Teaching children about money

By Casey Verst

Money management (including cash flow control, investment management, philanthropic philosophy, and the proper use of debt) is unfortunately not a skill taught in most primary or secondary schools, or even in college. However, this is a critical skill every individual needs to be taught at some point in life, and the earlier those skills and life lessons are taught the better. Additionally, a person's attitude towards earning, borrowing, saving, spending, and sharing of money typically varies based on an individual's values, and most of the time those values are learned in the home from observing family members.

Children learn these behaviors and develop a set of values whether they are purposefully taught. The only question a parent or guardian must face is whether they will actively, purposely participate in the teaching process. What is learned about earning, borrowing, saving, spending, and sharing can either be left to chance (friends, acquaintances, random experience, TV and the internet) or guided by parents in a positive direction. While true for all children, those set to inherit significant wealth in particular need knowledge and good sense to make the decisions that inevitably accompany such an inheritance.

Once a parent makes the decision to actively participate in a child's learning process and to attempt to provide positive guidance, many questions may arise.

- When do I begin a child's learning process?
- When is it too late?
- What are my values?
- What values do I want to teach?
- How do I teach these values?
- Should I be the "teacher?"

Answers to these and other questions raise additional questions.

The vast number of questions and the lack of definitive answers could explain recent survey results indicating that parents feel it is easier to talk to kids about drugs than it is about money.

WHEN DO I BEGIN?

Not knowing when to begin the process often prevents active involvement from ever starting. Some say the right time to begin is when the child reaches a certain age or maturity level. Many parents choose to delay the process fearing that young children will confuse net worth with self-worth. Advertisers do not share the same concerns. Studies show that marketers start targeting children as early as age two! Hence, quite often the learning process begins long before the teaching process.

When it comes to starting the process, consider ignoring the age and maturity level of the child (advertisers certainly do) and begin when the parents are ready. Begin by preparing for the teaching effort. Start when a child is an infant by taking time to develop a plan.

Parents should work together to accomplish this task. Sending mixed messages will undermine efforts to pass along responsible habits and values. This can be a challenge particularly if parents come from different cultures or came into the marriage with different levels of wealth. Incorporate professional assistance if necessary.

Parents should work with advisors to determine and document their values. Attitudes toward productivity, stewardship, philanthropy, spending, saving, and borrowing should be discussed and refined into a values statement that can be used as a goal or set of goals. "Plan your work, and then work your plan."

When is it too late to teach children about money? The older children get, the more difficult the process. This is partially due to the fact that the parent may have less control and the child may have more distractions or temptations and must "unlearn" negative behaviors. However, it is never too late to encourage people to be accountable.

WHAT DO I TEACH?

Once goals are determined and set, next identify certain skills a parent desires to teach. These are the skills that will equip a child to develop good values and become financially literate. Consider including skills such as:

1. How and when to talk about money
2. How to save
3. How to spend
4. How to budget
5. How to invest
6. How and when to borrow

Personalize this list by considering the level of wealth and discussing subjects such as philanthropy and entrepreneurship. Explain the difference between "I need" and "I want." And communicate that all family members contribute to family financial health—not just by work but also by the use of resources—and that each child's opinion will be considered when making family decisions.

HOW DO I TEACH IT?

While parents generally are a child's most important role models, a little emotional and technical support helps. Assemble a team of one to five family members and friends who can offer information and experiences that will add to a child's financial education.

Actively encourage the child to participate and communicate about money matters. As a child ages and matures, consider expanding the group to include professional advisors. A financial advisor, tax preparer, attorney, and others can each add to a child's observations and experiences. Recruit individuals that will help reinforce the values a parent wishes to convey.

Determining what is taught and how it is taught is far more dependent on age and maturity. Children learn not only by listening but by watching the behaviors of their mentors and by personal experience. "Do as I say, not as I do" will not always work; particularly once they become teenagers! Successful teaching techniques include:

1. Guide and supervise, don't direct and dictate
2. Compliment good behaviors, and use mistakes as a teaching opportunity (we learn more from our mistakes than from our successes)
3. Be consistent, fair, and willing to listen
4. Be a good example
5. Conduct regular family financial meetings

The purpose of this exercise is to not only teach children about money but also to teach them how to better communicate about their finances to prevent future problems. If a young adult knows they have a variety of resources to ask questions to, they are more likely to seek out advice.

