

How to raise financially smart children



Whether it's playing an instrument or figuring out how video games work, a child's brain can make active connections quickly. The same is true for understanding financial literacy. It's likely that as early as age 3, children can begin to comprehend the basics of how money works, potentially helping them form good financial habits. That's why you should teach them to be financially smart. Here's how.

Start teaching early

Many parents don't start teaching their kids about money before age 5 and don't discuss finances with their kids until they're teenagers. If you aren't talking with your kids about family finances, they may draw their own conclusions about money, which could be inaccurate or wrong. Teaching them the value of money early on will help them learn how to make sound spending choices in life and let them learn about the consequences of overspending.

Speak openly and honestly about money

Don't hide your financial problems or lie about the family's financial situation. Kids can handle the truth and will learn to appreciate openness.

Talk plainly

When you discuss finances with kids, talk about values instead of giving them figures. You want them to understand the concepts of saving, budgeting, and paying debt without bogging them down with dollar amounts.

Let them participate

A good way to discuss money with your children is to let them sit in on family budget meetings. Show your kids the bills you have to pay each month and talk about how you determine income and expenses by:

- **Teaching the difference between needs and wants** – A very important money skill to learn is the relationship between needs and wants. Needs are things we can't be without, such as housing and food. Wants are things that we'd like to have but aren't required for survival, like a video game. For children, separating needs and wants can be difficult. A good way to help your children distinguish between them is to discuss specific items while you're out shopping. Ask them to point out items that are needs or wants as you walk through the aisles.
- **Teaching patience with purchasing** – As a parent, you can help your kids develop patience by not purchasing every item they ask for. Set an example by avoiding impulse purchases and explaining why you aren't buying something you like until you save money for it. Encourage children to think through their purchases before they commit to them.
- **Teaching how to save money** – Your kids probably won't understand how money saved over a long period has the potential to grow, so it's important to teach them that value. You can demonstrate this by creating a way to pay the interest on the money they save. This demonstrates how investing works and how saving money can benefit them in the long run.

Provide an allowance

An allowance is a good way for your children to learn the value of earning money. Don't provide your children with an allowance automatically. Instead, set up an allowance based on specific tasks. Choose age-appropriate chores or tasks for your child to complete each day. At the end of the week, they can earn a specific amount of money for those activities. Chart their activities and accomplishments throughout the week. Having a visual method of showing how they've saved will help them see how their money comes and goes. You must also remember to be consistent. Once you've decided on how an allowance is earned, don't change the terms. This will help your children understand the benefits of earning money.

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Play money games with your kids

Kids tend to learn faster and better by doing things themselves. So, playing money games that teach kids the value of cash and how to handle it is a good way to introduce financial concepts to them and have some fun. Do a little research and you'll find there are many options for games out there that can help teach about money. Once you purchase a game, play it with them and explain concepts about saving, budgeting, and investing as you do.

Teach children about money using apps

There are a plethora of apps for smartphones and tablets that can help explain financial concepts in ways your children will understand. A financial game offers engaging, fun, and educational activities that teach kids about earning, spending, and saving money.

Help teens with personal finance

As your children get older, they'll need more first-hand experience and guidance on managing money. Consider opening a savings account for them. This is an excellent way to teach them how banking works. Look for a bank or credit union that offers an account without a monthly fee and minimum balance requirement. If your kids aren't old enough to have an account, sign as a co-owner until they're old enough to manage it. Encourage your children to stay on top of their savings.

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