**Teach Your Kids Good Money Habits**

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As a parent, you want the best for your children. This doesn’t necessarily mean you want them to have the best clothes, the latest toys or coolest gadgets. Most likely, it means you want them to be safe and secure. And you want to lay a foundation that they can build upon to do well in life.

The question, then, is whether you’re teaching your children a key lesson that will impact whether they will do well. That lesson is about money.

“Without a working knowledge of money, it is extraordinarily difficult to do well in life,” says Sam X Renick, co-creator of Sammy Rabbit, a children’s character and financial literacy initiative. “Money is central to transacting life, day-in and day-out. Where we live, what we eat, the clothes we wear, the car we drive, health care, education, child-rearing, gift giving, vacations, entertainment, heat, air-conditioning, insurance—you name it, money is involved.”

Yet, plenty of parents aren’t helping their kids become financially literate. T. Rowe Price’s 11th Annual Parents, Kids & Money Survey found that nearly half of parents said they miss opportunities to talk to their kids about money and finances. And a quarter said they are very reluctant or extremely reluctant to discuss financial topics with their children.

Kids, on the other hand, are eager for their parents to share their wisdom. Half of the children surveyed said they wish their parents taught them more about money.

Even if you’re not teaching your kids, they will learn lessons about money one way or another. If you want to play a key role in shaping your children’s feelings, thinking and values about money, you need to give them the gift of financial literacy from an early age. Here’s how.

**Start With the Basics at a Young Age**

The earlier you start a child’s financial education process, the better. Lessons should begin before age seven, he says, because research shows that money habits and attitudes are already formed by then.

Once your kids are old enough to know they shouldn’t be sticking pennies in their mouths, you should introduce them to coins and cash. Explain what money is and how it is used. Actually, showing them how money works is more effective. So let them see you making purchases with cash.

Even if you pay with a debit or credit card, explain to your kids that you’re using your money to make purchases. Chase Peckham, director of community outreach for the San Diego Financial Literacy Center, did this with his son and daughter when they were preschool age. When they shopped together, Peckham would show his kids receipts with the amount he paid. “By doing it over and over again, it became a habit to them,” he says. “As they got older, they started to understand. That’s how we introduced money.”

**Instill a Habit of Saving**

Your kids’ early interactions with money will likely involve spending. They see you using it to purchase things, including things for them. So it’s important to teach them from a young age that money isn’t just for spending—they should be saving money regularly, too.

Learning to save isn’t just an essential money habit. “Saving teaches discipline and delayed gratification,” Renick says. “Saving teaches goal-setting and planning. Saving stresses being prepared. Saving builds security and independence.”

Help your kids get in the habit of saving by giving them a piggy bank or savings jar where they can deposit coins or cash. Then use short, simple messages to encourage your kids. Renick offers these examples:

* Saving is a great habit.
* I love to save.
* It feels good to save money and build my future.

With young kids, though, you’ll likely have more luck teaching them to save for short-term goals—such as a toy they really want—rather than for the future, says Tim Sheehan, co-founder and CEO of Greenlight, a debit card for kids with parental controls. The father of four says that encouraging his kids to set short-term goals when they were little helped them learn the value of delayed gratification. As they have gotten older, they are now able to save for longer-term goals.

Parents also can encourage their kids to save more by agreeing to match the amount they save dollar for dollar or by a certain percentage. If your children are old enough to advance from a piggy bank to a real bank, you could take advantage of a service such as Greenlight or FamZoo. These prepaid debit cards and apps allow parents to transfer money to their kids and pay them interest—at a rate of their choosing—on any of the money the kids choose to stash in savings.

**Create Opportunities to Earn Money**

Kids need to have money of their own so they can learn how to make decisions about using it. An allowance can accomplish that. However, you should consider requiring your kids to do certain chores to earn their allowance. “Just about everyone values money they earn differently than money they receive,” Renick says.

Both Peckham and Sheehan say they wanted their children to learn that money is earned. There are some chores the kids have to do without pay because they’re expected to help out as part of a family. But if they want to get paid, they have to complete certain tasks.

