Raising Money-Wise Kids: A Parent's Guide

Introduction

While most of us have no problem teaching our kids reading, writing and math, we often don't really know how to start discussions about money. The intent of this paper is to help you, as a parent, start and build on money-related conversations and activities with your children as they age. We'll explore the nature of financial literacy, and the money challenges facing young people today. Drawing on techniques used by both financial advisors and teachers, we'll arm you with strategies for teaching your children the skills essential to their financial well-being -- before they leave for college or a life of their own.

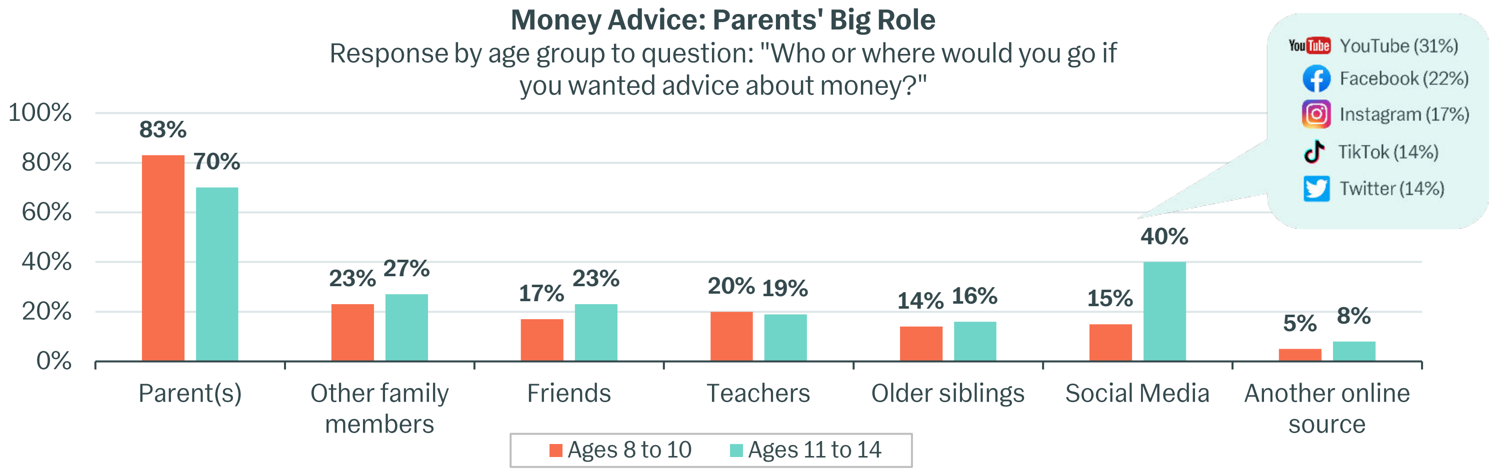
What Is Financial Literacy?

In short: being comfortable and competent at handling money-related matters.

Much like a healthy diet, financial literacy can contribute to well-being throughout life. Many parents are fully aware of this, although how and when they start taking action toward financial literacy varies greatly. Surveys indicate that conversations about money are happening within families, even if they don't always hit the mark: According to a recent survey by T. Rowe Price, 73% of parents say they talk regularly with their kids about spending and saving. Another survey by the investing website *The Motley Fool* found that 50% of parents with kids older than 10 are teaching them about investing.

It's important to realize that you have great influence over how your child thinks about money – much more so than teachers or friends. Although you might feel a little overwhelmed by this responsibility and worry that your attempts to talk about money topics will be unproductive or even counter-productive, you should not postpone discussions about money that send the "money messages" you want to instill. What is important is that you make an effort and keep adjusting over time to reflect your child's interests and capabilities.

Keep in mind that as children age, parents become less influential. This is a key reason to start while kids are in their teens or younger. Working with multiple generations within families, we have witnessed first-hand how lessons from parents can have a lasting effect. When we encounter financially astute young people, we always ask what got them ahead of the curve. What we've learned is that financial education before kids leave home works.



Note: Those 8-10 were only shown "social media" rather than specific sources.
Base: Total (n=2138), Children aged 8-10 (n=948), Children aged 11-14 (n=1186)
Source: T. Rowe Price 2022 Parents, Kids & Money Survey.

Why Financial Literacy Is Foundational

Living beyond your means (regardless of budget) and poor risk management have major life consequences, and both of these shortcomings as well as many others can be addressed through financial literacy. Couple this with all the money challenges and enticements facing young adults today, and trouble can start brewing when kids leave home for college or to start a life of their own.

Surveys indicate there is a big divergence in how students handle their finances by the time they get to college:

- 25% of college students say they already have credit card debt (US News & World Report 2023 survey)
- 14% say they have started to invest (Barnes & Noble College Insights™ 2023 survey)
- 44% say they are saving money (Barnes & Noble College Insights™ 2023 survey)

Parents have great influence over how their children interact with the world. By presenting and exploring money-related topics with your children when they are in their teens or younger, you can encourage them to feel comfortable and confident in future pursuits and struggles.

