FINANCIAL FAIRY TALES PRESENTS

MONEY

A PARENT'S GUIDE

By Daniel Britton

Welcome

Hello and welcome to this concise yet powerful Parent's Money Guide.

In the next few pages you will find many ideas, tips and strategies to help develop positive money habits with your loved ones.

It is my sincerest wish that you enjoy reading the information and apply some of the ideas to starting conversations with your children about money, helping to create a brighter financial future.

About the author:

Daniel Britton has been described as one of the leading experts in the UK on the subject of Financial Education. He brings to the topic experience from the financial services industry and a senior education background. All of which he combines with a passion to make learning about money serious fun.

He is author of the internationally acclaimed Financial Fairy Tales series – books and educational materials for the under 10s.

www.financialfairytale.com

Facebook.com/financialfairytales

Twitter.com/financial_tales

Chapter 1 - Introduction

What Are The Benefits of Teaching Younger Children About Money?

The benefits of teaching your children about money can be both immediate and longer term. In the short term, you are encouraging them to develop good saving habits, which may last a lifetime. They will also learn how to make informed purchases, and perhaps even understand why they can't immediately get everything they want. In the long term, you are helping them avoid accumulating debt. By showing them the value of saving for the future, you can help your children plan for their financial security.

A 2013 report from Cambridge University revealed that many of our money habits are formed by the age of 7!

How many times have you as an adult found yourself repeating phrases around money that you heard growing up? “Money doesn’t grow on trees” or “Money is the root of all evil” for example?

We will examine some mental aspects of money in Chapter 3– it’s fascinating stuff!

It’s never too early to start teaching your kids about money. How about we start with …

Where Money Comes From

Explain to children that money is earned and is relative to the value that people give. That can be from a job, business or other forms of income. An ideal time to begin teaching your children about the basics of money is when they first begin to notice it. To a young child, money comes from Mum and Dad's pockets or purse. Or the magic hole in the wall machine that spouts notes after merely pushing a few buttons. It's understandable therefore, for kids to assume that money is readily available whenever it's needed.

When you are trying to explain why you can't meet their every demand, it’s better to avoid an overused response such as, "Money doesn't grow on trees" when a more constructive explanation may serve both of you better. Consider instead encouraging your child to look at the consequences of the purchase. If they have A they can’t have B, or how could they save or earn the money for themselves?

Even very young children can begin to understand the concept of earning money. Explain to your children that money is received in exchange for working or as a return on an investment, and that you can only spend what you earn. To help them understand what it's like to get paid on a schedule, begin paying an allowance or pocket money. Then help them set goals for how they spend and save their own money. It's important, however, to make sure that you stick to the payment schedule; otherwise the lesson may be lost.

You may like to consider the spend; share, save method, where everything your child earns or receives they divide into the three areas. This may look like 3 piggy banks or money boxes. In this way you are encouraging them to develop good money management habits and also the principles of charity and helping others. You may consider adding a little extra to their savings as a way of demonstrating interest. You could for example add an extra £1 when your son or daughter saves £9.

You may like to create a separate list of family or community activities which the entire household share, along with an agreed list of extras activities for which your child will receive reward.

When paying pocket money or an allowance it is important not to set up an entitlement mentality in your child. If they think that they have a right to receive money from you from an early age they may grow up with that mind-set. By all means link the pocket money to jobs around the home but consider that some tasks which contribute to the household should be done automatically and not for paid reward.

Chapter 2

How To Encourage Your Child To Save

Most of our habits, both good and bad we learn in childhood. By encouraging your child to save money early in life you are preparing them for a lifetime of financial responsibility and prosperity.

Einstein once referred to compound interest as one of the most powerful forces in the universe! A great example of the power of compound interest comes from the selling of Manhattan for a handful of beads:

In the early 1600s, the American Indians sold an island, now called Manhattan in New York, for various beads and trinkets worth about $16. Since Manhattan real estate is now some of the most expensive in the world, it would seem at first glance that the American Indians made a terrible deal. However, had they sold their beads and trinkets, invested their $16 and received 8% compounded annual interest, not only would they have enough money to buy back all of Manhattan, they would still have several hundred million dollars left over. That is the power of compound interest over time.

