

Learning Good Financial Habits

As parents, you spend a lot of time teaching your children habits that will keep them safe and healthy as they grow into adulthood—cross on the green light, wash your hands and brush your teeth, eat a balanced diet. But what about your children’s future financial health? Who will teach them the habits that will help them manage their money? Children learn most of their attitudes to money in the home, and the lessons can start early.

Lessons about money and budgeting

Here are some aspects of money and budgeting that children can learn growing up.

- **Recognition and relative value** - Preschoolers can learn to identify and name coins and bills of different values.
- **Uses and sources** - Children learn what money is used for when they see you handing over bills and coins at the store and getting something in return. But they don’t get accurate information about where those bills come from by watching you take money out of an ATM. Young children often think that the machine makes an endless supply of money, like water from the tap. They need your help to understand how money is earned and that the supply is limited.
- **Needs and wants** - Even young children can learn to make a difference between needs and wants. They *need* a new coat; they *want* the expensive one with a cartoon character on it. Budgeting means making a plan that takes care of needs before accommodating wants.
- **Spending and saving** - By the time children start school, they know that if they spend all their money at once, there won’t be any left. They also understand making plans for the future; they can set a goal which helps them wait till they’ve saved up to pay for what they want. Many parents guide children to divide any money they receive into two parts: some to spend soon, and some to save for a future purpose.
- **Values** - Many parents use a similar method to promote the value of generosity. They teach their children to divide money into *three* parts: to spend, to save and to give. Giving may mean presents for friends or family or it may mean contributions to an organization that reflects the child’s values and interests.
- **Investment and debt** - As soon as children have enough money saved to open a bank account, they can learn about interest by seeing that the bank adds money to their account. Before they get their first

credit card, teenagers need to understand how compound interest works: the longer you save, the faster your savings grow. The longer you carry debt, the faster the debt will grow.

Teaching Tools

All these lessons can be taught in the course of normal family life, adapting the methods to the age and maturity of the child.

- **Play** - Preschoolers may assume that a nickel is worth more than a dime, because it is bigger! Make piles of coins to show that five pennies equal a nickel, two nickels a dime, etc. Make or buy some play money children can use to “pay” when they play store or restaurant.
- **Practice** - When you make a small purchase, let your child give the cashier a bill and receive the change. Count the change together afterwards and explain that it represents the difference between the cost and the amount they gave the cashier.
- **Allowance** - An allowance is a sum of money that is paid regularly, adjusted to the child’s needs and responsibilities and to the family’s resources. With a predictable flow of money, children can learn lessons about budgeting for needs and wants. They can set goals for spending, saving and giving. Experts generally advise parents not to use an allowance to reward good behaviour or pay for regular household chores. Paying for these things sends the message that the only reason to follow rules and help in the family is for money.
- **Paid work** - Children can learn the relationship between work and money by taking on extra jobs around the house (beyond their regular chores) and later by working outside the home, for instance babysitting or dog walking for the neighbours.
- **Modelling** - Your children will learn healthy financial habits the way they learn other habits: by watching what you do. Make a list before you go the store. Let your children hear you thinking aloud about the family’s needs and wants while you’re deciding on what to buy. Talk about what you are saving for and how you have budgeted for future purchases or for paying off debt. Discuss how you set aside money for gifts and donations. Your example is the most powerful teaching tool you have.

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Find links to online games and guides for ages 5 to 20 at www.yourmoney.cba.ca/parents/inside. See also www.buildingfuturesnetwork.com and www.themoneybelt.gc.ca.