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## Seven Tips for Raising Financially Savvy and Responsible Children

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By Kathleen Burns Kingsbury

Raising children to be financially savvy presents a unique challenge for affluent parents. How do you let your children enjoy a lifestyle that is rich in opportunity without spoiling them? For Sting, the musician worth an estimated \$300 million, the decision was to not leave his six children an inheritance. Instead, he reports that he wants them to earn their own money—and learn the value of hard work, as he did growing up in a working-class family. Warren Buffet and Bill Gates have expressed similar sentiments.

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All parents want to rear healthy and self-sufficient children. But when you have wealth, the question of how to do this becomes more complicated. Some well-intended, affluent parents go to extremes and don't talk about money with their children. Their fear is that, if their children know about their money, they will become entitled, unmotivated, and dependent adults. While this concern may be valid, the best way to protect children from this fate is to engage in more communication, not less. As CAPTRUST client relationship manager Jeremy Altfeder, CFP® states, "Communication is key, and the onus is on parents to teach their children about money." 

For parents who grew up in families that talked openly about wealth, teaching kids about money and family values may be second nature. For others, it may be a new skill, perhaps one that a financial advisor can help you develop. Either way, the best place to start is by reflecting on what key skills and core values you want to pass down to your children. Next, discuss these with your partner and, together, set up a game plan for how best to impart this knowledge.

Each family's plan will be unique, but there are some fundamental items to consider when raising financially savvy

and responsible kids. These include:

### **1. Talk about money early and often.**

Financial literacy experts agree that it's important to start talking to your kids about money around age five. This is the age they first become conscious of money and begin developing financial beliefs that will influence their saving and spending habits. They will form their belief system, or *money mindset*, between the ages of five and fourteen years. While people can change their money mindset as an adult, it is easier to establish healthy thoughts and feelings about money early on. The goal is to make financial conversations a normal and healthy part of your family dialogue.

### **2. Make it real.**

Adam Carroll, financial educator and author of *Winning the Money Game*, decided to conduct an experiment with his children to test the theory that cash has a different effect on behavior than other forms of payment, such as credit or debit cards, Apple Pay, or online payments. One weekend, they played the board game Monopoly, a favorite family pastime, using real money. Carroll discovered that his children were more conservative in their game play when handling \$20, \$50, and \$100 bills than when using the game's fake money. This experiment and related behavioral research points to the importance of having your kids engage in cash transactions. They need to experience the pain of losing money when they spend—feelings they won't feel as sharply with other forms of payment. To help achieve this goal, consider paying their allowance in cash and creating opportunities for them to save and spend using actual dollars and cents.

### **3. Capitalize on teachable moments.**

Were you ever the recipient of a parent's lectures about life? If so, you have experienced firsthand how ineffective this teaching method can be. While it may be tempting to sit your children down and give them a sermon about family values, fight the urge. Instead, capitalize on teachable moments, impromptu opportunities for learning that come up during the course of a day. For example, if you are grocery shopping and your son is throwing prepackaged food into the basket, let him know you value locally grown products. Then, discuss why you are willing to spend a bit more for these items as a way to express this belief. Teachable moments happen everywhere, from the movie theater to the mall to the car ride home. Keep your eyes and ears open, and take advantage of these moments when they arise.

### **4. Let failure happen.**

It can be painful to witness, but kids need to experience failure. Being able to figure out how to correct their errors and move on helps them develop a sense of mastery. Too often, parents with good intentions bail their children out of tough situations. They pay off an excessive credit card balance or foot a legal bill resulting from bad behavior. When this happens, young people don't learn how to be self-reliant. Instead, they start to believe they can't be self-sufficient—and need mom and dad to rescue them. Let your kids fail, support them as they try to figure out how to correct the situation, but don't fix it for them. They may kick and scream in the short term, but they will be forever grateful in adulthood.

### **5. Show, don't tell.**

We all know that actions speak louder than words. Financial habits are no exception. It is imperative that your actions be consistent with the values you are trying to impart. For example, if you are teaching your children about caring for others, don't just write a check to your favorite charity. Volunteer alongside them and let them experience the sense of joy that comes with giving.

### **6. Connect the dots.**

The best way to make sure your children understand what is important to you is to clearly communicate your values to them. Be explicit about what is important and how you use money to express these principals. For example, if you take your family to Europe every year because you want your children to understand and experience the world, tell them. Without an explanation about why you invested money in the trip, miscommunication can happen. While you may have intended them to learn that education is important, they could walk away thinking that room service is awesome. Be sure to connect the dots between family values and how you use your wealth.

## **7. Help them find purpose.**

Finding their purpose in the world is vital for children's healthy development. Obtaining a job can help them do that. Although your teenager may not need to work, there is no substitute for the real-life experience of working at minimum wage and seeing the time, energy, and effort that go into earning a living. A job also gives young people a sense of satisfaction and a feeling of accomplishment. It helps them decide what they enjoy doing, recognize what they are good at, and learn how to get along with coworkers. These are all skills that will help them thrive in adulthood.

Raising healthy and wealthy children is a journey, not a one-time event. There will be many twists and turns along the way and myriad conversations. Be persistent in your commitment to this goal and get support. In the end, your children will be grateful for the priceless gift you have given them.

### **Resources:**

*Raising Financially Fit Kids* (Ten Speed Press, 2013). This book by Joline Godfrey is a great resource for parents, grandparents, or anyone interested in teaching young people how to be financially savvy. The author provides lessons, based on developmental theory, that are appropriate for each age group, starting at age five and ending in college.

TEDx Talk by Adam Carroll ([www.youtube.com/watch?v=\\_VB39Jo8mAO](https://www.youtube.com/watch?v=_VB39Jo8mAO)). Adam Carroll talks about his \$10,000 Monopoly game with his kids and how to teach financial management in a cashless society.

*Raised Healthy, Wealthy & Wise* (Self-published, 2014). This book by Coventry Pitt-Edwards provides lessons and insights from young inheritors who have flourished as affluent children and gone on to become successful, purpose-driven, independent adults.

[www.ASA.org](http://www.ASA.org) (American Student Assistance). This website offers free financial literacy lessons for students and young adults, ages 18 to 26. The platform is highly interactive, personalized, and was developed using gamification theory.

Have questions? Need help? Call the CAPTRUST Advice Desk at 800.967.9948, or [schedule an appointment](#) with a retirement counselor today.