

How to teach your children about money

Learning about money should be a fun experience



GETTY IMAGES

UMA SHASHIKANT

The mother talked incessantly as she stood with the child, watching flamingoes basking against the sun and sea. From history and habitat, to photography, she was teaching it all. But she also occupied the quiet space in which the child could pick her own lessons. Many of us are guilty of such overbearing behaviour. If harmless birds were subject to such intensity, what happens to an intense topic like money?

Many begin with trips to the bank. They open an account, deposit gifts and small monies, take the kids to a world populated by adults, and hope that process knowledge will help the child. Asking the child to keep accounts for pocket money is nice, but boring. When parents themselves don't make budgets, it is hard to enforce it on kids. Parents love the virtuosity in telling children to be frugal. Consistent real-life reinforcement means the family lives those principles, else values are tough to inculcate.

There are three basic lessons about money that hold immense practical value in adulthood. They are the opportunity cost of money; emotional intelligence around money decisions; and the understanding that the value of money changes with time.

Consider the opportunity cost. Every rupee can be put to multiple uses. A child may not understand this if money decisions are made as if there is an insatiable amount that can be drawn from the ATM. That money is a limited resource is perhaps the most important lesson in adulthood. It is a mistake to assume that children will learn from managing household finances. That is too complex and requires balancing too many interests over which children have no control. The simplest tool is to provide an allowance specific to the expenses of the child and the leeway to make decisions.

Children will understand how to apportion the money between competing demands. They will also understand

the emotions evoked by decisions such as giving away some of the money to a less privileged child, bearing an unfair share of expenses incurred with friends, and so on. Attitudes towards money are shaped by these experiences.

A more elaborate tool is to involve the child in expenses that are incurred exclusively for them. A very young child might be able to manage a budget for his or her birthday party. Making the decisions around food, décor, entertainment and return gifts are valuable lessons in opportunity cost. A more intensive version of this experiment involves allocating a yearly allowance for exclusive spends, and letting the child make decisions about toys, games and books, etc. The practicality of everyday decision making must be woven in to make it a worthwhile exercise.

The second learning about emotional intelligence will get woven into the spending decision. Being able to postpone the need for instant gratification is a valuable money skill. Credit card defaulters in adult life were children who had their way all the time. Or did not have to think about postponing a need. This is a developmental trait acquired with age. The context of a limited resource, provides the scope for this learning.

Involve your children in simple decisions. The family time for fun should not mean everything is unlimited. There are life lessons in learning to play within rules, especially if rules are set by consensus. Next holiday tell the family what the budget is, and let them make the decisions about how to fund travel, where to live and eat.

The only serious and intense lesson to learn about money is time value. How inflation erodes value and how growth enhances it. If you must teach the math, the concept and the science, teach just this with examples and illustrations. This is the only piece that needs to go into a formal curriculum. All else has to be learnt by the doing, with the parents, in a fun and real-life setting.

The author is Chairperson of The Centre for Investment Education and Learning