

Ten Ways to Promote Financial Literacy to Your Children

All parents want their children to be financially savvy and make smart financial decisions. Prudent money management skills are particularly important for children from wealthy families, who are likely to inherit significant wealth. However, while wealth can bring opportunity, it can also add complexity and potential burdens if children haven't been taught to respect and understand its purpose.

Many wealthy families fall short when it comes to teaching their children about money. One study¹ showed that 67% of wealth holders are apprehensive about sharing inheritance details with their heirs, and only 10% provide them with complete information. Some of the reasons they hold back include:

- Concerns that children will become spoiled and lack ambition;
- Uncertainty on which assets – and how much – will be left to them;
- Waiting for them to get older;
- Fear they will rely on wealth that might not materialize; and
- The belief that it's simply none of their business.

While these are valid concerns, children need to understand how to manage money and, like any skill, it must be taught and practiced.

Here are ten ways you can teach children, and other potential heirs about money and the wealth they may one day inherit.

1. Talk values, not figures

As soon as your children can comprehend basic money concepts, you can start instilling your family's financial values and priorities. There's no need to disclose your net worth or even your income; however, by focusing on values you set the ground rules for your children to practice, whether it's money they've earned or inherited.

The book **Kids, Wealth, and Consequences**, by Richard A. Morris and Jayne A. Pearl, offers five financial values to consider teaching your children:

i. How to handle hearing “No” – Teach your children to learn how to accept “No” from you, and also how to say “No” to others.

ii. Differentiate between wants and needs – What does your family consider a need, versus a want? The lines can be blurred and may not be the same as your neighbours, or the families of your children's friends. Teach your children to understand the difference between wants and needs.

iii. Tolerate delayed gratification – Although some children are naturally better than others, it's important to teach them the benefits of patience. For example, you could encourage your child to forego a small item today in order to save for something more substantial over time.

iv. Make trade-offs – Even if you can afford to give your children everything, it's important for them to understand that they can't always get what they want. This lesson teaches kids to think before making a request or purchase, and helps them avoid impulsive spending behaviors.

v. Develop a healthy skepticism – Children are increasingly targeted by advertisers, beginning at a very young age. Teach them that they cannot believe everything they see, and the importance of doing their research before making an important purchase.

2. Model good behavior

Your spending habits send a powerful message to your children. Every purchase you make can teach your children what you value. Share stories of your financial failures as well as your successes. Your children can learn from your mistakes, too.

3. Open a bank account

Opening a bank account for children is a great way to get them started to think about saving. As they get older, helping them learn how to use a debit or credit card wisely will help ensure they appreciate how to spend within their means.

Also consider taking older children with you to visit your banker and other financial advisors, to learn about more complex areas of wealth management.

4. Teach budgeting

As soon as your children start earning an allowance or any income, teach them the basics of a budget. Explain that they need to determine how their money will be divided between spending (for current wants), saving (for future purchases), and sharing (to help those less fortunate). This helps them understand that choices have consequences, and lays the foundation for basic budgeting.

5. Practice investing

The next time you're looking to invest some money, include your children in the decision-making process. Let them see how you analyze and choose an investment. Perhaps narrow the field and then ask them for their recommendation, and analyze this against your final decision. This can teach them how to make prudent investment decisions.

6. Establish credit

Encourage children to establish credit as early as possible. Many credit card companies offer low-limit cards to university/college students with part-time jobs. It's better that they learn the consequences of misusing credit (such as monthly interest charges) while the credit limit and risk are low. And, if do they incur interest charges, ensure they pay those charges with their own money.

7. Involve kids in philanthropic efforts

There are many meaningful ways to establish a culture of philanthropy with your children. Take your children with you when you volunteer your time; from helping an elderly neighbour with yard work to signing up at a soup kitchen; allowing your children to see firsthand how they can help make a difference in the lives of others. Volunteering also builds self-esteem and confidence in children, while making them more aware of their community and its diversity.

As your children get older, they can begin to make donations themselves. As they outgrow their gently used clothes, encourage them to decide which items are suitable to donate, and let them accompany you to the donation center. Older

children could be asked to direct a portion of the family's charitable gifts, which would require them to research and identify worthwhile causes.

8. Discuss post-secondary school costs

One of the greatest advantages of wealth is the ability to fund your children's university/college education so that when they start their careers, they are not burdened with student loan debt. However, having your children contribute towards their education teaches them accountability and helps them appreciate the value of their education. Discuss mutual expectations about their upcoming post-secondary school years, and put a dollar amount against an amount that you expect them to save toward their expenses through their summer job. Resist the urge to pay for everything, especially extras, so your children can experience the pride of contributing.

9. Explain employee benefits

Teach older children who are starting their careers about the importance of employer benefits in helping them to save for retirement and maximizing any associated health benefits. They can learn a lot from your experience with various types of benefits, such as medical and dental coverage, using flexible spending accounts, and how to maximize the benefits of employer matching contributions to employer-sponsored pensions and retirement plans. Make your children aware that they need to consider both salary and employee benefits when comparing compensation for a new job.

10. Support a first home purchase

Buying a home can be challenging in many Canadian cities, and your children will likely need to borrow a portion of the cost, either from you or a bank. Whether it's lending or gifting money to your children, or co-signing on a mortgage, you can use your wealth to help your adult children secure their first home. However, just like university and college costs, it's wise to require your children to contribute a portion of the cost, at least the 20% down payment needed to avoid CMHC Insurance. Be sure to consult with your tax advisors before lending a helping hand financially, as there may be tax implications for you.

Keep the dialogue going

Financial literacy for children starts with instilling your family's financial values, which they can pass on to their own children. The benefits of teaching your children money management skills before they inherit any portion of the family wealth can have lasting benefits and help secure their financial future.



For more information, speak with your BMO financial professional about these and other ways to teach your kids about money.



¹ Campden Wealth, the Institute for Private Investors, and Wilmington Trust. "Navigating the Wealth Transfer Landscape." May 10, 2017.

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