Becoming Your Child's Financial Advisor

Why Should I Become My Child's Financial Advisor?

Adults who work with a financial advisor typically establish a mutual understanding about the nature of the relationship, what topics will be covered and who is responsible for what. You, as a parent, can do the same with your children, although not in a literal way. You can initiate conversations about money, present ways for your kids to build financial literacy and over time create opportunities to transfer financial responsibility to them. This shifting of responsibility allows children to make and recover from mistakes, which builds confidence over time.

Typically, the advisor-client relationship is collaborative. Acting as your child's financial advisor is very much a collaborative process, not a one-way transfer of information. The focus is on initiating discussions and activities to help your child establish goals and learn about key topics.

The actual learning happens through parent-child collaboration and interaction. The ultimate goal is to transfer financial responsibility for assets to the next generation.

Conversations, actions and even strategic punishments all can make a positive difference in terms of attaining financial literacy. Further, the education of young people about money can and should come from many angles: parents, relatives and family friends; outside mentors; schools; and community opportunities like raising money for a club, nonprofit or a sports team.

If lessons are reinforced by multiple experiences and children are allowed to learn from their mistakes, they eventually create for themselves a great foundation for handling the various financial decisions young adults often face — rent vs. buying, funding a business idea, how to support favorite nonprofits.

Building a Financial Education Strategy

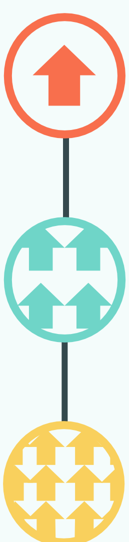
What Skills Should I Teach My Child?

To build an effective learning plan, parents need to first ask themselves, "What financial skills do I want my child to have by age 18?" The answer to this question often varies from family to family. To help you start envisioning a skillset, we suggest you start with the following:

- Discerning between needs and wants
- Learning to earn money
- Spending wisely/being a smart consumer
- Setting goals that reflect values
- Setting both short-term and long-term goals
- Understanding debt, credit cards and credit reports
- Understanding the basics of investing
- Planning and participating in charitable giving

Before starting on financial talks or lessons, be sure to think about what you value as a family and what your family goals and priorities are. This serves as the critical component — the actual foundation — of your child's educational plan. By exploring and acknowledging what your family values and prioritizes, you will have a strong foundation on which to start layering financial topics of interest that grow progressively more complex.

Hierarchy of Financial Skills



Higher Level Skills
Investing in line with goals. Researching charities. Starting a business.

Medium Level Skills
Spending decisions made consciously in context of a budget. Setting and funding goals. Knowing how credit cards work and what a credit report is.

Basic Foundation Skills
Earning money and budgeting. Setting goals based on personal values/interests. Saving money in a piggy bank or bank account.

When choosing topics, keep in mind your child's developmental stage. For instance, it is best to keep it hands-on for younger children, as they may not be able to conceptualize as well. For this reason, piggy banks are a better tool for savings at this age than a bank account. If youngsters can see and handle coins and dollar bills as they place them in their piggy bank, they are more likely to remember the experience and find the lesson meaningful.

Young children have limited patience and experience. So keep it simple.

For instance, resist the urge to teach "this is how to dollar-cost-average into the market," if your child doesn't yet know about budgeting. The concept of dollar-cost-averaging (investing a fixed amount periodically) is much more real if the child has already seen the benefits of saving a little bit each month. Budgeting should precede investing.

Another thing to keep in mind is Maslow's hierarchy of needs — that basic needs need to be met before higher needs can be reached. In other words, in order to enjoy higher experiences like starting a business or giving to charities, there are basic skills that should be mastered first, like setting goals and budgeting. Put in even simpler terms, don't place the financial cart before the horse.

Implementing an Education Strategy

Some Fun Ways to Teach & Learn

Apps & Websites

- ***iALLOWANCE*** – Tracking allowance for older kids (stick to cash with younger kids)
- ***Count Money!*** – Counting and adding coins to make up different dollar amounts
- **Web: *FDIC Money Smart*** – variety of educational tools and resources for parents and kids

Board Games

- **Life** – Choices have consequences
- **Pay Day** – Handling money, paying down debt, etc. loan
- **Pit** – Mechanics of trading
- **The Farming Game** – Risk and return lessons in running a farm
- **For Sale** – Real estate buying and selling game
- **Acquire** – Investment concepts and strategies

When Should the Lessons Begin?

Instead of sitting your child down and conducting an official lesson, we suggest starting with general conversations. Eventually, you can add formal lessons and "real-life" experiences with financial professionals into the mix:

Informal conversations – Whether this happens at the dinner table or when you are driving the kids in your car, informal conversations can both teach a concept in a simple way and speak volumes about how important the topic is. You can explain concepts, put new vocabulary into context, repeat often, and generally create the money messages you want your children to hear.

Formal lessons – Strategically planning discussions to cover the topics you've prioritized is also important. A "lesson plan" consists mainly of a goal (your topic), the objectives (components of the goal), materials, activity and debrief. You can either plan ahead as to when/ and how to present these lessons or let them emerge as your child shows interest. Also, consider aligning certain topics with the time of year; i.e. setting a budget in January, discussing taxes in April and giving to charity during the winter holidays.

