

Brad Brain: Raising financially literate kids

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Brad Brain: "One of the best things a parent can do to help prepare their children for life is to help them to understand money." | Getty Images



This is one of the more important topics that I can write on – how to raise financially literate kids. One of the best things a parent can do to help prepare their children for life is to help them to understand money.

This article is not going to be about pedestrian topics such as how an exchange traded fund is different than a mutual fund. Believe it or not, despite the millions of words that are written on such nuances, that kind of stuff is really not that important when it comes to parental guidance. What is important is to give your children a mental framework for making smart decisions about money.

If you teach your kids only one thing about money, teach them this: Teach them to live within their means. This is fundamental to having a healthy relationship with money, and it affects almost everything else in your life. Money should be your servant, not your master.

Teach them that money doesn't come out of an ATM. Money, usually, is the accumulation of your efforts. It's not free. You have to earn it.

Bring your kids along when you do your banking and explain to them what it is that you are doing. Teach them that borrowing money costs money, and that saving money makes money. You can pay interest on money borrowed, or you can earn interest on money saved. Show them how much it costs to borrow money. Show them how to pay it back.

Teach them about prioritising their spending. If they have five bucks, they can spend it on chocolate today, or they can save that money and add it toward buying a new bike. With every spending decision there is an opportunity cost for what else you could have done with the money.

Teach them about philanthropy. Teach them about helping out and performing selfless acts.

Show them practical things, like how to make change, and how to write a cheque. Show them how to convert currency. Show them how to plan a shopping trip.

Teach them important things that they will be able to use later in life, like how an early start on retirement savings can make all the difference between a worry-free retirement and one constrained by lack of financial resources. Teach them how a small difference in rate of return on your investments has a big impact on what the money will grow to over time.

Teach them about risk. Explain to them that if they lose 50% of their money, now they need to make 100% on what is left just to get back to where they started.

Should you pay your children an allowance? There are different schools of thought on this and, personally, I don't think there is only one right answer.

On one hand, they may start learning about budgeting and money management. On the other they may feel entitled to money for nothing. Do you pay your kid to do chores, or are chores part of being in a family unit? Honestly, if you get the rest of this stuff down pretty good, I am not sure that an allowance will make too much of a difference one way or another, so feel free to do what works for you.

Introduce your kids, even at a young age, to your Certified Financial Planner. I relish the opportunity to speak to young people, and I know there are a lot of CFPs who are right there along side of me. If you are a teacher and you want me to speak to your class, get in touch, I am happy to do it.

In my career countless people have told me, "I wish someone had told me all this stuff when I was younger." Don't have your kids saying, "Why didn't anyone tell me..."

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