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3 Steps for Raising Kids with Money Smarts

Regardless of how much money a family may have, parents have a responsibility to teach their children about finances. Starting early, children need to learn about how to be financially responsible once they leave the house and become independent.

Here are three steps parents can take starting today:

1. Find teachable moments

It can be difficult to find time to sit down and talk specifically about money, but natural opportunities to teach pop up practically every day.

For example, you can incorporate financial responsibility into an impromptu math lesson about money: If you find something the child wants that originally cost $100 and is on sale for 30% off, you can ask how much the new price is — and, now that they are only spending $70, what they might do with the leftover $30.

2. Take a lifelong view toward financial literacy

Every child should have a tool kit of basic financial literacy skills by age 18, including concepts such as how to spend, how to save, how to give, and the value of a dollar.

This can start very early with an exercise as simple as a three piggy banks analogy. You encourage the child to divide any money he or she receives into three piggy banks: spending, saving, and community/charity. This shows the concept of different purposes of money rather than having it all be for spending. Repeating this exercise can help ingrain the habit of saving regularly.

By late childhood or adolescence, parents can add concepts such as what it means to invest, what companies one might invest in, and how to assess risk with an investment.

You can encourage children in high school to think about college expenses by examining the costs and coming up with a credible college budget. Ask them to consider basic questions: What will you need in order to make this happen? What will the family need to supply, and what is the student expected to supply in terms of tuition, books, room and board, transportation, and normal spending money?

And parents and grandparents can continue to encourage responsible, long-term financial responsibility by giving young adults an incentive to begin saving for retirement early. If you’re able, and they have earned income, offer to match what they save into a Roth IRA. It's also wise to encourage contributions to a 401(k) at work.

3. Show how it's done

Your child's healthy relationship with money begins with an open and honest relationship within a family that models good money behavior. These discussions can be challenging, but the fruit is well worth the labor.

Stress education and expect them to do well in school. Parents who do really well in teaching financial literacy typically lead by example — they tend to be savers and are more careful with spending money. Remember to be that example.

As always, if you have any questions on this topic or any others, feel free to contact any of us at any time.

We are happy to help.

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