How to Raise Wise Money Managers From an Early Age

As parents, we are always looking for opportunities to share longstanding lessons with our children so they can become increasingly independent in safe and healthy ways. We tell them to look both ways when they cross the road, never talk to strangers and of course, always eat their vegetables. But when it comes to money management – an essential lifelong skill – many young adults find that they have been ill-equipped to manage their finances on their own.

Whether your children will inherit family wealth or need to eventually support themselves, all able adults should be taught how to handle money effectively.

How to get started

For most children, an allowance is the first chance they have to gain some control over how to spend and save their money. Perhaps there are some age-appropriate chores a child is responsible for in order to "earn" their allowance each week. This is also an opportune time to go over the concept of saving and spending, and help them open their first bank account so they can keep their money safe.

How to get them involved

As your children get older, it's important to include them in any financial discussions that affect them directly. For example, are you saving for their post-secondary education? Showing them the progression of their education fund and providing them with a clear picture of the costs will give them a realistic understanding of how to save for a large expense in the future.

If you have a child approaching a post-secondary education, make sure you have a discussion with them in advance on which expenses you will cover, and how much they will need to contribute towards their education. Upon entering university or college, this may be the first time your child is responsible for actual money management, and will benefit from your guidance on saving and budgeting. If you are fully supporting their post-secondary education, rather than just paying their bills for them, go over all their expenses for each month and give them the responsibility to pay each bill with the allotted funds you provide. Ultimately, this exercise will better prepare them for financial independence in the future.

Key money lessons that every adult should know

Although every family's circumstances are different, there are some key lessons that all parents should impart on their children when it comes to managing money.

For instance, to help young adults understand affordability, you can explain the 50/30/20 budgeting rule – where no more than 50 per cent of their after-tax income should go to needs, 30 per cent to wants and 20 per cent to savings.

Another fundamental money management concept is debt. Explaining different kinds of debt and the various costs associated with borrowing money may deter your children from taking on high-interest credit card debt. If they do, you could also help them explore ways to lower their debt, such as consolidating loans, finding ways to pay more than the monthly minimum, or using debit cards or cash to gain better control over spending, etc.

Once your child is managing their own money, guidance on investing is essential. Teaching your child how to invest their earned or inherited money will help them grow their long-term wealth. Share your own experiences and direct them toward resources that you found helpful (specialty courses, books/articles, websites, etc.). Also consider introducing them to your own advisor – an impartial expert in the field who may be willing to take them on as a client and guide them with their finances.

There are many ways you can teach your children about the importance of managing money well and the value of planning for a strong financial future.

To learn more about how we can build a suitable plan based on your (and your family's) needs, please contact us today.

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