



The family school of finance

Six key financial lessons to teach your children as they grow

Talking to kids about money can be awkward, but it's important. That's the takeaway from a recent T. Rowe Price survey of parents, who ranked topics like death and politics as easier to discuss with kids than saving for a goal. A full 85% wanted to avoid the issue by signing their kid up for a personal finance course.

Though a class might help (and your advisor can be a valuable teacher's aide), your kids are still taking their cues from you. "Parents are the number one influence on their children's financial behaviours," Beth Koblner, author of "Make Your Kid a Money Genius," told *Forbes*. "It's up to us to raise a generation of mindful consumers, investors, savers and givers."

The greater your wealth, the more preparation is needed. If you're planning to leave a financial legacy and want your child to be a good steward of it, it's time to start talking.

Nearly 44% of affluent parents surveyed by CNBC had not told their children about their future inheritance, saying they didn't want to rob them of the motivation to work. Experts, however, say this is misguided – children can do a simple web search to find out how much their house or a vacation cost, and make assumptions about their family's wealth and what that might mean for their future. Maybe you plan to pay for their education, but leave the rest to charity. Wouldn't it be better if your child knew that?

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No matter what your household income is, given the current state of the economy, there is no better time to teach the importance of smart saving and your family's money priorities. Here we offer six essential financial lessons to teach your kids at each age and stage, including learning milestones recommended by the U.S. Consumer Financial Protection Bureau.

Ages 3-6 Thing 1 vs. thing 2

Don't underestimate little Susie or Sam – at 3, your kids can grasp basic financial concepts, and by age 7, they have already formed money habits, according to a Cambridge University study. Start with the basics, including the idea that you work to earn money in order to pay for what you want and need – and help your kids understand the difference. Other money milestones mapped out by the experts at the U.S. Consumer Financial Protection Bureau include the ability to focus and persist through tasks. We adults know all too well that saving for retirement takes large amounts of patience and self-control, so we might as well start teaching them early.

Recognising trade-offs is another important milestone for this age, something most of us learn when students in the playground begin trading granola bars or even conkers. Try thinking aloud when you're grocery shopping about the amount of money you're exchanging for a product, or have them help you compare the unit price of similar goods. Whether a trade involves money, treats or time, discuss with your

child how every decision has consequences.

Around age 5, it's important to give kids some cash to manage. A regular allowance allows them to start thinking in terms of financial trade-offs, and you can offer them a three-part piggy bank (save, spend and share) so they begin to understand the different functions of money. By age 6, your child should be able to focus on completing small chores to earn money and understand the value of different coins and bills well enough to sort and count them.

Money milestones

Understand the value of time and money; focus and persist through tasks; recognise trade-offs and make trades or exchanges; count and sort.

Lesson 1: Wants vs. needs

To help children visualise what is a want versus a need, have them create a collage. You'll need a small stack of print advertisements, safety scissors, paper and glue. Divide the paper in half – labelling one side for wants, one side for needs – and have your child sort items they cut out into those categories. Then discuss the choices they made.

Lesson 2: Work equals money

Allow your kids to earn money for “above and beyond” chores or self-initiated projects (like organising a closet or cleaning out the car). This helps make the connection between work and reward, including the feeling of a job well done.

Ages 7-12 Unless someone cares

As your child grows, help them develop a sense of values like empathy and gratitude. Knowing that some families live in poverty and need our help is part of financial literacy. Using a site like Dollar Street from the U.S. (gapminder.org/dollar-street) that shows photos of 264 families living around the world on a variety of incomes can help. So can letting your child have a say in where the family's charitable donations will go.

It's also a good idea to pass down family stories to the next generation – how your parents pitched in to help you build your business, your first big purchase, or how spending habits helped you weather the ups and downs of life. These tales can help them understand their place in the world and develop perspective on what has value in life.

Primary school age is also a great time to help your child open a bank account to begin saving, which can help them claim the identity as a “saver” and associate positive emotions with it. Before you know it, your child will have confidence in handling money.

Money milestones

Make choices that align with values; develop a positive attitude about saving and self-control; plan ahead for wants; gain confidence in starting an unfamiliar money task; understand banking basics.

