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Piggy bank or plastic: In a digital world, how are parents teaching children about money?

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At a time when kids flash plastic at the mall, buy phone apps with fingerprint technology and swipe city transit cards to ride the bus to school, one might be forgiven for thinking the coin-jingling Tooth Fairy seems a bit out of touch.

That was Ottawa special-education high-school teacher Sue Carkner's thinking too when she began to re-evaluate how she and her husband, Steve, doled out allowance to their children. Back when they were preschoolers, she would give each child a loonie and a quarter, and take them to a local dollar store to practice buying things and getting change. And although her teens, now 13, 15 and 18, still receive some of their allowance as cash today, from the time they hit middle school, a portion of that money has been transferred into their bank accounts.

"I want them to have money in their bank accounts so they can practice using their bank cards," she says. "Spending is a part of life and they need to know how to handle that now."

Sue Carkner and Steve give their kids, Cat, 18, Jonathan, 13, and Quinn, 16, allowance as a mix of actual money and e-transfers, at their home in Ottawa March 10, 2019. Each of their kids has a distinct spending and saving style. Photograph by Blair Gable
BLAIR GABLE/THE GLOBE AND MAIL

The operative word is “now.” Like many parents, Ms. Carkner’s thinking around kids and cash has had to evolve as the demand for dollars and coins have dwindled in recent years. That’s not to say small children are ready to bypass piggy banks and leap right into a digital world.

While the monetary landscape is changing, the way infants and young children learn about their world has not. Small kids still touch, taste, smell and manipulate objects to gather information and figure out how things work. It’s perhaps no small coincidence that children start learning abstract concepts such as math by counting fingers and toes.

Attention tiger parents! Some research suggests there’s actually little point in jumping the gun and moving on to digital currency too early. Kids just don’t understand the vast majority of abstract concepts or words until they’re between the ages of six and 10.

So how can parents and teachers help middle schoolers and teens make the transition from coins and bills to taps?

Robin Taub, Toronto author of A Parent’s Guide to Raising Money-Smart Kids, agrees that it’s important to give young kids physical money before launching in on virtual methods of payment. She suggests young children use a piggy bank – particularly the multislotted ones that allow users to dump change into spend, save, donate and invest compartments. Then, when they're older, they can take it to the bank to open a youth account. Showing kids how their fistful of dollars shows up as, say, $76 in their online account, is an invaluable teaching moment.

"They can make that connection and bridge those two worlds – the world of cash and the world of digital banking," she says.

While Canada may be years away from being fully committed to creating a cashless society, parents and teachers are starting to note the difficulties of helping children and teens understand today's monetary transactions. Ms. Carkner explains that educating her class of students with autism has also become challenging recently.

"I'm trying to teach them money, but it's really hard to teach them how much a dime is worth when they never see a dime," she says.

Parents have other worries, too. A recent TD survey revealed that eight in 10 parents think living in a cashless society can have negative impacts on their kids, citing that it's now easier to spend and harder to grasp the consequences of overspending.

Research conducted by University of Toronto assistant marketing professor Avni Shah backs that assertion, showing that paying with cash feels more painful than paying with a card or online, an important lesson for kids who are now growing up in an era where it comes naturally to tap a debit card to pay. If today's children are not exposed to physical dollars and cents while growing up, will they have trouble understanding simple transactions such as saving and spending?

In 2015, research from Copenhagen Business School in Denmark showed that using debit cards leads to a willingness to spend more than when using cash. Some experts believe that psychologically, it's just easier to spend when the money doesn't seem real or as tactile.

Financial literacy educators are now focusing not so much on the nuts and bolts of transactions, but on the actual behaviour around how money is spent and saved. It's about teaching kids how to delay gratification.

"Parents need to sit down and have conversations with their children about the value of money. Although it comes off a debit or credit card, it's not free," says Robyn Thompson, a certified financial planner and president of Castlemark Wealth Management in Toronto.

For the past four years, Ms. Thompson has visited classrooms as a Junior Achievement financial literacy educator. She maintains that even very young children can, and should, start thinking about virtual money, as long as they're taught basic financial principals in tandem.

Take the popular money jar concept, in which kids divide and drop allowance, babysitting money or birthday cash into three jars: one for spending, one for saving and another for giving to charity. Ms. Thompson says that parents and teachers can still use that technique but in an updated way, by giving them tokens that represent paper money and coins instead.

Tech-savvy elementary school kids (read: practically all of them) can take this concept even further by using money management websites and phone apps such as ThreeJars and allowance tracking app RoosterMoney, which promises to help "parents teach their children the value of money in a digital age." Meanwhile Visa's Peter Pig's Money Counter teaches the littlest Canadian kids how to identify coins, make budgets and start saving habits.

Tricia Barry, executive director of Toronto-based Money School Canada, which runs money presentations for students and parents, says online teaching tools can be useful; but parents are the best teachers – and the worst – when it comes to educating their kids. Children watch everything their parents do.

The problem is that many parents don't like to discuss money with their kids at all, or they only talk about some aspects of it, such as spending on clothes, meals or entertainment. Instead, Ms. Barry says it's important to show children and teens the whole picture, including how much things cost. Show kids your bank balance on payday and how monthly bills are paid online to give them a real sense of the value of a dollar in a virtual cash world.

"What you spend on hydro is not like a state secret, so share that," she says. "Make your kids aware. Show them the bills and your bank balance."

Lainie Ryan, an insurance adviser in Ottawa, has always been open with her kids about money, teaching Molly, 16, and Daniel, 11, to track their spending from the time they were little. Today, she transfers allowance into her daughter's bank account each month on the same day she gets paid.

While Ms. Ryan knows that automatically transferring money to Molly's bank account is more convenient for both of them, she also hopes she's setting her up for success later by allowing her to practice budgeting with a finite amount of money and a debit card. Her daughter often checks her balance using her bank's mobile app before spending.

"I think I'm preparing her for the future because she knows that's real money. It's the equivalent of cash – and there's no overdraft," she says. "Molly knows that when that money is gone, it's gone."