

## Money Lessons

5 tips that add up to teaching your child about money matters

Understanding how money works is an essential life skill. Unfortunately, for a lot of people, these lessons come later than they should, and often as the result of something going terribly wrong.

Not enough people make financial education a priority for children, which results in young adults entering a surprisingly complex financial world without the tools necessary to survive and thrive. Even if your children are very young, remember that the sooner you start teaching them money and personal finance skills, the more adept they'll be at applying those skills when the time comes.

### INSTILLING A FEW BASIC PRINCIPLES EARLY ON

Educating, motivating and guiding children and grandchildren to become regular savers and investors will enable them to keep more of the money they earn and do more with the money they spend. Everyday spending decisions can have a far more negative impact on children's financial futures than any investment decisions they may ever make.

Finance is often perceived as complicated and remote, but this can be a costly impression. Understanding money matters is a valuable life skill. What children learn about money in childhood will shape their own attitudes and behaviour later

on. By instilling a few basic principles early on, you could help influence for the better how they manage their money in adulthood.

### 1. COMMUNICATE WITH CHILDREN AS THEY GROW OLDER ABOUT YOUR VALUES REGARDING MONEY

Financial lessons – how to save money, how to make it grow and, most importantly, how to spend it wisely – must be age-appropriate to be meaningful and beneficial. Young children are not miniature adults. Lessons should be tailored for their age, rather than just made simpler.

Start as soon as they are able to count, and make money the topic of regular family discussions. Time these around dates (for example, a birthday or Christmas) when they are due to receive a cash gift so that you can talk about saving versus spending.

### 2. HELP CHILDREN LEARN THE DIFFERENCES BETWEEN NEEDS, WANTS AND WISHES

Help your children avoid spontaneous purchases by setting goals and prioritising what they spend their money on. This will prepare them for making good spending decisions in the future.

While a child will naturally ask for the latest games console, making them understand the difference between needs and wants will help them make sensible spending decisions from a very young age.

If they want the latest Pokémon video game that costs nearly £400, explain how long it would take an adult to earn that amount of money. Create a specific example to put it into perspective.

### 3. SETTING GOALS IS FUNDAMENTAL TO LEARNING THE VALUE OF MONEY AND SAVING

Help your children to set a goal and track their savings and their spending. Young or old, people rarely reach goals they haven't set. Nearly every toy or other item children ask their parents to buy them can become the object of a goal-setting session.

Such goal-setting helps children learn to

become responsible for themselves. A great way to visualise goals for children is to create a savings chart you can display somewhere prominent (for example, on the fridge).

Create a table and put a picture of what they are saving for. Then, each week, they can colour in the box as they move closer to their savings goal. That way, they can track their own progress easily by simply counting the number of boxes filled in, to see how much they have saved up to that point and the number of weeks still to go.

#### 4. INTRODUCE CHILDREN TO THE VALUE OF SAVING VERSUS SPENDING

Explain and demonstrate the concept of earning interest income on savings. Consider paying interest on money children save at home. Children can help calculate the interest and see how fast money accumulates through the power of compound interest.

Later on, they will also realise that the quickest way to a good credit rating is a history of regular, successful savings. You could even offer to match what your children save on their own.

#### 5. WHEN GIVING CHILDREN A 'POCKET MONEY' ALLOWANCE, GIVE THEM THE MONEY IN DENOMINATIONS THAT ENCOURAGE SAVING

Providing pocket money in lower denominations makes

it easier to allocate a proportion of income to different goals. Labelled jars work to separate money – one for saving, one for spending and one for donating.

Any time they make money by doing chores or receiving birthday gifts, encourage your child to divide the cash equally among their jars.

It's not a huge act, but it does show that it's okay to spend some money, as long as you're saving as well. Once they're older, their bank and investment accounts can mirror the split. Keeping good records of money saved, invested or spent is another important skill young people should learn. ■

#### LOOKING TO MAXIMISING YOUR CHILDREN'S WEALTH?

Teaching children about money isn't currently on the UK school curriculum. The sooner you teach your children or grandchildren about the value of money, the more prepared they'll be for adult life. Small steps can set them on the path to money maturity, enabling them to survive and thrive financially in adult life. To discuss the different saving and investment options for your children or grandchildren, speak to us for further information.

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