

A Guide to Talking to Your Children About Money




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A common concern among the high-net-worth families who we work with is how to raise children with an understanding of the *value* of money. In some families, these lessons are taught out of necessity, but what happens when there are fewer imposed limitations? How can parents communicate the difference between being able to afford something and whether or not the item is *worth* the money?

In our extensive experience working with families, we have found that much success can be attributed to children learning and developing two life skills: delayed gratification and autonomy. Teaching children to strengthen their willpower and giving them age-appropriate autonomy can provide a foundation that allows them to grow into responsible, successful adults.

Both delayed gratification and autonomy can be nurtured over time and build on each other throughout each stage of development. While it is important to highlight key principles for instilling financial savvy, we believe it is critical to offer concrete advice to parents as they navigate the potential pitfalls of raising financially responsible children – a task that can become more complicated with greater affluence.

This article offers a guide on how to build these skills at various stages of development: preschool, elementary school, middle school and high school.¹ Our practical advice is broken up into three categories that we believe are applicable at each developmental stage:

-  Helping children differentiate needs from wants
-  Teaching children to spend wisely
-  Coaching children on the importance of giving back

Delayed gratification is the ability to resist the temptation for an immediate reward and wait for a later reward. In the well-known “Stanford marshmallow experiment,” executed by Walter Mischel in the late 1960s and early 1970s, young children were offered a choice between one small reward provided immediately or a larger reward if they waited for a short period of time. Mischel then followed up with these subjects in adulthood and found that the children who were able to wait longer had better life outcomes. His research has given us substantial evidence about how an individual’s ability to delay gratification plays a significant and intricate role in shaping his or her health, well-being and success.

Autonomy involves developing a greater sense of self-control and behaving and thinking independently of others. Children develop autonomy over time, with the help of their parents. It is important to learn independence while being supported and guided by adults. Children who learn to be autonomous during appropriate stages in life can go on to be productive adults.

¹ Please see our spring 2018 issue for advice at college age and beyond.



Preschool

While preschool-aged children do not have much impulse control, it is possible to teach them to get better at exerting willpower over time. The games described in this article can help lay the groundwork for developing delayed gratification.

At this stage of development, children are very involved in testing their autonomy and what they can do on their own. It is important – although sometimes frustrating – to let children explore the limits of their abilities while supporting them. When using any of the following strategies, you can offer your child some (reasonable) choices.

Distinguishing Needs from Wants

Play the “wants vs. needs” game. Start by playing in general: Is having dinner a want or need? What about having a candy bar? Then, play the game when your child asks for something specific.

Talk about buying something small now or big later. Discuss with your child if she should always get a small treat at the store or if waiting for a big treat every once in a while may be better.

Suggest that your child pretend to be Wonder Woman. Sometimes when children have to wait for something, it can help increase resilience if they imagine themselves as a superhero.

Spending and Saving Wisely

Introduce saving as a family for a specific goal. Save up to go out for a specific treat (e.g., ice cream), and let your child choose the kind of ice cream she wants.

When you use your credit card at the store, let your child know that you are paying with money. It is important to equate your credit card with actual money – yes, even at this early age!

Play store. Set up a “store” in your living room with items priced for your toddler (e.g., showing a picture of a nickel). Let your child “go shopping” and use real coins to buy the items.

Giving Back

Create a sharing jar. This is similar to family savings, except the money will buy something for someone else – a toy, some clothes, etc.

Watch the sharing jar fill up. Allow your child to add a certain amount of coins, and then add 50% of that each time. He will learn from your example of giving and will see how matching funds can increase the total.




Give away toys. In addition to giving money, your child can give away some of his gently used toys. Let him choose three or four toys he would like to give, and drop them off together.

Elementary School

At this stage, children are often fascinated by money. This is a great opportunity to discuss what a bank account is and to further explore the value of money.

Your child may be less interested in testing the limits (autonomy), but he is developing a sense of pride in his accomplishments and abilities during this stage of development. This may be a good time to introduce more structured chores.




There is a lot of debate about paying for chores (separate from allowance). One school of thought is that parents should not pay for all chores. There are some tasks that everyone in the family must do because that is part of being a family. At this age, children actually enjoy chores, perhaps because they are showing you – and themselves – that they can do something on their own for the good of the family. You can think about offering to pay for chores above and beyond the “normal” family chores. Some parents find it helpful to think in terms of “Would I pay someone else to do this for me?”

 Distinguishing Needs from Wants	 Spending and Saving Wisely	 Giving Back
<p><i>Introduce the concept of tradeoffs.</i> Let your child make the spending decision as to what she wants to buy now or save for later. For example, does your child want a small bag of chips three days a week or one big toy next week?</p>	<p><i>Price check.</i> Compare the price of certain items in the grocery store before you buy them, and talk to your child about which to buy and why.</p>	<p><i>Donate time and money.</i> Volunteering together somewhere will help your child understand the abstract notion that some people do not have a home, enough food, etc.</p>
<p><i>Include your child in the process when you make a purchasing decision.</i> If you are making a big family purchase, let your child in on the decision. This can create a framework for discussing why you choose to buy certain things and not others.</p>	<p><i>Create rules of thumb for saving.</i> Suggest setting aside a certain percentage of any money your child receives – for example, in her birthday cards or allowance.</p>	<p><i>Give locally.</i> At this stage, your child will understand local giving better than more abstract concepts of giving.</p>
<p><i>Make lemonade.</i> If your child wants a big item, have her contribute to the cost. For example, she could set up a lemonade stand. Let your child run the lemonade stand and decide how much to contribute to the item.</p>	<p><i>Begin the conversation about a bank account.</i> This is a good time to start putting your child’s savings somewhere, such as a bank account, or even an app that helps track savings.</p>	<p><i>Create rules of thumb for giving.</i> Implement a strategy whereby your child gives away one (gently used) item for every new item she receives.</p>

