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Teaching Your Children About Money

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A 2013 University of Cambridge study revealed that children's monetary habits develop as early as 7 years old. Not surprisingly, the study found that parents are the largest single factor in the development of good financial habits. Thus, the monetary habits you instill on your children now can have a significant impact on such habits in adulthood. We sometimes get asked what activities/lessons can you as parents utilize to direct behavior – we have provided a list divided by age below.

If you take anything away from this article, my hope is that you consider the concept of instant gratification vs. delayed gratification – this very well may be the most important ideal when directing your children's financial behavior.

Age 4-10

Take Your Turn! While this may not seem directly related to money/finance, this is a very important idea to impart on your child – you cannot always get what you want immediately. Whether your child is at the park waiting to go down a slide or waiting on a sibling to finish playing on your family's Ipad, this idea of waiting their turn is a basic yet necessary tool to avoid instant gratification.

Set a Savings Goal. This is the "next step" in avoiding instant gratification. Instead of simply purchasing a toy for your child immediately, set a goal and have little Johnny perform activities (whether it be chores or saving birthday money) in order to purchase the toy. This goal must be reasonable in both time and cost – you do not want to make it so difficult that your child gets frustrated and gives up.

Learn to Say No. Again, this is related to the last point - there will be times where your child may want something that is simply not affordable, and saying "no" is critical – explain in simple terms that you cannot afford the item.

Save. Spend. Donate. Invest. You may have heard me discuss the "Money Savvy Generation" Pig, which is a spinoff of the traditional "piggy bank." Instead of one slot where to put the money, there are 4 slots for each of the above titles. You can have your child save for a specified item, save for a worthy cause, invest the money for a long term goal, and finally have a small pot that your child can spend immediately. I have several of these Pigs left over, so if you want one, please reach out to me and I will get one to you. Otherwise, you can find them online on Amazon.

Include Your Child. Consider your child when making financial decisions. For instance, you can explain why you wait to purchase something on sale or purchase certain things in bulk. You can even take this idea a step further by providing little Johnny $5-$10 at the grocery store and having him make his own choices with the money given certain parameters.

Age 11-18

Compound Returns. You can first start out by helping your children save while at the same time explaining compound returns. For instance, if your child has $100 to save, you can explain to them that they can spend the money immediately OR save the money, and if they save it, you will provide them with $2 per week, and you can increase the "interest" each month. Once your children get older, you can explain a compound interest calculation – consider the "Doubling Penny" exercise. You can also explain the idea of opportunity cost - if you spend the $2 to buy a snack after school each day, you are not saving for the $50 videogame you want.

Get a Job! My children started working when they began high school, and worked part time during the school year and full time in the summer. They now had their own money to spend that they could budget themselves.

The College Discussion. When your child begins high school, this may be a good time to discuss how much you have saved for your children's college, and how much you are saving on a monthly basis. Your child should be actively involved in the process of understanding the shortfall (if one exists) for college, and explaining on a basic level the idea of borrowing to pay for college (if there is a need to). This can help crystallize the type of school your child can afford.

Your Child's First Credit Card. You should cosign a credit card with your child. This is critically important, as you need to have your child build credit as early as possible. By cosigning, you can monitor the card yourself. However, your child can be in charge of making sure he/she stays within your own set limits. You can have your child be in charge of signaling to you that it is time to pay off the credit card each month. Explain to your child that if he/she is late in making the payments, it will affect not only their credit but your own, and how this can affect yours/their ability to purchase a car or obtain a mortgage.

Taxes! This is one of the many facets of being an adult that gets overlooked. Young adults do not understand how to navigate their tax return, when to file their taxes, etc. When your children begin making their own money, you should take your child through a tax return and explain how to file your taxes.

The Stock Market. This can start out simple. Purchase a few shares of your son/daughter's favorite stock, and allow him/her to follow the price of the stock online. You can then have your child purchase a new stock each month, with the stipulation that he/she buys a company that is completely different from the rest of the companies in the portfolio. This will at a basic level teach your children the importance of diversification. If your child is working and is bringing in at least a few thousand dollars, you can consider opening a Roth IRA for your child. This can be their first foray into the world of qualified accounts.

Have your Children Talk To Us! Once they graduate from high school/college and are in the working world, have your children reach out to us. We are happy to help them determine which benefits to choose and set a savings goal.