Sheehan says his two youngest children who are still at home get a weekly allowance in an amount equal to their ages. Peckham did that initially with his kids but says they now get a “salary” that is deposited directly into their bank accounts each month. His kids have negotiated raises for their salaries by agreeing to take on additional jobs around the house, he says.

**Help Kids Learn to Make Smart Spending Decisions**

In addition to wanting his kids to understand that money is earned, Sheehan introduced an allowance system so they could learn to live within a budget. His two youngest children, who are 16 and 11, would constantly ask for money and “spend like drunken sailors,” Sheehan says. When he started paying them an allowance, he told them that was all the money they would get and that it was up to them to manage it.

“Amazingly, it worked,” he says. They track how much they have coming in and going out and how much they’re saving using the Greenlight app. Learning how to budget now will help them when they enter the real world, Sheehan says.

Peckham has allowed his kids to make decisions about their money since they first started earning an allowance. He gave them three jars for spending, saving and giving. Peckham told his kids they had to put some of their allowance in each jar but didn’t specify how much. The decision was up to them.

Peckham also is teaching his kids that spending isn’t always about buying things you want. He wants them to learn that they will have to spend money on things they need when they’re adults and can make the choice to pay people to do things for them. So if his kids don’t do certain things they’re expected to do to help out around the house, it will cost them.

In essence, they’re paying their parents to do those things for them. And the money comes out of their allowance. “I wanted them to make decisions about what they were willing to pay for and what they weren’t,” he says. “I want them to realize, for every choice they make, there will be repercussions. Personal finance is about decisions.”

**Show Kids the Value of Giving**

A key reason that it is important for you, as a parent, to teach your kids financial lessons is because you can share your money values through those lessons. If you value giving to others, you can instill that value in your children by helping make it a habit for them from an early age.

You could do as Peckham did with his kids when they were little and create spending, saving and giving jars. The Greenlight and FamZoo apps allow kids to create giving accounts. Or you could help your kids set up a special savings account for giving.

Then help your children plan their giving by discussing what groups or causes they want to support. They can visit CharityNavigator.org to find highly rated organizations.

**Teach Kids How Their Money Can Grow**

Saving money is a great habit. But if you want your kids to learn how to truly build wealth, teach them about investing, Sheehan says. “I’ve tried to pass on this knowledge and insight to my kids,” he says.

All four of his children have custodial investment accounts he set up for them (minors can’t open their own accounts). Sheehan started teaching his two oldest children, who are 20 and 18, when they were young about how they could invest their money and see it grow at a faster rate. He’s still working to get his younger two children to understand. “Some are ready for it at a young age,” Sheehan says. “Some maybe a little bit later.”

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If you don’t understand investing well, you could give your kids a book that explains how it works. Renick says his father introduced him to the personal finance classic The Richest Man in Babylon when he was 12 or 13. “That book really motivated me to want to invest and spend less than I earned,” Renick says.

You can help children get started investing by opening a custodial account with a brokerage such as Charles Schwab, Fidelity or Stockpile. And Greenlight will start offering an investment option with its accounts later this year.

**Model Good Financial Behavior**

Just as important as the lessons you teach your kids about money are the ways you discuss and handle money when you’re around them. For example, if you complain about having to spend too much on certain things and then take your kids on a shopping spree, you’re sending mixed messages.

Instead, make sure you model the behaviors around money that you want your children to adopt. Renick says that not only would his father encourage him and his brothers to do work around the house, but also he would jump in and help them out.

“Some of my favorite childhoods memories are of having my father assist me washing cars and cutting grass,” Renick says. “He would also use those experiences to talk to my brothers and me about the importance of work and managing our money. He would share things like, ‘It is not how much you make, but what you do with what you make, that makes a difference.”

If you want your children to develop good spending and saving habits, they need to see you making smart spending and saving choices. In short, practice what you preach. And preach with consistency. Educating your children about personal finance is a process that can take time. But if you put in the effort and continuously communicate a clear message about money, you will instill good habits that will serve your children well.