Raising Financially Literate Children

In working with families for many years through various financial planning stages, it is clear that, as the idiom suggests, the apple doesn’t fall far from the tree. Financially fit adults tend to produce financially strong children. I am not referring to an inheritance, but rather to the good financial behaviors taught to their offspring. It is the parent’s responsibility to guide the child and help them develop good financial behaviors from an early age. By no means am I schooled in the psychology of parenting, but the following thoughts and suggestions on raising a financially fit child come from my perspective, observations, and past experiences both as a Financial Advisor and as a parent.

As parents, we can teach our children there are three distinct things you can do with money: spend it, save it, or give it away. Discussing the relationship between these three are a good way to start teaching children about budgeting. One is not more supreme than the other, but a healthy balance, of each is the best. Work with the child to lay out a plan to determine how much should be spent today, how much should be saved for tomorrow, and how much should be given away. This is a good time to work with the child to understand the difference between “needs” and “wants”.

There is a constant barrage of messaging in our culture to consume and spend today, often at the expense of tomorrow’s income (debt). In the most recent study1 by T. Rowe Price on kids and money, 45% of kids had cell phones while only 39% had a savings account and only 6% owned a mutual fund or exchange traded fund.

By teaching our children to save and invest today for a better tomorrow, we are teaching them the value of delayed gratification. In the Stanford University “marshmallow study” conducted in the 1960s, researchers concluded that children that had a higher ability to delay gratification showed better success later in life2. Developing a plan with money requires thoughtful self-control and awareness; qualities that will serve them well, in many areas of their later life. Talking about money with children provides a good opportunity to teach the child that decisions today impact your well-being tomorrow.

In their book “The Millionaire Next Door”3, authors Thomas J Stanley Ph.D. and William D. Danko Ph.D. concluded that parents who give substantial economic gifts of kindness were actually harming the child’s financial well-being. In their study the authors found that “The more dollars adult children receive, the fewer they accumulate, while those who are given fewer dollars accumulate more”. Their research concludes that this “Economic Outpatient Care” financially weakens the child and that child typically lacks initiative as an adult. The lesson learned from Dr. Stanley and Dr. Danko’s research suggests that parents should not give their children fish, but rather teach them to fish.

By teaching your children how to manage and be smart with their money, you are helping them prepare for a financially fit adulthood. Children are sponges that absorb more than one can imagine. Encouraging good financial behavior early in the child’s life and leading with example will help ensure that the child will make good financial decisions later in life and develop into a financially mature adult.

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*1 – T. Rowe Price 14th Annual Parents, Kids & Money Survey www.moneyconfidentkids.com/content/dam/mck/pdfs/2022\_Final\_PKM\_Deck\_2022\_Update.pdf*

*2 – “What the ‘marshmallow test’ can teach you about your kids”.* [*www.cnn.com/2014/12/22/us/marshmallow-test/index.html*](http://www.cnn.com/2014/12/22/us/marshmallow-test/index.html) *“Success” as defined by higher testing scores, less substance abuse, higher levels of income, less likely to become overweight, and stronger social skills*

*3 - Stanley, Thomas J., and William D. Danko (1996). The Millionaire Next Door: The Surprising Secrets of America’s Wealth. Atlanta Georgia: Longstreet Press.2- T.Rowe Price 14th Annual Parents, Kids & Money Survey.*