

Teach Your Children These 5 Crucial Personal Finance Lessons

Talk about how credit cards function, how money is earned through work and why saving is important.



Explain to your child that money is a reward for the work you do and doesn't grow on trees.

One of the most important roles we play as parents is educating our kids about finances. It's one lesson they likely won't learn in school and that they shouldn't have to learn as adults in the school of hard knocks.

The recent financial crisis underscored the need to teach children about personal finance. After all, the crisis was caused, at least in part, by people forgetting some simple lessons about money, including this one: "Don't borrow more than you can repay." You can help your kids avoid learning these lessons the hard way by teaching them to be smart about money while they are still young.

Here are five important lessons to teach your kids about personal finance.

1. Money doesn't grow on trees. As anyone who has visited a grocery store with small children can confirm, kids are often confused about money. After all, they see us scan a card or press a button online and walk away with money, groceries and whatever else might be on our list. It can easily seem to them that there is an endless supply of money. It's important to explain how those

cards you're using actually work. Whether they are debit or credit cards, they are tied to real money that must be earned or repaid. You can reinforce the lesson by taking them on a visit to a bank and setting up a savings account for them at a young age, so they can put money in and watch the balance grow.

2. Money is the reward for work we do. Young kids see adults whip out the plastic cards and may not associate the money we spend that way with the work we did to earn it. One of the best ways to teach kids about this aspect of money is to give them opportunities to earn money for their own work, whether it's doing jobs around the house, meeting their reading or academic goals or other behaviors or work your family chooses to reward. This teaches a work ethic and makes them more invested in the choices they make with that money.

3. If it's worth having, it's worth saving your money. Let's face it: Kids are constantly bombarded by cool toys and games that seem fun and exciting. It's only natural to want these things. But if we give in to every request, we are not teaching a very valuable lesson about how to get the things we want in life. The idea of saving for what we want is a critical one. In fact, a 2016 study found that one in three Americans has no money saved for retirement, according to the survey from GOBankingRates, a website connecting readers with interest rate information on various financial services. Get kids excited about the benefits of saving by providing an opportunity to save for the things that they really want.

4. Spending means making choices. One of the lessons kids need to master is the idea that if they buy something now, that means they may not have money later to buy something else. You can help them learn this lesson early by requiring that they make choices with the money they save from chores and gifts. Kids may want a Lego set and the candy next to the grocery register. Your job is to help them think about their goals so that they make a smart choice.

5. Understand the basics of credit and investing. The statistics are shocking: Nearly two-thirds of Americans don't have basic financial literacy, according to the most recent National Financial Capability Study from the FINRA Investor Education Foundation. This leads to irresponsible credit usage and less-than-wise investment choices. As kids get older, they can learn about the difference between renting and owning, how mortgages work and how interest applies to both credit and the investing world. That knowledge will help guide their behavior as they age. It's never too soon to start teaching kids to make good choices with money. As kids get older, they'll be ready for more complex lessons about money, but these are a few that you can start teaching today

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