



How to Raise Financially Responsible Children

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As parents, we spend our lives nurturing and teaching our children skills to help them mature into adulthood. Perhaps one of the most important skills that we can teach is often overlooked - money. Teaching children good financial habits can dramatically impact their lives. Their financial education should start early—but it's never too late to start teaching about money.

Children Learn About Money in School, Right?

According to the 2020 Charles Schwab Financial Literacy Survey, [65% of participants expect schools to provide financial education, but only 21 states currently require high school students to take a personal finance course](#). Children just do not get enough, if any, financial education from schools; there aren't enough financial education programs for high school students. Money skills and good money habits need to be taught, if not reinforced at home. These lessons must be purposeful and not taken lightly.

Where Do I Start?



Start simple—just get them familiar with basic money concepts. Older children should be taught things like paying bills, writing checks, paying off credit cards, and setting up auto drafts. All children should be encouraged to not spend their money immediately, along with savings options. It's also essential to discuss concepts and views on money. We live in a world of instant gratification, but the reality is that most people do not have the resources to buy what they want when they want it. Simple lessons and tasks like

these are often overlooked but are invaluable as they enter adulthood.

Is There a Right Way to Handle Money?

There's no one-size-fits-all lesson plan for teaching money. Everyone has different incomes, expenses, and levels of responsibility around money. Children need exposure to situations that help form values about money so they can apply that knowledge to future financial decisions. Make sure you teach in a way that your child will understand and comprehend. The key is to lay a foundation and teach basic concepts, not instill your views. Remember, it's important not to lecture them, especially if they make a mistake. You're the guide, and they need to learn independently. The objective is for them to be confident and knowledgeable about money as they develop positive personal finance skills. You don't want your children to view money as scary or stressful.

When Should I Start?

While you can't teach a toddler all the complexities of money, they can learn basic money concepts. In fact, they will begin establishing money habits during elementary school. Education about money must be continuous, not a one-time lesson. Every discussion, or lack thereof, will play a role in shaping your child's view on money.

How Do I Teach these Skills?

Make it fun! We all know completing tasks that we dread is difficult, but if you can find a way to make sound financial habits fun, children will be more likely to continue them. Have a way to track goals in an entertaining way. Make it an event to purchase the item they saved for. Let them see how charitable endeavors make a difference. Younger children can learn by playing games such as "restaurant" or "store." As they get older, introduce the idea of goal setting. Have them write down their wants and work towards saving for them. Not only will this help teach them about saving, but it also can help prevent impulse buying. This may create a habit that sticks with them for life.

Cash is King

Cash is a valuable tool for teaching money and encouraging good financial habits. Use a clear jar or piggy bank to encourage "visual"

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savings. It helps visualize “buckets” like charity, save, and spend. Also, using cash encourages children to physically part with the money rather than just swiping a card. Cash can also be used to teach concepts like compound interest. Children can watch their money pile physically grow as the interest is added. Teach your younger children about the value of each bill or coin and how to count it. They’ll learn that size does not mean it is worth more.

Learn by Doing:



It’s hard to learn anything without doing it, and personal finance skills are no different. Children need money to practice. The money can come from chores, a job, birthdays, or other sources. Letting them earn money on their own through chores, a part-time job, or something entrepreneurial like a lemonade stand or cutting grass can also help teach valuable lessons. Holiday shopping can be an excellent way for them to get hands-on experience and learn about budgeting. Give them money for all the gifts they need to purchase and help them allocate the funds to the people on their list.

Negotiating is another critical part of money education for kids. We negotiate cars, homes, and salaries, all of which directly affect our money; however, it’s a skill that not many people learn. To teach negotiating skills, open their purchases up for discussion. Don’t jump to an answer without listening. While you may not be willing to purchase the item they want, allow your kid to negotiate for it. Maybe they’ll even come up with a solution, such as adding it to their Christmas list or doing chores to pay for it. For any of these lessons, the best education is experience.

Be Open:

It’s important to be open with children when discussing money. Otherwise, they’ll have to draw their own conclusions about money. You don’t need to divulge every detail about the family finances, but they should have a basic understanding. For instance, your finances are a great way to teach tradeoffs. Maybe a significant home repair arose this year, and you need to cut back on vacation to pay for it. If you’re open and explain this to them, the conversation will help teach budgeting and help them understand that they can’t always get everything you want.

Lead by Example:

Remember when your child was young, and they wanted to mimic your every move? You may think that phase is over, but children of-

ten develop their money habits by watching their parents. According to T. Rowe Price’s 2020 annual “Parents, Children & Money Survey,” [Seventy-one percent of parents who try to “keep up with the Joneses” said their children usually spend most of their allowance right away compared with 40% of their colleagues.](#) Lessons about family finances can be as simple as watching you compare prices or delaying a purchase until you save enough. Make sure you explain the rationale behind your money habits and decisions, so nothing is left to interpretation. For example, tell them that the family is eating out less to save for the upcoming trip to the water park.

