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How to raise money smart kids

November 2016

The earlier children start saving, the easier it is for them to secure their financial future.

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Nigel Bowen uncovers what the experts say about making your kids financially literate.

Jen Bakker, Nicole Pedersen-McKinnon and Mima Rahaman all have a personal and professional stake in promoting financial literacy among young Australians.

Bakker is the head of customer engagement at the personal financial management service MoneyBrilliant. Pedersen-McKinnon is a high-profile money mentor. She delivers her Smart Money Start presentation at high schools around the nation. Rahaman is the founder of financial planning firm ThinkWealth Management. All are mothers.

Speaking with *Grow Magazine*, they explain how to instil money smarts into impressionable young minds.

Q: What money realities is it essential kids understand?

Nicole Pedersen-McKinnon: That they have one incredible asset their parents don't: time. The earlier they start saving, the easier and cheaper it will be for them to secure their financial future. Also, while human beings are wired for instant gratification, opting for delayed gratification will result in a larger, more satisfying pay-off.

Jen Bakker: Ideally, children and teenagers would be educated in how budgeting, comparison shopping, debt, insurance, investment, negotiation and superannuation work. In reality, kids will usually learn unrealistic lessons about money from what they see around them. As a result, they will fail to adequately comprehend money needs to be earned before it's spent. That there's a difference between good and bad debt. That the latest Apple gadget is a luxury, not a necessity. That often results in financial difficulties later on.

Mima Rahaman: That money is hard to earn but easy to spend.

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Q: How financially literate are Australian kids?

Rahaman: Well, schools are doing a better job educating children about money than they did in my day.

Bakker: Given around half of all Australian adults live from pay cheque to pay cheque, I'd presume not very literate.

Pedersen-McKinnon: I'd give the nation as a whole – kids and parents – a C minus.

Q: At what age should kids start to be taught about responsible money management?

Rahaman: No later than when they are starting high school.

Bakker: The younger, the better. There are lessons children can learn about money in primary school. Even if they don't fully understand certain concepts, at least you've started the conversation.

Pedersen-McKinnon: Parents should promote money smarts from an early age. It's not necessarily about your child getting rich. It's about them having options, being able to achieve the lifestyle they aspire to.

Q: Is it difficult for parents to pass on money lessons in a rapidly evolving economy?

Pedersen-McKinnon: The speed of change in both technology and financial innovations is making knowledge transfer difficult. Transacting by cards and mobile phones makes money invisible. Add in things such as in-app purchases and unfathomable mobile-phone plans and parents face a big challenge.

Bakker: Once they are old enough to understand, children need to learn about internet security and online transactions.

Q: How important is what parents do with money as opposed to what they say about it?

Rahaman: Parents should aim to be good role models and demonstrate good spending habits, especially in a world awash with consumerism.

Bakker: If parents talk to kids about money matters they can both educate them and lead by example. Parents can explain to children why they are paying for something with cash rather a credit card. Talk about the income they make from working. Explain how the mortgage on the family home operates. There are even apps, including a MoneyBrilliant one, where family members can keep track of the family's income and expenses. All of those things help children understand that responsible money management comes down to a series of choices.

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Q: Is pocket money the best way to teach financial literacy to kids?

Rahaman: It's good for younger children, but I give my teenagers an annual allowance. They have to record on an Excel spreadsheet what they will need money for – clothes, presents for friends, general spending money – and get it signed off by me or my husband. We've found that teaches them about budgeting and opportunity cost. It also teaches them the most valuable lesson of all, which is that money is a limited resource.

Bakker: [Pocket money] is not the only one available, but it is a great teaching tool. To maximise its effectiveness, give your children a consistent amount each week. Insist they do age-appropriate chores to earn it. Also, make them bank a proportion of it.

Pedersen-McKinnon: Pocket money can be used to illustrate the power of compound interest. A dollar a day of pocket money saved from age 10 to 50 becomes $60,000 by age 50, given an interest rate of 6 per cent. Even better, only $14,560 comes out of the child's pocket. The remaining three quarters comes from the bank. If they wait until age 30, they'd have to find more than $4 a day to reach the same amount. Imagine where you'd be today if someone had told you that at 10!

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