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Teach your kids about money early

As we celebrate Youth Day on 16 June, we thought we would find out more about children and money, and were surprised to find that by age three, children can grasp basic money concepts and that by age seven their money habits are mostly set. This is according to a leading US authority on personal finance for young people, Beth Kolbiner.

While this might seem quite young, it does, however, resonate with what the Greek philosopher Aristotle said about the development of character: “Give me a child until he is seven and I will show you the man.” This is because up to the age of seven, a child’s brain is like a sponge, soaking up the behaviours, attitudes, and beliefs of those around them. They learn more by observation and experience than by verbal directives. Therefore, the old parental edict, “Don’t do as I do, do as I say,” has a negligible impact.

Kolbiner says that by age three, kids can understand basic money concepts, such as exchange (I’ll give you this, if you give me that); the choices between things we’d like to buy; and that things have value. By age seven, certain behaviours that relate to money already start to set in. These include concepts like self-control and delayed gratification.

The children in the famous marshmallow experiment were between the ages of three and five. In follow-up studies, researchers found that those who were able to delay gratification (resist eating the marshmallow in front of them on the promise that they would get two later) rated significantly higher on cognitive ability and the ability to cope with stress and frustration as adolescents.

How does all this help parents teach their children about money?

Teaching your kids the right behaviour when it comes to money can be challenging, particularly in a world where kids, like adults, are bombarded with conflicting messages that encourage frivolous spending. Fortunately, the above findings provide some ideas to work with. Below are a few pointers on how to get started:

- Don't give in to every request your child makes to buy something. This only reinforces the idea that money is easy to come by and doesn't help them experience impulse control. In fact, kids who are always given what they want, when they want it, can end up with debt problems.
- Try to embed the concept of working for a living. Take them to your office to show them where you work and help them to understand that's how you make money. Give them simple chores to do to earn pocket money.
- Teach them to value experiences just as much as, if not more than, things. Spend time with them doing simple activities like going for a picnic in a park.
- In the same vein, don't use birthdays and other special occasions as a reason to spend lots of money. Focus on fun, affordable activities with friends and family instead. Or better still, open up an investment for them, where you can teach them the fundamentals of investing.
- Finally, try to spend cash in front of them instead of using a card – it's easier for them to understand that you're actually spending money, whereas with a card it can feel less real.

In conclusion, remember that children – especially younger children -- model the behaviour of those around them. In other words, actions speak louder than words. If they see you buying whatever you want, whenever you want, they'll think you have an endless supply of money. Instead, talk to them about saving, and encourage them to delay gratification by regularly getting them to put a little bit aside from this week's pocket money to have an enjoyable experience, like going to the movies, in a few weeks' time.

In the meantime, when thinking about your child's future, and the expenses that go with it (such as education, for example), why not use this as an opportunity to open up an investment for them, so you'll have the funds when you need it. A great investment vehicle to consider is an M&G Tax-Free Investment, where you have access to a range of top-performing unit trusts such as the M&G Balanced Fund. You can even take it out in your child's name. At M&G Investments we have a range of tools to help you find the right tax-free fund for you, or to check just how much you could save when investing tax-free compared to traditional unit trust investments. Better still, you can start your investment online in under 10 minutes, from as little as R500 per month, making it both easy and affordable.

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