Lesson 3: Delayed gratification

When your child makes a holiday wish list of toys, leave one item unpurchased. Two reasons. One, research shows buying your kid everything encourages spendthrift habits. Two, you can use that item to get them motivated to save. If it will take too many months to save enough of their allowance, you can provide matching funds. The point is to build up their confidence in saving toward a goal.

44% of high-net-worth families have not told their children about their future inheritance

Source: CNBC Millionaire Survey

Lesson 4: Compound interest

Around age 10, think about opening a (low- or no-fee) joint savings account for your child. Help them track what they are earning in interest. “There's nothing like receiving an interest payment (even if it is a few pennies) in your name for the first time,” Asheesh Advani, CEO of Junior Achievement Worldwide, told *Inc.* magazine. If you like, go one better and consider buying a few equity shares in your kid's name, then help them track any appreciation and dividends. There are also several market simulator games that could help drive home the lesson of growth over time (we've listed a few apps to try on the next page).

Ages 13-18+
Oh, the places you'll spend

Credit cards, investing, taxes: As your child matures into a young adult, it's time to step up your game to help them with these complex topics and more. Ideally, they will make money mistakes while they have a solid safety net to catch them – it's up to you to ensure they get the opportunity. You can help them get started with an online simulator like the Fantasy Stock Exchange (www.fantasystockexchange.biz/), let them become a PiggyBank Fund Manager and learn the inner workings of selecting, buying and selling shares; and the risks associated. Find tangible, concrete ways to drive home the point you're trying to make.

Another building block for deliberate decision-making is knowing which data sources can be trusted. Share how you vet a financial decision, and urge your teen to keep digging if what they're being told doesn't seem to add up. For example, if your child is researching universities, make sure they do more than read the brochure. Make it personal by telling them about a time you hunted down missing facts in order to make an intentional choice. While you're busy setting your child up for success, consider that many successful people trace their money skills back to a formative moment: getting a job as a teen. There's no better way to experience first-hand the effect of taxes, having a boss, being part of a team and managing your time to fit in schoolwork. Whether it's a seasonal job during school holidays or a part-

time gig, this early training can help a teen grasp the working world – and how they picture themselves in it – better than any textbook could.

You may also consider giving your child a “salary” each month, outlining in a signed contract what they're responsible for paying for. This mimics a steady paycheck and encourages them to make up their own mind what's worth spending on or saving for. When it's their own money, your child may become a bargain shopper expert or learn how to set aside money for unforeseen expenses.

Money milestones

Understand taxes and bank statements; manage money to reach a goal; identify reliable data sources; focus on the future versus just right now; spend and save based on their own values and goals.

Lesson 5: Credit basics

There are numerous advantages to owning a credit card including improving your credit score and spreading out large purchases. However, it's important for your child to understand the potential risks also. Before your teen even thinks about racking up high-interest debt, consider adding them as an authorized user on your card. When they make a purchase, show them how interest will accrue unless they pay off the balance – and that any late payment will ding your credit score. When they hit 18, they'll already know the cost of carrying a balance.

Lesson 6: Saving for long-term goals

Sit down with your teen and come up with a plan to save for long-term goals, like a car or a deposit on their first home. You can use a budgeting app like Yolt or through a banking app like Monzo that helps them visualise their progress, keep spending in check and give them a sense of ownership and confidence in their future.

Money things are everywhere

Whether your kid is 7 or 17, they are ready to hear money talk from their parents and grandparents. After all, financial literacy is not just about dollars and cents. You're really showing them how to think for themselves, develop values and make sound decisions. In the space of a few teachable moments, you can empower them to take control of their future – a worthy investment.

Media that's on the money

Take your lessons further with these resources.

Books for parents

- “Make Your Kid a Money Genius”
- “The Opposite of Spoiled”

Books for kids

- “How Ella Grew an Electric Guitar”
- “The Know-Nonsense Guide to Money”

Apps

Yolt; Money Dashboard; Bean; Emma

Sources: T. Rowe Price 2019 Parents, Kids & Money Survey; Forbes; Inc. magazine; CNBC Millionaire Survey; U.S. Consumer Financial Protection Bureau; Sallie Mae's 2019 Majoring in Money report; mtmfec.org