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Kids and money: five ways to start the conversation

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Children feel empowered and learn more about financial independence when they understand basic concepts. Prostock-studio/Shutterstock

When it comes to teaching young children about the world, parents may feel that some topics – like politics and religion – are too tough to broach. Money is another. Parents may not feel like they know how to approach the subject, or worry that they don't set a good financial example for their kids.

But money talk shouldn't be avoided. Talking about it is the first stepping stone towards financial knowledge and, ultimately, to financial independence. Holding off the conversations for too long can leave your children in the lurch later in life. For instance, in South Africa, only 42% of adults are financially literate. In Ghana the figure is 32% and in Nigeria it's 26%. This means a large number of adults in these countries do not know or understand financial concepts.

This highlights the importance of starting the money talk conversation early to ensure individuals possess the knowledge, skills and confidence to successfully manage their finances.

Perhaps your child receives an allowance and you feel this is enough to familiarise them with the concept of saving or about the value of money. But studies have found that an allowance is most beneficial when it's paired with guidance on savings and budgeting.

Children learn through numerous sources of influence, including school, friends and the media. But the greatest influence of their financial socialisation – that is, the values, knowledge, attitudes and behaviours that promote financial well-being – are their parents or primary caregivers. The earlier you start the conversation the better; the majority of children between the ages of 11 and 17 lack confidence in managing money.

If you've wondered how you can teach your children about savings and budgeting, here are five ideas to explore for children aged 10 and above.

Setting goals

Setting financial goals is an important part of learning how to manage money because it requires you to prioritise your financial needs. It also requires systems. Studies have shown that people perform better when they have written down what they need to do.

There are several free and printable online goal charts that kids can use to either tick off or colour in how much they've accumulated in the kitty. Goal charts or clear jars are particularly helpful for children who are visual learners as they get to "see their savings grow" over time. And just like ticking off a to-do list, it's satisfying to measure progress and have proof that you've worked towards achieving your goals.

Savings

The motivation to accumulate savings becomes stronger when it's coupled with a financial goal. As adults, we understand the need to save for a rainy day, but this concept may be foreign to a child. Instead, consider teaching the importance of saving in relation to an event a child can understand and relate to, such as a birthday or Christmas Day.

This not only gives children an incentive to save towards something they are interested in. It also teaches them financial discipline (not to dip into the kitty prematurely) and delayed gratification (they can access the money in the kitty now but will miss the opportunity to have more money available from it in future).

Savings aren't always driven by the need to spend. It's also important to teach kids to save for the sake of it, because we never know what tomorrow will bring and this lesson may be better understood and appreciated as a child's financial knowledge matures.

Saving vs investment

For older children, or at an age-appropriate level (research suggests this is between the ages of 12 and 17), the conversation on savings can be elevated to introduce the concept of investing.

Saving can be a fun, educational experience for children. ESB Professional/Shutterstock

While saving refers to the accumulation of funds by intentionally spending less, investing is the purchasing of an asset that provides income from the asset itself. Engaging with children about knowing when to save versus when to invest can instil an important financial lesson they will benefit from in future.

Budgeting

The concept of budgeting can be taught in a child-friendly way. Take, for example, an upcoming birthday party: you can use straws (or anything similar) to illustrate that all the straws represent the total budget for the birthday party. The idea is to teach children how to work within the confines of the budget. Create a list of what is needed for the party and allow the child to allocate the straws according to the items on the list. This can be a teachable moment to show that allocating too much for one item will come at the expense of something else. If you consider it appropriate, actual money can be used in place of the straws.

You can play with this until you've both come to an agreement on the budget (also bearing in mind that the entire budget does not have to be spent, and what is unspent can form part of their savings). After the party, look back at the budget to reflect on what the child has learnt about the process, including their likes and dislikes. This also teaches that even a fun event involves planning and responsible spending.

Helping others

Children are often taught the importance of sharing. This lesson can extend into the realm of financial education. Money is not just a resource for spending or buying things – it can also be used to help others. By donating or contributing towards a cause that a child cares about, they'll learn to be financially generous and empathise with those who do not have the same privileges they have.