Warren Buffett, one of the richest men in the world, uses a snowball analogy to explain compound interest:

"Life is like a snowball. The important thing is finding wet snow and a really long hill"

The really long hill referring to the effect of time on the growth of money.

Here is a simple example which highlights the importance of encouraging your child to save.

Saving as little as £10 per week over their working lives of 40 years with an interest rate of 5%, they would accumulate £61,040.

However if they started 10 years earlier, that would be £106,740. That's a difference of over £45,000 from an extra investment of £5,200.

Age started saving	**Nest Egg at 65**	**Difference**
25	£61,040	-
15	£106,740	+£45,000

Given that time can play such an important part in the growth of money, the earlier a child starts his or her savings habit, the greater will be their return.

Here are 5 top tips how to encourage your child to save.

Lead by Example – have a jar or money box where you deposit your own spare change. Children learn more by what you do than what you say. By wanting to follow your example your job is half done.

Add interest – when your child is old enough to understand the concept of interest you can act like a bank and top up their savings. Keep the numbers simple by adding 1 coin for every 5 or 10 they save. It’s a good opportunity to introduce some simple yet important money lessons.

Open a bank account – go with your child to the bank and open a savings account. Then make an event of going and making a deposit. Your child will make positive associations with the act of paying in money. Many banks are keen to attract children as customers and may offer bonus gifts or incentives. Its well worth comparing a few, but other more important factors are location and convenience.

Save for a purpose – it’s much easier to create an interest in saving (excuse the pun), when there is a strongly desired outcome on the end of it. Encourage your child to save for a holiday, a particular toy or something they value.

ADDING A PICTURE OF WHAT YOUR CHILD IS SAVING FOR IS A NICE VISUAL INCENTIVE. STICK A PICTURE FROM A MAGAZINE OR WEBSITE ON THE MONEY BOX, JAR OR PIGGY BANK FOR EXTRA ENCOURAGEMENT

Consistency – For saving to become a habit it must be done regularly and often. Then gradually, like brushing your teeth it becomes automatic and habitual. If you give pocket money, encourage your child to immediately put some of it away. If they get extra for doing some work or birthdays etc., encourage them to allocate a percentage to saving.

In all the above examples it should be emphasised that for the money saving habit to stick it must be enjoyable and rewarding. Just as compound interest will reap rewards over time, so too will the investment in time spent to encourage your child to save.

Chapter 3

Money Mentality

The majority of children inherit their beliefs and values from their parents. So along with Mum’s eyes and occasionally Dad’s nose, we are likely to become conditioned by their set of rules around money, which in turn came from their previous generation. This may work very well if your surname is Rothschild or Getty but for most of us we may be carrying around a set of rules and beliefs which no longer serve us.

Think about your own money lessons from childhood. For example, if your parents or grandparents experienced major economic events such as the Great Depression or the austere years during and after WWII, then these environmental factors will have made a lasting impression on your financial beliefs. There may be “positive” values such as thrift, saving and security or “disempowering” beliefs around scarcity, fear and an aversion to risk.

The question is, are these deep routed beliefs helping or hindering you today and what messages are you passing on to the next generation and teaching your children about money?

In the Industrial Age the perceived wisdom was to study hard, get a good job and then try and hang on to it until the gold watch. People spoke freely of the ‘job for life’ and concepts such as downsizing or outsourcing were relatively unknown. The underlying beliefs were one of scarcity and lack. A safety first approach which encouraged the majority to save for their retirements with the comfort of a social security safety net.

In today’s Information Age where the world has become in many ways smaller and flatter, both the job security and the safety net are disappearing. In preparing the next generation and teaching your children about money it is important to consider the skills, attitudes and beliefs that will be necessary to succeed.

