- Financial literacy / Children—Conduct of life

Teaching kids financial responsibility

The concept that money is earned is a key lesson, and so is teaching them to distinguish between needs and wants

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Since the only vegan items in my kids' school canteen are turon and taho, my children barely spend their allowance and instead use it to sustain their expensive Starbucks habit. I rarely buy from Starbucks but they love their fancy coconut chai tea latte and iced pomegranate pearls hibiscus tea. Now it's sticker season, and they're crazy over who can get a planner first.

At the Positive Parenting Summit online by A Fine Parent Academy, financial literacy educator Holly D. Reid shared important money lessons parents should teach their kids, what parents should buy, and what we should let children buy for themselves, and how to handle allowance, chores, entrepreneurship and investing. Reid is a certified public accountant, speaker, and award-winning author of "Teach Your Child to Fish: Five Money Habits Every Child Should Master."

1. Where money comes from and how to earn it

The concept that money is earned is a key lesson for kids. Parents can start by explaining that their work, chores, or contributions bring value. For kids, that might look like schoolwork and household chores as their primary "job," with the expectation of putting in their best effort.

Household chores help build a sense of responsibility, especially with a hybrid approach of unpaid and paid tasks. Daily, unpaid chores like making their bed or setting the table foster teamwork and contribution to the family. Then, introduce paid "opportunity chores," extra tasks like cleaning the garage, from which kids can earn money after completing their regular duties.

This balance teaches that not all contributions are financially rewarded but that extra effort can lead to perks. A Fine Parent founder Sumitha Bhandarkar shared a story of a mom with three daughters who had chores on rotation but would tack $5 on the ref for the one who could organize a particular bookshelf. It can be any job the parent would always want to get done but never had time for. "But there also has to be accountability, not just a completed checklist but haphazardly done work," added Reid. Encourage their entrepreneurial instincts by supporting ideas that may come to them naturally. Kids often have fresh perspectives on everyday problems, and nurturing these creative ideas helps them develop confidence and problem-solving skills. This could be anything from selling ice candy to homemade crafts. They'll earn money and learn valuable lessons on creativity, perseverance, and customer interaction.

"What's the first thing you take away from kids when they don't do what they're supposed to do?" asked Reid. "Xbox, screen time, cellphone access, and going out with friends. Those are all rewards parents don't have to give but they allow kids to enjoy. Kids need to make this association so they realize they shouldn't expect these things to just be given to them. These are luxuries of life. If you didn't have hardworking parents, you wouldn't have them."

2. Spending wisely: needs vs wants

Companies spend millions targeting young consumers, so children are surrounded by constant marketing. One of the most valuable lessons is teaching them to distinguish between needs and wants. Needs are essential for survival, while wants are for enjoyment and fun. Both have a place, but needs come first.

If your child is eyeing a new toy at the store, explain how family money must cover the essentials first, like food and rent, before extra items are bought. Giving kids a small allowance can also help. Let them manage that money to buy small "wants" themselves. It reinforces that not everything can (or should) be handed to them.

Delayed gratification is a crucial part of this lesson. For example, if your child wants a big-ticket item, suggest they save up for it or wait until a birthday or holiday. Studies show that children who practice delaying gratification tend to do better with financial management later in life.

3. Building a habit of saving

Saving early and regu

larly can significantly affect kids' future financial success. Start simple, like setting aside part of their allowance in a jar. For older kids, a savings account is a powerful way to show how their money can grow and introduces them to "paying themselves first."

Make savings fun and goal-oriented. Encourage kids to save for a specific item or event, like a toy or a family trip. They can track their progress, adding up what they save each week. The key is helping them see that setting aside money for later is rewarding. Involve them in physical experiences, like taking their savings to a bank, to give them a sense of accomplishment and make saving more tangible in a digital age where they mostly see electronic payments.

Introduce compound interest when they're ready by explaining how savings can grow even without new deposits. Tools like stockmarketgame.org allow kids to practice virtual investing and learn about returns without real-world risks. If you have investment experience, share your stories, demonstrating how patience and steady contributions can lead to longterm benefits.

4. Using credit wisely

As digital transactions become the norm, teach your kids how to use credit responsibly. Explain the difference between a debit card (money they already have) and a credit card (borrowed money they must pay back). Gift cards can act as "training wheels" for managing a limited amount, as they're reloadable without the risk of debt.

When they're older, discuss the realities of credit cards and the potential consequences of not paying balances on time, including interest and fees. Before they go to college, create clear guidelines around what credit should be used for, generally only for emergencies. Share stories from your own experiences with credit, good or bad, to help them understand the impact of financial choices.

5. The power of giving

Generosity is just as important as saving and spending wisely. Show kids how to give back by letting them choose a cause they're interested in or supporting volunteering. This way, sharing isn't just an obligation; it's something they can enjoy.

Teach them about the "three Ts" of giving: treasure, talents, and time. Whether donating a portion of their allowance or volunteering, these experiences show that helping others matters and builds a healthy view of money as a tool for doing good.

Encourage them to set a savings goal for something they care about, like a charity or a community project. They can brainstorm ways to reach that goal by saving or finding ways to earn extra.

Teaching kids money lessons sets them up to handle finances responsibly, make smart decisions, and even have the confidence to give back. These financial skills are life skills that can lead them to independence, security, and a sense of purpose as they grow.