minion. If that’s the case, tell her that the next time she wants something, it’s OK to wait and make sure that’s what she really wants to spend her money on. When she breaks down crying because she “really, really” wants this new toy and “life is so unfair,” give her a big hug and say “I know sweetie. I’m sorry you’re sad.” Offer her a tissue and stand your ground.

Depending on type and size of the decision, the decision process could take a total of two minutes or two weeks. More than likely, your children are already conducting some version of this process with every decision. However, it probably goes something like “I want that Minion doll. I can buy this Minion doll now. I’m going to buy the Minion doll. Mom, the eye fell off! I wish I hadn’t bought this stupid Minion doll.” All you need to do is help them stretch out the process and think it through.

Discussion

Whether they are happy with their ultimate decision or regret the purchase, talk to them about what they did well and what they could have done differently. Now that they have some distance, they may be able to realize that they didn’t really want the Minion doll and try to understand why they bought it in the first place.

Practice Activity: Making Decisions

The best way to teach children to make good decisions is through practice. Let them make their own decisions early and often. Again, allow them to make mistakes because that’s how they will learn.

Sorry, parents, but once again running errands provides a great opportunity to teach. At the store, give your children \$5 and tell them they can buy something. Help them walk through the decision-making process. A note to parents: be sure to carve out a few extra minutes with this one. All parents have experienced the hour-long process of choosing between a pink or blue lollipop . . . just imagine what they can do with \$5.

Also, try to give them clear choices throughout the day so they can practice making decisions, and encourage them to go through the process even on simple decisions.

- Do you want ice cream or a popsicle?
- Do you want to do your homework now and get it over with or wait until later?
- Would you like to decide what to wear to school today, or should I pick out your outfit?
- Whose birthday party do you want to go to this Saturday?

Since your children learn best watching you, discuss your own personal decisions throughout the day. If it's a decision you've already made, explain to them how you made it and how you feel about the decision. Ask them what they think about your decision. Or, if you are struggling with a decision, explain the situation to your children and ask them for help.

Anytime Activity: "Would You Rather?"

Would you rather? is an easy way to let your children practice decision-making through hypotheticals and games. Come up with scenarios to propose to your children and have them decide what they would do. These can be financially motivated, based on simple everyday decisions, or important decisions, such as ones that deal with peer pressure. Then, switch roles, and have your children ask the questions.

These can be simple or complex and have more than one choice and not all need to have right or wrong answers. The purpose of these is to help your children identify when they are making a decision and think through the decision-making process. They also may get creative with their answers! Ask them why they chose the way they did so they are actually thinking through their answers. Children love these types of games because they have their parents' undivided attention . . . and it's all about them! Here are some examples:

- Would you rather be a dolphin or a tiger?
- Would you rather go to a party with all of your friends or spend the day with your best friend?

- Would you rather be able to fly or become invisible?
- Would you rather have 100 quarters or 30 one-dollar bills?
- You're at the ice cream store, and there are only two treats left: a quadruple scoop of plain vanilla ice cream with no toppings *or* a tiny scoop of vanilla with sprinkles and hot fudge. Which would you rather eat?
- You are at your friend Jenny's house with your friends Sarah and Ella. They decide that once Jenny's parents go to sleep they are going to sneak outside to swim in the pool by themselves. Your mom told you that you are not allowed to swim in the pool without an adult because it's too dangerous. Your friends all decide to do it. Would you rather go swimming with them or stay inside?
- You are at the toy store with Mom, and she gives you \$10 to spend on whatever you want. She tells you that if you don't spend it and wait until tomorrow, you guys can come back to the toy store and she'll give you another \$10. Which would you rather do—buy something today or wait until you have more money?

BOOKS FOR LEARNING

Lily Learns About Wants and Needs by Lisa Bullard. This is a straightforward book perfect for the younger elementary school children. It shows Lily in multiple situations where she has to make decisions on spending money and teaches about wants versus needs.

MATCHING GAME: TERMS TO KNOW

Table 6.2. Matching Game: Terms to Know

Match each of these important terms to its correct definition.

Needs	The things that are nice to have, but you can live without.
Wants	The things that are most important.
Priorities	The things that are essential or important to your survival.

SHORT AND SWEET TAKEAWAYS

1. Explain to your children the difference between needs and wants. Make sure they understand that needs always come before wants.
2. Decision-making is one of the most important skills your children need to develop. Let them practice making decisions while they are young and can learn from their mistakes.

3. When your children are faced with a decision, guide them through the decision-making process; then, ultimately, let them have the final say.

NOTE

1. Taylor, Jim. 2009. "Parenting: Decision Making." *Psychology Today*, October 19, 2009. <https://www.psychologytoday.com/us/blog/the-power-prime/200910/parenting-decision-making>