FINANCIAL FITNESS

How to Raise Kids ith oney Smarts: Talk About It

Modeling good financial habits and talking with your kids about money can help them learn lifelong lessons in money management.

by Sarah Tuff Dunn - April 09, 2018

Parents have a responsibility to teach their children about finances — and that's true for wealthy families and less affluent families alike. "One of the biggest mistakes high-net-worth families make is not discussing wealth with their kids," says James McKown, First Vice President, High Net Worth Strategist at Wells Fargo Advisors. "They're afraid to talk about money."

Kids are smart enough to pick up on signals that their family may have more than others, says McKown. But if the conversation stops at the benefits that money can bring, you're missing out on important life lessons. "They're not really being taught how to be financially responsible once they leave the house and become independent."

Step 1: Find teachable moments

It can be difficult to find time to sit down and talk specifically about wealth, but natural opportunities to teach pop up every day. "When my daughter was in kindergarten, she noticed a neighbor who was upset about her car getting really old," says McKown. "My daughter said, 'Oh, my mom can get you a new car — she can give you a dollar.'"

It was a humorous moment that drove home the importance of those everyday teachable moments.

In another example, you can incorporate financial responsibility into an impromptu math lesson about money: If you find something that originally cost $100 and it's on sale for 30% off, you can ask kids how much the new price is — and, now that they are only spending $70, what they might do with the $30 that's left.

> "The parents who do really well in teaching financial literacy lead by example ... Remember to be that example."

— James McKown, First Vice President, High Net orth Strategist at ells Fargo Advisors

Step 2: Take a lifelong view toward financial literacy

Every child, and especially those who will one day inherit substantial wealth, should have a tool kit of basic financial literacy skills by age 18, including concepts such as how to spend, how to save, how to give, and the value of a dollar.

This can start very early with an exercise as simple as a three piggy banks analogy. You encourage the child to divide any money he or she receives into three piggy banks: spending, saving, and community/charity. This shows the concept of different types or purposes of money as opposed to all being for spending. McKown explains that repeating this exercise can ingrain the habit of saving regularly.

By late childhood or adolescence, parents can add concepts such as what it means to invest, what companies one might invest in, and how you assess risk with an investment.

You can encourage children in high school to think about college expenses logically by examining the costs and coming up with a credible college budget. Ask them to consider basic questions: What will you need in order to make this happen? What will the family need to supply, and what will the student be expected to supply, in terms of tuition, books, room and board, transportation, and normal spending money?

And parents and grandparents can continue to encourage responsible, long-term financial responsibility by giving young adults an incentive to begin saving for retirement early. “If you’re able, offer to match what they save into a Roth IRA,” says McKown.

It’s also wise to coax contributions to a 401(k) at work; in the 2017 Wells Fargo Retirement Study, 89% of respondents with a 401(k) say they wouldn’t have saved as much without it.

Step 3: Show your kids how it’s done

“If you have a lot of money, you might not want to reveal it to your kids, thinking it’s going to dampen the motivation to work hard,” says McKown.

But the most important thing, he adds, is that your child’s healthy relationship with money begins with an open and honest relationship within a family that models good money behavior. These discussions can be challenging, but the fruit is well worth the labor.

“Stress education and expect them to do well in school,” says McKown. “The parents who do really well in teaching financial literacy lead by example — they tend to be savers, and they’re more careful with spending money. Remember to be that example.”

Sarah Tuff Dunn is a freelance writer in Vermont and a frequent contributor to Lifescapes. Her work has also appeared in The New York Times.

Photography by Thinkstock

Additional Resources

Read our four **tips for efficiently funding** your child’s college education.

Time for a career change? James McKown shares the steps to take before you make the leap.

 Wells Fargo Advisors | **Privacy** | **Security** | **Legal Disclosures** | **Contact Us**

Investment and Insurance Products are: **

- **NOT Insured by the FDIC or any Federal Government Agency**
- **NOT a Deposit or Other Obligation of, or Guaranteed by, the Bank or Any Bank Affiliate**
- **Subject to Investment Risks, Including Possible Loss of the Principal Amount Invested**

Wells Fargo Advisors is a trade name used by Wells Fargo Clearing Services, LLC and Wells Fargo Advisors Financial Network, LLC, Members SIPC, separate registered broker-dealers and non-bank affiliates of Wells Fargo & Company.

Links to third-party websites are provided for your convenience and informational purposes only. Wells Fargo Advisors is not responsible for the information contained on third-party websites.