Let’s consider an example of two children from the same neighbourhood, whose parents are of a similar age and enjoy similar incomes and lifestyles. In the Smith’s household finances are discussed in hushed tones and never in front of the children. The kids witness arguments over credit cards and the stress of unpaid bills. If the child asks for things they are met with replies of “money doesn’t grow on trees” or “we just can’t afford it”.

Compare with the Jones household, here money is discussed more openly, with budgets set and adhered to. Bills are paid on time and a little is saved every month. When the child asks for treats they are encouraged to pay for it themselves out of an allowance, or to consider whether having ‘this’ is better than ‘that’. They learn to understand the value of things as well as the price. They may be given the opportunity to work around the house or to explore other ways of earning money.

In this simple scenario it becomes clear which child has the better chance of growing up with empowering beliefs about money.

Children unquestionably pick up many of their values from their parents, either through conscious actions or unconscious awareness. From an early age they learn more from what they see and experience that what you may say. Through a combination of financial awareness and creating an environment of opportunity, your children will be better equipped for financial success. By setting an example, with a positive association with money, along with practical approaches, such as saving and budgeting, you will be teaching your children lifelong money skills.

Chapter 4

Creating Financial Fluency

It is widely accepted that the earlier in life a child learns a foreign language, the quicker they are able to pick it up and achieve fluency. The same is true when it comes to teaching children about money and developing financial fluency. Teaching children from an early age how to save and budget in a fun and exciting way can lay the foundations for sound money management later in life.

A recent study indicates that with as little as 10 hours of financial education, teachers and parents can positively influence children's future saving and spending habits.

6 fun ways to help teach children about money.

1) Fun, Fun, Fun - make a game of both saving and spending. If only spending money is fun then they will not associate any pleasure with saving. There are a range of musical or mechanical money boxes which do just that.

2) Routines - When your child receives money as gifts or pocket money establish a routine, like putting some or all of it in their piggy bank or savings account. They will most likely take these traditions forward into their own families.

3) Consistency - If you pay pocket money in return for helping around the house, make sure they actually do the work! This shows that receiving money is earned and not an entitlement. Even very young children can be responsible for tidying away their own toys or clothes. It's a good idea to give a set amount on a regular day but also encourage their entrepreneurial spirit by giving them the opportunity to earn more if they seek it.

4) Look after the pennies - Turning off the lights, saving their pennies and giving small donations to charity collections are small things that create positive habits which may last a lifetime. Ensure that you explain why you are doing it and what the benefits are. Charitable giving can illustrate to your child that there are others less fortunate and introduce the idea to be grateful that they have more than enough.

5) Consequences - When your children ask for something, rather than say no. Ask them if they would like to buy it from their own money and explain what the consequences are. You may find that they are more reluctant to spend their own money than they are yours!

6) Set an example- Your children often copy what you do rather than what you say. By saving your spare change, or allocating money to savings accounts its very likely that your little ones will voluntarily do the same.

It is important to always approach teaching children about money with openness and honesty, giving a constant and clear message. Explain to them why they can or cannot have certain items they wish to buy. You can't always say yes to a request for money and if it has to be a no, it does few favours being over indulgent, but equally the 'because I said so' clause has little educational merit.

Consider also the type of signals about money that your child picks up on. You may feel it's important to let your child know family money matters are private, and not for discussion outside the home. If however, as parents you talk in hushed tones over bills and bank statements, your child may deduce that finances are something to be secretive and furtive about. Similarly, if they pick up some stress and anxiety over money, this too is an unwanted value that can be carried forward into adult life.

Chapter 5

Have the Money Talk

Many parents are not particularly inclined to discuss their finance related issues with their kids. As an invariable result, kids remain unaware of crucial financial factors like debt management, savings, account dealings and face severe difficulty to handle these matters in the long run. There are certain skills and habits which every child needs to learn and develop from an early age. Financial discipline is one of them. If your kids come to know how to effectively spend, save and survive today, they can surely attain a better financial future tomorrow. Follow the suggestions given below and provide your children the basic knowledge required to stay out of debt in future.