WHAT ABOUT AN ALLOWANCE? A JOB?

An allowance is one of the most common and most effective ways to teach children about money: both the good and the bad. Parents should keep in mind that an allowance is a teaching tool. Determine the amount by listing the anticipated costs that it will be used for, which also forces the parent to determine expectations regarding what the allowance will be used for. Set expected guidelines for the use of an allowance; i.e., communicate to the child what they will be expected to pay for. Very young children will need very little. Revisit the budgeted amount annually. When children are able to work with a parent to list their needs and rank them in importance, they should be allowed input into determining the amount.

Allow children to spend the allocated portion as they wish, subject to other limits—e.g., excessive junk food—of course. It may be difficult to watch a child buy something that the parent considers overpriced garbage, but even this can be a learning experience on how to become a better consumer. Allow the child to understand and live with the consequences. Do not rush to replenish assets that have been depleted due to poor choices. Parents must be prepared to stay with the process or they will miss this tool's potential for teaching.

Routine work around the home should be expected of all family members. As children get older and express an interest in earning more money, consider making available additional jobs around the home for which an agreed upon amount can be paid.

Earning money outside the home can provide children with a sense of freedom and pride. Help children find age-appropriate work that will not interfere with school. Offer to help manage their earnings by assisting them in opening an account at an appropriate financial institution.

HOW DO I TELL MY CHILD ABOUT THE FAMILY WEALTH?

Wealthy parents have the additional burden of communicating information about family wealth. Many parents struggle with the fear of encouraging children to believe that the family's wealth is an entitlement. As a result, delivering the message is avoided as long as possible. Unfortunately, not talking about it often sends a message that "proper people don't talk about money."

Actually, consistent communication is the key to letting children know that the family is financially fortunate. Children of any age can be reminded that the family is not simply entitled to wealth; it was earned as the result of someone's hard work. The detail of that message should be determined by the child's age and level of maturity. Young children can be regularly reminded of how fortunate their family is and that everyone is not so fortunate. Stories about the hard work and struggles of their parents, grandparents, etc., can be shared. Consider using philanthropy and volunteer work as a way to help teach children about the struggles of those less fortunate.

Older children who are beginning to think about "what they want to do when they grow up" can be told that they should not focus strictly on a career's earning potential, but to focus on their passion; again, they can be thankful for being given the opportunity to select from a broader range of choices.

Children of wealthy families may not have to worry about earning enough income, but they will face other burdens such as concerns regarding personal abilities (I got the job only because of my parents' connection), relationships (I'm liked only because my family is rich), and the gravity of money management mistakes (I don't want to be the one who lost the family fortune). Such concerns can weigh heavily on children and adults if they are unprepared or have no one to count on for help.

Teaching children about money and giving them the skills to deal with the benefits and burdens of wealth may be the most valuable inheritance a parent can provide.

CONCLUSION

"Money savvy" may seem to come naturally to some, but it is a skill learned over time, in many ways, from many sources. Money management values will be learned by every individual but what sources they come from and whether the learning experience will be positive or negative can be guided by parents and other mentors. Good money management skills can provide individuals a foundation for happiness, stability, and independence. Poor money management skills may lead to the stress and anxiety that accompanies excessive financial obligations and the dissipation of wealth.

Begin building a team of trusted information sources for children. Start with like-minded family members. Expand the group to include financial advisors and add other professionals (attorney, accountant, tax preparer, insurance professionals, etc.) when appropriate. Introducing the process to children at a very young age, both with words and actions, is optimal, but communicating at an age-appropriate level with children of any age can help. Providing the knowledge and a framework for dealing with future financial issues will give them the means to preserve and steward the wealth they earn or inherit.

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