Other advisors – Since you are now your childrens' financial advisor, it's up to you to connect them with experts in different areas. Consider bringing the kids into LNW offices or an online meeting with your LNW advisory team. Or invite a business-owning friend over for dinner to talk to an the obstacles and successes of starting a business.

Money Messages for Ages 3 – 18

Preschoolers, ages 3 through 5.

Keep it casual, simple, and model the behavior you want them to adopt. The following are a few conversation starters for this age group:

Coin identification – Playing with a piggy bank, naming the different coins and starting to attach value to coins. We suggest reading books that introduce different coins and their values such as *If You Made a Million* by David M. Schwartz.

Different professions – Talking about what the people you know do for work while explaining that work is to both make money and contribute to society. We suggest reading books about work like Richard Scarry's *What Do People Do All Day?*

Delayed gratification – Model delayed gratification by setting and sticking to goals prior to entering stores or online shopping. While shopping, ask the kids to choose just one thing if they want two and ask them to explain their decision. We suggest reading books that illustrate healthy spending habits like Stan and Jan Berenstain's *The Berenstain Bears Get the Gimmies*.

Grade school, ages 6 through 11.

Topics covered can evolve to be a bit more abstract. The following are conversation ideas for this age group based on the Junior Achievement curriculum (https://jausa.ja.org/programs/index):

Kindergarten's "Ourselves" – Raising awareness of the child's contribution to family and community life, allowing them to pay for things, discussing the value of work.

Second grade's "Our Community" – Learning about different professions, how taxes pay for public services, and how money moves through the local economy.

Fifth grade's "Our Nation" – Discussing career interests and goals, assessing skills and discussing how our nation fits into the global economy.

Middle school, ages 12 through 14.

Pre-teens and early teens are still relatively open to what parents have to say, so take advantage of this. This is an important time to introduce lifelong skills before they're in high school and their lives get busier.

If you haven't already, begin to have your child incorporate basic money skills like budgeting, earning money and saving into their daily life. We also suggest that you challenge your middle schooler to follow an economic topic in the news, such as inflation reports or a recent IPO, and engage them in frequent conversations about their topic's changing headlines. On a final note, try to talk to your child as an adult. They want to be taken seriously at this age and this is serious subject matter.

Some conversation and activity ideas for this age:

Budgeting – Talking about needs versus wants and how the two get confused; follow up with a reinforcing experience.

Earning money – Proclaiming a dream job, researching it on the internet, conducting an informational interview with a family friend or relative who has the "dream job" and job shadowing for a few hours.

Saving – Setting savings goals, discussing typical "adult goals" like buying a house or starting a business, sharing the financial mistakes that you have made as well as financial goals you have attained and discussing the merits of getting advice and help with financial planning.

High school, ages 15 through 18.

This is a great time to use milestones tied to life events. During high school, teenagers become more independent by spending larger amounts of time away from home with extracurricular activities, social engagements and after school jobs. As their independence increases, so should their responsibility for money matters. The following are real-life applications for this age group:

Credit card training wheels – Whether you choose to teach your teenager via a pre-paid debit card or your personal credit card, be sure they are keeping track of their expenses and paying them off monthly. Invoice them if you must. Since you're still the resource provider, use the power of incentives to start healthy credit habits now. Delaying experience with credit until the college years could backfire, as college students face many new responsibilities and may not have the bandwidth to focus on using credit cards responsibly.

First W-2 – If your teen gets a W-2 or a Form 1099 from a job, go through each of the entries and what it means. You might want to invite your teen to a meeting with your CPA or LNW wealth manager.

Driver's license – When your teen starts driving, it's a good time for a lesson about auto insurance. Better yet, having kids work the cost of insurance into their budgets will give them practice with the budget revisions they'll encounter throughout life. Encouraging your teens to ask friends for gas money on long trips will give them experience in communicating about money matters.

Although this is definitely a lot of ground to cover, don't let it overwhelm you or your child. The important thing is to get started with discussions and activities and set some goals to guide the way. Before too long, talking to your young people about money will start to feel natural, opening up new ways for you to connect.

Summary

We believe parents should participate in every step of a child's financial education. This is an ongoing process that does not begin or end with advice on setting up a lemonade stand or opening a checking account. While this level of parent involvement may sound like yet another version of helicopter parenting – parents hovering in to sweep every obstacle out of their child's way – we believe it is actually counter to that trend. Back in 2012, in an article titled "Spoiled Rotten" for *The New Yorker* magazine, Elizabeth Kolbert declared that children's "competence encourages autonomy, which fosters further competence – a virtuous cycle that continues into adulthood."

We couldn't agree more. By developing your list of key financial topics, establishing a mutually accountable "client-advisor" relationship with your child and creating positive interactive experiences with money, you are empowering your child for life. Financial literacy gained through close parental involvement helps young people assume increasing levels of responsibility for stewarding family wealth as they successfully navigate their way through future pursuits and challenges.

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