

10 ways to make your child Money Smart

Contributed by Sanjay Matai
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We, as parents, teach our children a lot about good manners, human values, morals and ethics, social etiquette, et cetera. At school also they have subjects such as moral science and value education. But when it comes to teaching about money and finance, we generally feel that they are too young for it. However, money and finance are a part and parcel of our lives. And just as there is good and bad behaviour, there is also good and bad financial conduct. Therefore, we need to educate our children about the basics of money and money management such as budgeting, saving, investing and not the least spending, from the early years. Good financial habits need to be inculcated from childhood. Moreover, today children are big spenders — games, CDs, movies, dresses, cosmetics, etc. Hence, it is important that they learn to appreciate the value of money.

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1. What is ‘money’ all about

The first step is to create awareness about money. We need to explain our child the concept of money. Parents go to work to earn money. This money is kept in the banks for safety. When we buy anything from the market such as toys, dresses, food, etc. we have to pay money.

Even for going to school we have to pay fees. When we travel say in a taxi or an aeroplane, again we have to pay for the tickets.

Taking our child for daily shopping is a good way of making them aware of real life examples. Show them the products and their prices. As they grow, make them compare prices.

Give them coins and notes to get a feel of money. Start early. Even children of 3-4 years can differentiate amongst coins.

{mospagebreak title=Give them a monthly allowance} 2. Give them a monthly allowance

Once the child is old enough to understand the concept of money, start giving them a monthly allowance. This will give them a real-life experience about money and buying & selling. Decide beforehand as to what is covered and what excluded.

It is, however, important that the decision, whether to spend or save or on which items to spend, should entirely be of the child. This will get the child more interested and also feel responsible.

Let them make mistakes. This is the best way to learn. Of course, you can guide by giving pros and cons of various options and how to make good choices. However, in certain extreme cases, say, when he wants to buy a cigarette from his allowance, you can stop him. But be sure to explain the reason for doing so.

Since the purpose of the allowance is to teach financial discipline, do not give any extra allowance or if he has exhausted his allowance do not give any advance. Similarly, on your part, pay the allowance on time. Do not delay or make them remind you.

{mospagebreak title=Encourage Saving} 3. Encourage saving & open a bank account

Saving is one of the earliest financial lessons to be taught. Get a piggy bank and make it a habit to give your child a coin every day to put in it. When the piggy bank is full, take out all the money. Open a separate bank account for your child with a separate passbook and chequebook.

Deposit the amount saved in the piggy bank into their account. Take the child to the bank and let them see and enjoy how the money grows.

Let your child keep the bank statements, passbook and chequebook. This will help them to learn to get organised and keep proper records.

When you start the monthly allowance, encourage your child to save a portion of the same. As a financial discipline, ask your child to save the money he receives as birthday gifts, etc.

It will make savings more fun and motivated if you link it to his buying something big from the accumulated amount say a bicycle, a doll set, playstation, cricket kit, etc. Also set a time deadline.

As he grows older, tell him about how the amount in bank earns interest.

{mospagebreak title=Budgeting} 4. Budgeting

Budgeting is another important lesson for the child to learn. The resources will always be less than our desires & wants. Therefore, it is important to learn to prioritise our needs/expenses. To begin with, let them make a budget of the allowance they get. Let him make a list of what he wants and then decide what all is possible within the allowance.

Over time, he will learn to distinguish between his "wants" and "needs." Remember that you would be doing a great disservice to your child if you meet all their demands.

Together with saving habits, budgeting will help him to plan for his future purchases, which may not be possible in a single allowance. He will also start appreciating the fact that money resources are not infinite and need to be judiciously used. It will also cut down the impulse buying and wasteful expenditure.

Later, as he grows older, you can involve him your family’s budgeting.

{mospagebreak title=Investing} 5. Investing

As your child grows up you need to explain the concept of investing and risk. What is the purpose of investing? What are the broad categories of investment options? What kind of risk they carry? What study or research needs to be done before investing?

A few simple books or articles on investing would be quite helpful. And you could contribute some amount to enable them to make a few actual investments.

Also, caution them against various kinds of common frauds.

{mospagebreak title=Using Credit Cards} 6. Using credit cards is not buying free

When we pay through a credit card, the child does not see any exchange of money. Thus he/she sometimes may get the wrong impression that we are buying things without paying any money for it. Therefore, it is important to explain to the child the concept of a credit card.

It is only an instrument of convenience & safety. Instead of carrying huge amounts of cash, it is easier making the payment through the card.

Show them the credit card bill you receive at the end of the month. This will help them to understand the payment mechanism of a credit card.

{mospagebreak title=Handling Peer Group Pressure} 7. Handle peer group pressure positively

Peer group pressure is a situation which every parent encounters. Your child always wants something his/her friend has. However, you may be against it because either you can’t afford it or even if you can you don’t want to spoil your child by giving him/her everything he/she wants.

Alternatively, your child may be better-off amongst his/her friend-circle and may become arrogant and develop superiority complex.

Parents need to handle both these situations with patience. The child needs to be explained the situation in detail and inculcated with right & positive behaviour.

{mospagebreak title=Rewarding Good Behavior} 8. Reward good financial behaviour

Just as we reward good performance at school, it is equally important to reward good financial behaviour. We need to appreciate and applaud our child.

If the child has been consistent in meeting the rules laid down for "saving" and "spending", we must praise the efforts. We could take him out for a movie or buy him a present. Or even give a performance incentive, just as we get the same from our company.

{mospagebreak title=Be a Good Example} 9. Be a good example

Parents are a role model for their children. They pick-up a lot of habits of their parents. This is true of money-habits too. It will be difficult for you to make your child appreciate the benefits of savings if you yourself are a reckless spender. Your attitudes and beliefs about money and your behaviour in money situations will shape a lot of your child’s money-attitude.

Therefore, make sure that your lessons to your child are consistent with your own actions.

{mospagebreak title=Do Not Overdo the Money Talk} 10. Don't overdo the money talk

A word of caution: don't make everything money-centric. It could make a child develop negative attitude about money.

Be careful of what you discuss with him. Let's say his school fees are high or he wants to join some classes, which are straining your finances. It may be advisable not to talk about this with your child, lest he may develop any guilty feelings.

Teaching your child how to handle the financial matters is as important as sending him to school. Good habits, including financial ones, take time to develop. So start as soon as you can. These real-life experiences are one of the best teaching methodologies.

The child is excited and eager to learn. He feels grown-up and gets a sense of self-importance. He picks-up and internalises the lessons much better than bookish knowledge. Good financial management attitude and skills will benefit the child throughout his life. It is one of the best gifts we can give them.

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<http://www.rediff.com/money/2006/nov/14perfin.htm>