Involve Them in Family Money Decisions:

Your child may be at the point in their life where a personal finance lesson they need to learn doesn’t apply to them yet. Involving them in the family finances will give them a more hands-on experience. Be open with them when discussing family finances, and make sure you include them in the discussion. That doesn’t mean they have input on every decision. Consider having them pay their phone bill, contribute a small amount to the family vacation, or help decide on some grocery store purchases.

Be Intentional

Children are going to make assumptions about money whether you teach them or not. If you’re not intentional, you may think you’re setting a good example while they’re observing something entirely different. Discuss thoughts and beliefs about personal finance openly to help adjust their views on money. Remember, your children will likely act and react to money the way you do. They’re watching and mimicking you. Make sure you understand your own views on money to be more purposeful in teaching and identify bad habits that you do not want to pass along.

“No” Can be a Powerful Word



It’s not by chance that kids who get everything they want growing up typically squander money as adults. That’s often because they’ve never heard the word “no.” Spoiling children can create a dangerous money habit. Not only are you teaching them that they can always get everything they want, but they may continue this cycle with their children. That doesn’t mean you always have to say “no.” Children need to have some flexibility; otherwise, you are sending negative messages about money.

Budgeting

You don’t need a complex spreadsheet or app to teach budgeting. It doesn’t have to be incredibly granular. Like adults, some children will like using a detailed spreadsheet or app, while others will respond better to a basic framework. However you go about it, the important part is that it has structure. If you’re budget-adverse, it

doesn't need to get any more complex than allocating a percentage to needs, spend, and savings. Remember, it's about helping them set up a framework for spending and saving their money, not forcing your system on them.

Get them Saving



One of the most critical skills children need to learn is saving. They're unlikely to save on their own, so you need to make the rule. Have them allocate a set portion of their money or income to spending, saving, and charity. Saving is just like dieting and exercising; it's all about developing a routine and healthy money habits. That said, if you're too strict on the saving aspect, it'll create an adverse reaction to saving. On the other hand, rewarding them for good financial habits will create positivity around savings. They do not need to save every penny; the goal is just to build the habit. Stress the importance of allocating money to essentials and savings before they engage in discretionary spending.

Get them Interested in Investing

Let your kids purchase a mutual fund or share of stock in a company they know and like. Explain compound interest and how investing over time can improve returns. While you want them to get excited and see growth over time, they can also gain valuable lessons from downturns. Eventually, introduce the concept of a diversified portfolio and teach them about prudent investing.

Inflation is another topic to cover. Show them how compound interest works, and the long-term growth outlook of investing compared to holding cash. Explain how an item that costs \$30 today may cost almost \$35 in five years.

Give them a Tax Education

Swiping a piece of their food and yelling "parent tax," isn't the best way to teach children about taxes. A better method of teaching taxes is to show them the sales tax on a receipt and explain how the "additional" cost helps fund playgrounds, roads, schools, hospitals, and other public resources. Charge a younger child a "tax" on their allowance. You don't have to keep the money. Set it aside for a future purchase or save it for them to use for a much larger purchase later in life. Once they start receiving paychecks, explain the purpose of Social Security, Medicare, federal, state, and local taxes. Also, make sure they understand that they won't take home 100% of their pay. When your children are older, begin teaching them about filing taxes. Make sure they understand that filing a tax return is an annual obligation. While they may not file their own

return, they should at least have a basic understanding of how to read a tax return and the elements that make up their Form 1040 as part of their tax education.

Have them meet your Financial Advisor

Let us be honest—kids, especially teens, don't want to listen to mom or dad. Bring your children along when you meet with your financial advisor or have them meet with your advisor alone as part of their financial education. A third party may allow them to be more open and listen to what they're being told. Attending meetings with you and just hearing the conversations will allow them to be exposed to financial planning, the economy, and the stock market before it becomes intimidating.

Closure

Parents play a critical role in shaping and guiding their children's personal financial lives. [63% of U.S. adults who participated in the 2020 Charles Schwab Financial Literacy Survey chose financial education as the most important supplementary graduation requirement over all other subjects taught in school.](#) We know it's important, but parents need to be intentional about their lessons around money. Otherwise, children will just absorb and make their own assumptions about money. Whether you're raising a toddler or a teen, start incorporating valuable money education today to help them build good financial habits for the rest of their lives.

The information included herein was obtained from sources which we believe reliable.

Sources:

<https://www.schwabmoneywise.com/tools-resources/charles-schwab-financial-literacy-survey>

https://www.moneyconfidentkids.com/content/dam/mck/news-and-research/PKM_deck_final_2020.pdf