Financial literacy for kids: Six ways to teach your child about money

Wealth can help you provide your children with opportunities, experiences and possessions that you didn't have when growing up.

While access to these resources are a blessing in most instances, it can provide additional challenges in raising appreciative and self-sufficient children. Wealth can make it easier to indulge children, and at the same time add complexity that makes parenting harder. Moreover, it doesn't necessarily produce happier kids or, later, self-sufficient adults.

The reality is that having everything you want when you want it can inhibit resilience and produce some unhealthy expectations. By providing too much comfort and immediate gratification for your children without appropriate responsibilities, you may inadvertently limit their drive and sense of purpose. Alternatively, learning to make choices, deferring gratification and living with the consequences of choices are an important part of growing up and becoming financially self-sufficient.

Understanding the purpose and limits of money

As a parent, you play an integral role in helping your children learn self-sufficiency and financial literacy. Providing ample opportunities for them to use money, make choices about how to spend that money and then to live with choices is important work. Teaching kids about money will affect their financial skills for the rest of their lives.

Equally important is helping your children feel self-sufficient by not bailing them out when they cannot make a choice, or when they regret their choice. If your kids know they can always count on you to fulfill their wishes and cover their expenses, including financial mistakes, they're at risk of never building confidence in their own financial capability. That risk may carry particularly harmful consequences if you're hoping to successfully transition wealth to the next generation.

If you want your children to obtain the financial skills and experience to manage their own money now and, eventually, the wealth they'll inherit, they'll need to learn a couple of key concepts and financial basics.

- Money serves multiple purposes. When they're young, children equate money almost exclusively as a tool they can use to pay for something and get it immediately. As their knowledge and sophistication grows, they'll realize that money is a resource that can be used not only for buying material possessions and experiences, but also for saving, investing in their future and helping others through charitable giving.

 Important disclosures provided on page 4.

- Money and wealth are not infinite. Whether children are given a little or a lot, they must learn to make choices about how they use their financial assets. You have a great opportunity to have conversations about your family values around money and help your children explore the satisfaction they get from spending, saving and sharing their own money.

> "Helping your children learn to become financially self-sufficient can be one of the most satisfying jobs of parenthood."

Activities to help children acquire and practice financial skills

Money management lessons aren't learned in a one-time conversation but through years of practice. The following six activities can help your children understand key financial concepts and practice important life-long financial skills.

Household chores

As early as elementary school, your children should begin contributing to the household tasks, and in some instances, making money for their "work." For example, you may require that as a member of the family, they are responsible for making their bed or helping with the dishes. You could make other tasks optional but pay a small amount for the work, such as vacuuming the house or helping with laundry.

Consider making a chart listing the "jobs" and amounts that can be earned for each, and let your kids mark the chart after they've completed a job. Even if your five-year-old earns just $1 per week through this, they'll feel pride and excitement when they receive the money and will associate it with their work.

As your kids get older, you can increase the level of the jobs, responsibilities and amounts earned. Encourage them to create "spend, save and share" accounts for their money. It's important to let them spend the allotted amount on what they want, rather than what you think they should. They'll undoubtedly make some choice you wouldn't, but they'll start to learn from any mistakes while the stakes are very small.

Budgeting

By the time your children reach middle school age, they're ready to begin managing their money. Consider giving money or an allowance to them once a month or even once a week rather than when they need it and encourage them to develop a budget. Budgeting is a tool for learning how to live responsibly. When a child creates a budget and successfully follows it, they build self-esteem and confidence.

Setting up a budget with your child is as easy as helping them choose categories (spending, saving, giving to others) and how much to allocate to each. Having a budget teaches your child the concept of making choices and the difference between needs and wants. Skipping that trip to the movies to save for something more expensive but highly desired will help teach them how to delay gratification and stay focused on a long-term goal.

Also consider modeling the behaviors of money management. Even though you have the means, you're on a budget too. Use the phrase, "it's not in our budget" instead of "we can't afford that."

A key to budgeting for kids is communicating limits. Help them understand that you're not there to bail them out if the budget is exceeded. Kids need to learn the consequences of going over limits.

It would be easy to step in if your child overspends; we're wired to save them from themselves and their own money management disappointments. Resist the temptation.

Managing a checking account and debit card

The next step is to help your child open a checking account and determine the amount that you or your child will deposit monthly. You can open an account jointly with a child once they reach age 14 (an individual must be 18 years of age to have his or her own account).

Typically, the account will come with a debit card that gives your child easy access to their funds. Establish some ground rules about how and when the account will be used and how frequently you and your child will monitor the balance. While it's easy to simply verify account balances online or through a balance inquiry, encouraging your child to balance the account to the bank statement every month is a great learning exercise.

If you feel your child isn't quite ready to manage their own bank account, set them up with a prepaid debit card. This allows your child to make purchases against an amount you have established without the opportunity to incur debt by overspending. In addition, help your child open a savings account to separate and keep track of items that fall into the longer-term categories, such as saving for a car or philanthropic goals.

Managing a credit card

After demonstrating their ability to manage a checking account, your child may be ready for a low-limit credit card. Credit cards provide great opportunities to talk with your teen about the concepts of borrowing and repaying money, the cost of carrying balances, and how to build a strong credit history and credit score. Be sure to agree to ground rules about how and when the card will be used, and how your child will pay off balances. Most banks will require you to co-sign for a minor requesting a card.

High school employment

Your children can benefit greatly by having part-time, outside employment while in high school, even if it's just a summer job. Apart from the financial benefits, a job can provide valuable appreciation for the work it takes to earn money and a perspective regarding how hard many people work for a modest income. A job gives kids another set of peers, takes energy and provides a sense of accomplishment.

Another benefit is that it requires your child to be accountable to other adults, beyond you, their teachers or their coaches. An employer will hold them to high expectations and help teach them responsibility.

Monitoring an investment account

Finally, consider introducing your high-school or college-age kids to the concept of investing. Opening an investment account in your child's name can provide a great vehicle for ongoing communication about important financial concepts, personal goals and family values.

For instance, this may lead to discussions about long-term goals, risk and return, compounding and how stocks and bonds work. In particular, the value of compounding returns is hard to grasp until you've experienced its benefits. Investing also gives your kids an opportunity to learn about the markets, companies and how they grow.

Monitor the account performance together. With an older teen or college-age child, watch out for red flags (i.e., if they want to "play" the market). Notably, if your child is a minor under state law, the necessary account is called a Uniform Transfer to Minors Act (UTMA) account, and you'll be the custodian of the account until your child reaches age 18 or 21, depending on the state.

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Begin the journey

Helping your children learn to become financially self-sufficient can be one of the most satisfying jobs of parenthood. You're helping them find a sense of accomplishment and pride in their ability to manage their own money. You're also allowing them to learn from their financial and decision-making mistakes – and to live with the consequences while the stakes are relatively low.

The more you can do to help your children become financially self-sufficient, the more confidence they and you will have in their ability to eventually take a leadership role in managing your family's wealth and legacy.

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