Middle School

This is another stage where autonomy factors heavily. Children in this stage are often exploring their independence and moving away from childhood. It is a good time to encourage your child’s entrepreneurial spirit – listen to his ideas and let him follow through (within reason).

Children will start to become aware that your family has different resources than their friends’ families. In addition, they will begin to understand math concepts better (compound interest) and can be more empathetic. Therefore, your conversations around saving and giving back can become more sophisticated.

 Distinguishing Needs from Wants	 Spending and Saving Wisely	 Giving Back
<p><i>Use peer networks.</i> Look at reviews before purchasing an item to evaluate the value. This can lead to a discussion about the item being an immediate purchase or something to wait for.</p>	<p><i>Recognize the difference between advertising and reviews.</i> This can be a fun game to play: What seems to be a paid advertisement vs. a review or article?</p>	<p><i>Introduce the reality of income disparity.</i> Have your child read about a local soup kitchen or homeless shelter. Often the sites will include personal stories of the people served. This is a good way to introduce the reality of income disparity.</p>
<p><i>Pay back.</i> Indulging an immediate want is something we all choose to do once in a while. Suggest that your child pay for her own impulse purchases either directly or pays you back later.</p>	<p><i>Use cash to make purchases.</i> Studies show that people are willing to spend twice as much to buy the same item when using a credit card vs. cash.</p>	<p><i>Think about what other people need.</i> Brainstorm some of the issues affecting your community and beyond – hunger, water shortage or lack of education, for example. Discuss how you may be able to meet those needs, through volunteering or donating money.</p>
<p><i>Build reserves.</i> Introduce the concept of planning for a rainy day. Things may not always go as planned – ask your child for examples of this from her own life. Relate this to how important it is to set aside money (that could be used now) for the future (when it may be needed).</p>	<p><i>Demonstrate how paying credit card interest can actually waste money.</i> Compare the total costs of paying for an item up front vs. buying the same item using monthly payments at a 10% interest rate. You may introduce the idea of bad credit and how it can affect one’s future.</p>	<p><i>Create a chart to track volunteer hours.</i> Your child can choose a percentage of time he wants to spend volunteering each week or month and then try to meet or beat the benchmark.</p>






High School

High school is a time where your child will continue to create a strong sense of personal identity, but also will begin preparing for the future in a way she has not before. Although not yet adults, high school students may begin to see adulthood more clearly. Soon they will be able to drive, to vote and eventually go off to college.

Many children get their first paid job during this time. Perhaps ask that your child begin putting some of her own savings away for

college. Research indicates that children who contribute their own money to college, whether they have to or not, are more engaged students and have higher GPAs than those who do not.

It is important to give your child the freedom to make bigger decisions. He *will* make mistakes – let him, and help him learn from it.

 Distinguishing Needs from Wants	 Spending and Saving Wisely	 Giving Back
<p><i>Create rules for waiting.</i> Encourage a 24-hour rule before making a purchase that is more of a want than a need.</p>	<p><i>Create a budget.</i> Have your child put together a budget for the month or semester. Compare the projected vs. actual budget at the end of the time period.</p>	<p><i>Create a mission statement.</i> Explore what areas your child feels passionately about. Encourage him to write his personal mission statement and visit organizations.</p>
<p><i>Discuss why your child wants to make a certain purchase.</i> Find out what her motivation is – ask whether or not she thinks purchasing big-ticket items will bring lasting happiness.</p>	<p><i>Discuss saving tools.</i> Consider helping your child open an additional savings account, such as a Roth IRA. Begin the discussion about retirement savings.</p>	<p><i>Make a connection.</i> If your child is struggling with finding a mission, help her connect to something she already enjoys. If she is into sports, find an afterschool sports program for young children that she can volunteer at.</p>
<p><i>Prioritize.</i> Help your child prioritize in general – school work, sports, extracurricular and so forth. This will help him prioritize when making money decisions.</p>	<p><i>Address lending to friends.</i> Your child may want to lend money to friends. Discuss his reasons for wanting to do so as well as the potential negative effects.</p>	<p><i>Find a balance.</i> Your child may become very passionate about an issue. Help her balance what she can do now and plan for what she may want to do in the future.</p>

The value of money is a learned concept; no one is born with it. Building the skills of delayed gratification and autonomy is a lifelong process, and you can begin using these tools with your children at any stage. Consciously engaging in these conversations can help children grow into responsible, successful adults who understand the value of a dollar.

We know that getting started can be difficult. Many of our clients have found our customized family wealth education programs to be helpful for increasing financial know-how and confidence. Research shows that deliberately preparing children to steward wealth is the key to success, and financial education is the foundation. &



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