Children's Financial Literacy

Your children's financial literacy starts with you. By teaching them to form good money habits when they are young, you will set them up for success later on. No matter what ages your children are, you can instill lessons about finances and money management that are relevant to them.

There are three main lessons that are important to convey to your children that will help them on the road toward financial literacy:

1. There is a difference between needs and wants.

As an adult, it is easy to compartmentalize your budget into the items that you *need* to pay for, like your mortgage or rent, utilities, and food, and the items that you *want* to pay for, like date nights, a new pair of boots, or a family vacation. For children, it's not as easy. Introduce the concept of budgeting to them by talking about the differences between needs and wants. They need to have a place to sleep at night, but they want to sleep in bunk beds. They need to eat green beans at dinner, but they want to skip straight to dessert. The grocery store can be a good place to reinforce this concept; as you are shopping, ask your children if the items you are putting into your cart are needs or wants, then explain how they are right or wrong.

2. There is never going to be enough money to buy *everything.*

When everything is provided to them, it makes sense that children can develop the idea that money grows on trees. Teaching them from a young age that just because they want something does not always mean that they can get it will help them make smarter financial decisions later in life. The concept of an "opportunity cost" drives this home. When your child has a finite amount of money and two purchases to choose from, they must choose one purchase at the expense of the other; they cannot have both at the same time. This concept is easier to teach when your child understands how money works and may be earning an allowance to make purchases of their own.

3. Money is earned and not given.

By stressing the fact that money is something that needs to be earned when your children are young, you not only set them up to be financially literate, but you also begin instilling a good work ethic in them. Instead of simply giving your children an allowance each week, consider giving them a list of chores that much be done, and base their allowances off of how much they accomplish. For example, each time the dishwasher gets emptied, beds get made, or toys get put away, they can earn money. At the end of the week, they get their "paycheck" and can decide whether they want to save or spend their money.

Teaching your children to be financially literate is a long process, and not one that can be taught overnight. Finances are complex, especially when you get into retirement funds, investments, and taxes. Though your elementary school-aged children may not need to know about these topics yet, it's important to prepare your teenage and adult children for "the real world" by giving them a primer on complex financial topics.

Here are a few more tips to help your children become financially literate:

- **Set a good example**. Your children learn from your behavior and habits, so be wise with your money. If they see you making frequent impulse purchases or living beyond your means, they are more likely to replicate that behavior than if they see you saving for retirement and paying bills responsibly.
- **Allow children to manage their own money.** Whether you start with an allowance or help them open a savings account, let your children take control of their own finances. Help them balance their checkbook or create a small budget. When their lessons are hands-on, they will become proficient faster.
- **Let them make mistakes.** When your children first learn the lesson of opportunity cost, they are likely to feel disappointment. When choosing between two items, they may have thought that one way or another they might get both, or they may have instant buyer's remorse and wish they had bought the other item. It's important for you *not* to step in and give them more money or offer alternatives. Once the lesson is learned, they'll be more likely to think twice about their buying decisions in the future.
- **Set goals.** Goals are motivational, especially for children. Help them set realistic savings goals at all ages (e.g., saving for a new video game or saving up to buy a used car) so that they can see where their money will be going. If you have young children who do not yet have a bank account, using a clear container to store their change can help them visualize their progress.
- **Teach the difference between debit and credit.** Plastic is plastic, and though credit cards and debit cards look similar, they behave in different ways. Teach your children that using a debit card is the same as paying with cash or a check – the money they spend is immediately deducted from their account. Using a credit card is different and they can delay payment until the end of their statement period, but after that point, any remaining balance begins to collect interest, making their $40 purchase cost a lot more.
- **Talk about retirement.** When you talk to your children about saving money, stress the importance of saving for retirement. When your child is still a minor, you can open a custodial IRA on their behalf; as soon as they earn income (as reported on a tax return), they can begin depositing money into the account. The added benefit of a custodial IRA account is that unlike other brokerage or trust accounts, like a UGMA or UTMA account, assets in an

IRA are not included on the FAFSA when applying for college financial aid. Ownership of the account will automatically transition from you to your child when they reach the age of majority (typically 18 or 21 years old, depending on your location).

Only **six states** require that high school students take a standalone personal finance course before graduating. This leaves a significant gap in the financial literacy of young people, with parents picking up the slack. By giving your children financial lessons throughout their lives, and starting when they are young, you are setting them up for success as they mature into adulthood.

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