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Teaching Children Financial Independence

By admin

Now may be the perfect time to teach your children about financial independence. There are plenty of real-life examples in the media of how not to manage your finances. To really teach children money management skills, they must learn to handle money personally and to make consequential decisions on how to manage it.

An allowance is an ideal way to set a solid financial belief system for your children that will have a lasting effect well into adulthood. Money management requires discipline obtained through practice, trial-and-error and observation. It's also learning to balance desire and practicality when it comes to financial issues.

Not everyone agrees on whether you should pay your child an allowance based on services rendered, such as the completion of chores, or whether it should be given freely with chores being an unpaid necessity of family life. Positives are seen in both options. The following are tips to start your children on the road to financial mastery:

- **Teach them how to save.** There are many formulas used in money management

to facilitate saving. Consider using a 10/10/10/70 system. Under this system ten percent of income is used for savings, investing, and charity. The remaining 70% is used for everyday expenses. This method can also get them into the habit of paying themselves first.

- **Teach your children about relative value.** Let's say your child wants to purchase a video game priced at \$50 and they're receiving a \$10 per week allowance. Show them, using your financial management formula, how long it will take to purchase the game.
- **Help them develop financial self-discipline.** Teach your children that for every purchase, something must be given up. Help them determine the difference between needs and wants.
- **Let them make some mistakes.** Life is about choices. If we don't always make the right ones, how can we expect our children to? Allow them to learn painful financial lessons while they are dealing with small amounts of money and not the larger amounts they will be dealing with as adults. Allow them to find a solution to their financial missteps and resist the temptation to 'bail them out'.
- **Teach them how to invest.** Invest in something interesting and exciting. An investment in Savings Bonds will not hold the interest of the child (or earn much financial interest these days). Consider purchasing some equity investments for which the child has a particular connection - perhaps, technology or entertainment investment funds.

Self-discipline is the key to success in life and a successful money manager will need to develop this attribute. Experts agree that teaching kids to save, invest and make wise spending decisions will go a long way towards ensuring they prosper as adults. An allowance can be a powerful tool for teaching children lifelong money management skills.

Call us today [1] for any assistance teaching your children money skills.

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