Talking to Your Kids About Money

Growing and preserving wealth may seem like a discussion topic better suited to adults, but in reality, parents should start having conversations about money with their children from a young age. Like politics or religion, talking about money may be regarded as taboo or a delicate issue not to be brought up at the dinner table; however, parents ultimately bear the responsibility of ensuring their children are well-educated about finances and adequately prepared to enter the real world. This article provides tips and teaching tools that you can incorporate into your family conversations, whether your child (or grandchild) is elementary school aged or will soon be heading away to college or university.

A focus on financial literacy

Since 2012, Canada recognizes each November as Financial Literacy Month. This is a nationwide collaborative effort by the Government of Canada and other organizations, such as financial institutions and non-profits, to strengthen the financial literacy of all Canadians. James Cunningham, President and CEO of Funny Money Inc., a company that delivers financial literacy presentations in schools across Canada, focuses on three fundamentals when teaching financial literacy skills to students: understanding cash flow, controlling debt, and saving for the future. “I have brought my financial lecture to thousands of schools and have spoken to over a million students, and I can say firsthand that today’s students reach their teens with little-to-no financial training or education. In fact, most do not understand these three fundamentals about money,” he says. His approach to delivering financial education to children and teens centers on making the topic fun and relatable. “Adults and children have very different financial needs, so when teaching your child about money, it’s important to put yourself in their shoes,” says Cunningham, who co-created the BMO Financial Fluency program, designed for the teenaged children of BMO clients.

Teaching your children

For those who may be hesitant to broach the subject, below are four ways you can teach your children about money in a manner that won’t provoke any eye-rolling.

1) Talk about it

Kids are smarter than we give them credit for. They’re observant. While they likely will not grasp an explanation of sophisticated financial concepts (unless you’re raising a genius), they can certainly understand the role money plays in their lives. Children of affluent parents, in particular, can easily deduce from the car(s) you drive, the neighbourhood you live in, and the vacations you take, what kind of life they’re living. With social media perpetuating lifestyle ideals, and the pervasive “FOMO – Fear of Missing Out” that children and teens face, starting a regular conversation about money helps them develop a healthy relationship with wealth. Consider discussing what wealth means to you. What does it allow you to do? How did you build your wealth, and what lessons did you take from that? The more you talk, the less mystery will surround it.

2) Budgeting basics

Think back: how old were you when you first realized how much a monthly hydro bill or car insurance actually cost? Introducing your kids to real life expenses early on trains them to handle money responsibly. While you may not necessarily want to sit them down with your cable bill, take advantage of occasions they already associate with fun. For example, let them take the lead on planning the family vacation. Set a dollar limit and choose a destination. Remind them to consider accommodations, travel, sightseeing, and costs for eating. By doing this, they learn to set expectations and see what money can (or cannot) buy. They also learn how to operate within a budget without overextending themselves.

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3) Show them how to save

Show your kids how to save and spend wisely with their "earned income," whether from a part-time job or an allowance. Emphasize that they need to make smart choices about spending, and in the case of an allowance, that they will not receive any additional "pay" until the next "payday" should they run out of money. This will teach them the importance of spending carefully. They should allot a portion to purchases and a portion to savings, essentially paying themselves in the long-term. Birthdays can also provide additional "income" for kids. Grandparents, and aunts and uncles, love to tuck money in cards, making this annual celebration a prime time to teach your child or grandchild about managing income and saving. And, because it's never too early to teach children about giving back, maybe encourage them to consider making a donation to a cause that interests them with a portion of their savings.

4) Don't give it all away

It's understandable that parents want to provide for their kids, but if you always buy them what they ask for, they learn that the Bank Account of Mom and Dad is open 24/7. What incentive does that give them to earn and save their own money? This doesn't mean that you should leave your kids to fend for themselves. For example, if they want to go away at spring break with friends, tell them you will help pay for half if they save and pay the other half. Similarly, when your child reaches driving age, you don't have to go out and buy them a brand new Mercedes. Encourage them to save X amount and agree to put in the rest – enough to purchase a reasonably-priced starter car. Alternatively, you may say that paying for their insurance will be their responsibility.

The above suggestions will help you empower your children. In the process, you hopefully will instill in them a respect and appreciation for wealth accumulation and retention. For more information about Financial Literacy Month and for financial literacy resources and information, please visit the Financial Consumer Agency of Canada's website.

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