Passing Good Money Habits on to Your Children

Five tips for instilling financial confidence in the next generation

It's never too soon to talk money with your kids. At some point teens and young adults will need to make their own spending decisions. They need to be prepared.

Arming youth with critical financial skills may enhance their quality of life and can help them pursue important life goals, such as college or owning a home. But money also has a ripple effect on other important aspects of their lives, such as marriage. If you are not having the money conversation with your kids, their narratives could be shaped by a consumer-oriented culture that tries to equate spending with personal happiness and fulfillment.

Good savings habits are best modeled, but there are at least five things that parents can do to teach kids how to be responsible:

1. Be specific when telling children what things cost — Young children lack points of reference when understanding the true cost of a toy, electronic game or cell phone. The purchase price alone does not fully reflect total cost, particularly with cell phones that require activation and monthly charges.

2. Let them make choices with money beginning at a young age — Consider starting kids out with a weekly allowance in elementary school, say $5. Then ask probing questions: Is it better to save or spend an allowance? Would sharing their money for a good cause interest them?
Help your kids open a bank savings account, showing them how regular savings build up over time. As they grow, consider raising their allowance, and encourage them to earn their own pocket money while in high school.

3. Weigh pros and cons before making a purchase — Do children really need the most expensive pair of sneakers? Would checking a novel out from the public library for free be better than buying one at the local bookstore? Comparing prices at a grocery store teaches children how to be savvy shoppers.

4. Set up "buckets" for short, intermediate and long-term goals — Young teens should be able to differentiate between near-term needs (a movie this weekend), intermediate needs (back-to-school clothes), and long-term goals (college or buying a house). It's likely that their spending habits will begin to be forged for life in college. It's also when making smaller mistakes with money (blowing an allowance on a handbag, for example) has fewer long-term ramifications than, say, signing a mortgage that their income cannot support.

5. Start early, but don't overstress — Toddlers quickly grasp that money is a tool of exchange, and by the time they are 8 or 10 they can learn that money has a time value. Young teens may be mature enough to manage a yard sale.

However, it's important that parents take care not to share their financial stresses with young children. Few kids have the emotional maturity to process information about a lost job or a market downturn.

Above all, don't expect children to be perfect with money from day one — for all of us, managing our financial lives is a "work in progress."