Editorial

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Helping your children form healthy money habits

A few healthy habits could set your children up for a more financially secure future.

Research shows that parents' actions affect their children's behaviour and the effects can last into adulthood.[1] This puts the onus on parents to help their children develop the skills and behaviours to make smart financial decisions – from learning about the importance of saving to the power of compounding interest.

But did you know that you could be sending negative messages about money to your children without meaning to? Here are some common unhealthy money habits your children may pick up on – and some suggestions for re-framing these into more constructive messages instead.

Real money isn't magic

Your children likely have seen you pay for many transactions without cash changing hands. In the age of online digital payments, credit cards and debit cards, teaching kids the value of money is not easy. For small children, it can appear that money problems are solved with magic – just tap of a keyboard or the wave of a plastic card.

This makes it even more important to discuss money with your children. A good way to start may be to give them small allowances, in cash form, that they can deposit into a bank account, just as your employer deposits earnings into your bank account. Use simple terms to explain how you use this account to pay your bills and other expenses. For older children, consider showing them how taxes are deducted from your salary and how a credit card works. You could even involve them in conversations with your financial adviser so they start to learn how seriously you take your finances and demonstrate that you really work at it.

Spending wisely, not impulsively

While it's normal to spend on a whim every now and then, frequently buying things on an impulse could send the message that it's fine to spend without planning. They may also start to think that spending money is a way to fill time or cure boredom. These are not healthy habits for your children to pick up on.

The key to avoiding impulse-buying is to stick to a budget. To set an effective budget, consider working with a professional financial adviser to develop a budget that factors in your income, expenses and financial obligations to help you rein in discretionary spending. Again, this is a conversation you could involve your children in so they start to understand how a budget works, why you use it and how it helps your family's finances stay on track.

Give them some independence

It's convenient to do everything for your children, from paying for their sports or music lessons to taking care of their phone bills. But by giving them a chance to have their own money and decide how to spend it could be a powerful lesson in budgeting. If they end up blowing all their money at once use the situation as a chance to have a meaningful conversation about sticking to a budget and being really sure of the purchases they make. They will soon discover the impact their spending has on their ability to afford other things before they top up their bank account again.

For adult children, offering them financial help or bailing them out frequently can create a cycle of dependency. Letting them make money decisions on their own will go some way to developing financial responsibility.

Including them in planning and budgeting

Many parents keep household financial planning and budgeting to themselves. They believe their children are not ready for that kind of conversation or responsibility.

While you don't have to fully involve your children in managing your family's finances and place a level of stress on them they are not ready for, you could give them a small role and coach them to make well-considered decisions. This could be as simple as getting them to help shop for the weekly groceries using a set budget. Show them how to compare prices and make choices based on what they really need, and what they simply want. If your children are old enough to earn

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[1] Webley, P & Nyhus, E, 2006, 'Parents' influence on children's future orientation and saving', Journal of Economic Psychology, accessible at: https://www.sciencedirect.com/science/article/abs/pii/S0167487005000577.

some income, why not get them to pitch in to help achieve a family goal, for example, saving for their own car or a family holiday?

Using your influence positively

Parents can strongly influence children in relation to money, so it's important that you pass on smart money management skills and empower them to spend confidently, not mindlessly. It will put them in good stead for future situations when they might need to tighten their personal budget or go without a few luxuries.

If you don't know where to start, consider reaching out to your financial adviser to help you stay on top of your finances through proper planning and budgeting.