- Financial literacy

How to Raise Money-Savvy Children in 6 Steps

From preschool through adulthood, there are many opportunities to help children develop healthy financial habits.

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Many parents struggle to teach their children about money, but it is well worth the effort. "Sometimes the financial world is like speaking another language," says Shannon LaRosse, chief operating officer of Well Spring Financial in Norristown, Pa. "The more exposure a child has at any age, it provides greater comfort in discussing finances and greater confidence in managing their own finances."

Follow these steps to help your children become better financial stewards:

Start young. Early on, children should be given opportunities to develop positive associations with money, says Chris Briscoe, director of financial planning at Girard, a Univest Wealth Division, in King of Prussia, Pa.

Setting chore and gift money aside in a piggy bank is a tangible way for young children to gain an understanding of the look and feel of money, how to count it, and basic savings principles, Briscoe says. Around age 5 is a good time to open a child's first savings account. With parental support and supervision, the child can fill out deposit and withdrawal slips. When the child wants to spend money, parents should discuss needs, wants, and how purchase decisions will affect savings. Young children can also be taught to think charitably by setting aside a portion of savings for donation.

Introduce them to investing.

Elementary-age children should also be taught basic investing principles, says Sarah Samuels, partner at NEPC, an institutional investment consulting firm based in Boston. To introduce her 6- and 9-year-old daughters to investing, she took them on a field trip to see the Fearless Girl statue outside the

New York Stock Exchange and talked to them about financial independence and what the exchange represented.

She then preselected several wellknown public companies, familiar to her children, and helped them research potential stock picks, discussing tickers, prices, and earnings growth in ways they could relate to. For example, she compared a company's earnings growth to a child growing in height.

Investing at an early age helps foster independence and confidence that will stick with children throughout their lives, Samuels says. The day after her 6-year-old daughter made her first stock purchase, she told her mother she was going to make her own school lunch because she was now an investor.

Offer incentives. Children are more likely to save and invest if there are rewards associated with the behavior. Some banks, for instance, offer incentives to children for depositing money. Or parents can provide the rewards, LaRosse says.

Andy Esser, a financial advisor with Edward Jones in Durham, N.C., gave his daughter a Sacagawea dollar coin when she lost her first tooth at age 5. With guidance, she invested it in a Fortune 500 fast-food company. Now a preteen, she has built a diversified portfolio from her lost-tooth money. "If you can make saving fun and show them what they can build with it, it will help them accomplish the goals they may have for the medium term and even longer term," Esser says.

Children can contribute to a Roth IRA as soon as they have earned income. But parents can also contribute for their children to encourage them to save for retirement. If a child earns $250, for example, the parents could contribute that amount to the Roth while the child keeps $250 in his or her own savings or investment account to use or save. Meanwhile, the Roth grows tax-free for the long term.

Give tweens and teenagers more responsibility. As children mature, they should be given additional financial responsibility, which can include letting them make small mistakes, Briscoe says.

He recalls giving his young teenage son $100 to spend during a family vacation. Without much thought, the son immediately spent $45 on Pokémon cards in the hopes of selling them at a profit. He regretted the purchase almost immediately. Briscoe didn't yell or lecture, but rather, discussed with his son why the purchase had been a poor choice. Several years later, the son still brings up the experience and is a more cautious buyer. "It isn't as big a mess as if they make a mistake when they are older," Briscoe says.

Teens should also be encouraged to open teen checking and savings accounts, so they can learn about responsible debit card use and the difference between interest-bearing and non-interest-bearing accounts.

Kick things up a notch for young adults. By the time children are close to age 18, parents should start sharing more about the family's finances.

They don't have to go into precise details about salaries, expenses, and savings, but it is important to give older teens a sense of how much things cost and how the parents handle their finances. Briscoe recommends that families introduce the concept of budgeting, perhaps using an online app or basic spreadsheet.

For example, his college-age daughter didn't know if she'd be able to use the family's Netflix account at college, so he suggested she budget for the service. She was also actively involved in filling out college financial aid forms.

Early adulthood can also be a good time to introduce a child to the family's financial advisor. These discussions can be on an array of topics such as general finances, what it means to receive an inheritance, and potential pitfalls beneficiaries face, LaRosse says.

Have a fail-safe. Sometimes parents don't start early or children don't adopt sound financial habits, despite parents' best efforts. In these cases, there are ways to ensure assets pass to the next generation without evaporating. Trusts are one way to go (see the Big Q on page S8) because they can restrict funds well into adulthood and be set up with parameters to protect family money.

Even if you think it is too late, you can still impart important financial lessons, Esser says. "If parents feel the moment has passed," financial advisors can sometimes help facilitate these difficult conversations. "It's never too late to learn."