



## How to Teach Your Kids About Money

Financial literacy is often overlooked in school; here's how you can help set them up for financial success.

Parents want to help their children become financially successful; but when it comes to teaching children about money, financial education is seriously lacking. In the US, only 34% of adults can correctly answer at least four out of five questions on a basic financial-literacy quiz.<sup>1</sup> And in the graduating class of 2019, less than 17% of high schoolers were required to take at least one semester of personal finance.<sup>2</sup>

Financial literacy is having the skills and knowledge to make informed and effective decisions with your money. A lack of financial literacy could be a recipe for stress down the road, including poor credit, difficulty getting approved for loans, and struggling with debt. But we're not born with financial instincts—we have to learn them.

You wouldn't hand your teenager the car keys and send them off without driving lessons or directions. Think of money the same way. Starting early and incorporating quick conversations can help your kids grow up to be financially successful adults.

### It's Never Too Early

Research shows that most money habits are set by age nine, so your child's attitudes about money set the stage for how they will handle money as an adult.<sup>3</sup> And while imparting financial literacy may seem like a daunting task, there are many ways you can teach your children about money in an age-appropriate fashion.

As a start, begin by thinking about your own attitude around money: How have your past decisions impacted how you feel about money? How do you talk about money in front of your kids? Children tend to observe and absorb a lot—probably more than you realize. The way you talk about, spend, save, and manage your money plays a critical role in shaping your child's beliefs about money.

### Key Points

- Overlooking the importance of financial literacy while kids are young could lead to financial stressors later in life.
- For younger kids, exposure, involvement, and repetition are key in early lessons about money.
- As kids get older, part-time jobs, bank accounts, and conversations about college can help teach teens about financial responsibility.

You can include children of any age in conversations about money. With younger kids, talk about budgeting as you shop for groceries; how to tip at a restaurant; how adults get paid for going to work; or how to read a receipt. They may not understand it fully, but exposure is part of the learning process.

From there, teaching your kids about money in more concrete ways will be helpful. Introduce them to physical money—they'll learn a lot from simply watching you use coins and cash. At this point, simple messaging and repeat exposure works wonders.

## Earning, Saving, Spending

At some point you may decide that your children are ready for an allowance, which gives them the chance to start making their own decisions around money.

An allowance isn't a one-size-fits-all thing. Think about how much you can comfortably give them; an appropriate amount for their age; if and how they'll earn it; and whether you have any stipulations around it, such as saving a portion.

While old-school piggy banks are still around, today's parents have a few more options, too. In addition to a traditional piggy bank, you could consider a "give-save-spend" bank. These multi-compartment banks still give children a physical introduction to money, while also encouraging the concepts of budgeting, giving to charity, and saving for big purchases.

For families that prefer digital methods, there are many allowance and banking apps geared toward kids. Some of these apps require a bank account and are FDIC-insured (such as Greenlight, FamZoo, or GoHenry), but there are others that don't require a bank account or use actual funds and, instead, act as a tracker (Rooster, iAllowance, Bankaroo). Either way, going digital may be a convenient way to manage paying your kids.

## Money Management for Teens

As your kids mature, you can start granting them more freedom—and even room to make mistakes. This will provide great learning opportunities, whether it's gaining more confidence or learning the hard way that a lack of planning or budgeting could mean missing out. With that freedom, though, you should set clear expectations about who is responsible for what.

Encourage your teens to get a part-time job that works with their schedule, and help them open checking and savings accounts. Some parents may find it appropriate to give their teen a credit card with clear boundaries about acceptable uses, and again, who is responsible for paying those charges. Parents can co-sign an account to help their kids build credit, or add them as a registered user to their accounts.

If your child's school offers a personal-finance class, encourage them to take it. If it's not available in the traditional classroom, there are many online courses and workshops to bolster the foundation you've already started laying. These classes can also begin to teach your child about more complex financial concepts, such as interest, inflation, and long-term investing.

# Client Conversations

Discussions about further education or college is another fitting time to talk to your kids about money. Talk about how your family plans on paying for college, the costs of different schools, financial aid, and student loans. The high costs of a college education can be overwhelming, but the higher earnings potential and increased career opportunities often make it worth the cost.

## It Doesn't Have to Be a Lecture

While money can be a sensitive subject for many families, showing your kids how to be responsible with money doesn't have to be hard. Being intentional and mindful about your child's financial literacy from an early age will instill healthy financial habits that will serve your children well for a lifetime.

Just like driving a car for the first time, it's going to take a lot of practice and teachable moments, but financial literacy is a skill your children will appreciate for the rest of their lives.

**Talk to your financial professional about how you can help prepare your child to make better money-management decisions.**

<sup>1</sup> FINRA Investor Education Foundation, "National Financial Capability Study," 2018. Most recent data available.

<sup>2</sup> Council for Economic Education, "2020 Survey of the States," 2020.

<sup>3</sup> Business Insider, "4 Ways to Teach Kids About Money Before Their Habits Are Set at Age 9," 10/25/20.

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