‘Children need models more than they need critics’. The first lesson of money management for kids starts when their parents are not even aware of it. Kids follow the footsteps of their elders blindly. Manage your finances well and spend your money wisely to set a perfect example to them. To stay out of debt spend within your limits. To teach your kids the difference between wants and needs, live frugally. Being frugal does not mean spending no money at all; it means think before you buy, and wait to buy until you can afford it.

Discuss your financial issues with your children. No matter how complicated your financial status are, attempt to make some simple bed time stories with them.

The Financial Fairy Tales are an award winning way of introducing money values and ideas to younger children

Do not evade or ignore any of their queries, answer them clearly. Show them how you pay your bills and how the ATM, bank accounts or credit cards works.

Make your children financially responsible by letting them spend money on their own. Of course, you are there to guide them but make sure your child grows up making some of their own financial decisions as well. Let them commit mistakes and learn the lessons from them. If needed, confide in them your financial blunders in the past. In this way you may not be able to stop them completely from making any mistakes but at least they will be less likely to repeat these mistakes as adults.

Take into account your kid’s feedback and suggestions while you are planning your budget. This will give them an overall idea about the price list and monthly expenses. Make sure it should not make them feel guilty or upset for costing you so much.

Young kids love to collect and save pennies, present them with a piggy bank to indulge in this habit. For teen kids you could open a savings account and let him or her watch it grow. It will generate a sense of interest and excitement in them and they will put more efforts and hard work to save in these accounts. Excitement and anticipation both are essential to make your child keener to save money.

Start giving your child a weekly or monthly allowance from an early age. Instruct them not only to manage their weekly expenses within limited means but also to save a portion of it. Trigger their emotions by teaching them to donate a portion of their savings to people who are less fortunate.

All these above mentioned points are lifelong ways to teach your kids about money management. When your child becomes old enough to ask for toys or sweets, it means they're old enough to learn some lessons of financial awareness as well. As soon as they learn to count, you can start imparting your basic lessons about spending and saving. Remember the sooner they learn these lessons and apply them to their lives, it is better for their financial well-being.

Chapter 6

The CASH Model

I like to use the acronym CASH to help young people understand key concepts around money.

C - Credit. There is a difference between good and bad credit. Loans to buy assets, such as homes or business can be good, while credit cards debt, holidays and toys are not. The mantra that all credit is bad is not helpful. Explain the differences and allow children to understand the principles of considering the total cost of a credit purchase rather than just the monthly payment.

A - Assets. Things that can generate additional income. Encourage young people to understand early that building assets, whether property, stocks or business can give them additional income and financial security. Eventually allowing them the freedom to pursue their own life choices.

S - Saving. Many millionaires became rich by spending less than they earned and saving the rest. Compound interest was described by Einstein as one of the wonders of the world. Encourage a savings habit early by setting an example and it may become second nature.

H - Hard work is not the only way to be wealthy. Many people work extremely hard, for long hours, for little pay. If young people are encouraged to develop their talents, passions and natural abilities then work can become play.

Chapter 7

Checklist and Acton Steps

I hope you have enjoyed some of the ideas shared in this book. Some will resonate with you more than others and that's ok, and a great place to start.

You may like to choose the point or action that makes most sense to you and start there, or here are some suggested action steps that you might like to take:

1. Buy your child a Money Box or Piggy Bank
2. Encourage saving for a purpose, such as a holiday, toy or special event by sticking a picture on your money box
3. Set a good example by openly saving your loose change
4. Practice conscious spending, be aware of where your own money goes by keeping a spending diary
5. Share with your child your bank statements and credit card bills. Explain to them where money comes from and where it goes. (If this feels uncomfortable to you, and for many it will, ask yourself why. Your answer may reveal a lot about your own inherited values around money).
6. Make it fun. Learning about anything is more effective and memorable if it is enjoyable