Priceless Lessons: Six Strategies for Raising Money-Savvy Kids

Think of it as financial self-defense. If your children grow up to be reckless spenders with crushing debts and unpaid bills, don't kid yourself. You will likely ride to the rescue, at which point their problems will become yours — and everybody's financial wellness will be at risk.

Want to avoid that fate? Your best bet: Ensure the issue never arises, by encouraging your kids to be money savvy, starting when they are age five or six and continuing into their 20s.

To that end, try these six strategies:

1. FORGET LECTURING – AND TELL STORIES

If you have ever talked to your children about the importance of thrift, you might have gotten the glassy-eyed look. Or the theatrical yawn. Or the eye-roll. Whatever the response, you probably had a strong sense your kids weren't listening – and you were probably right.

How do you get the message through? Forget the lectures and instead talk about your own financial struggles. Tell your children how you coped with college costs. Recount how, when you first entered the work force, you squeaked by on a modest salary. Recall how you scraped together enough to make your first house down payment.

Such stories will prepare your children for their own financial struggles. You will also pass along some key lessons: No, you can't always buy what you want – and, yes, it's often necessary to make sacrifices today if you want to prosper tomorrow.

2. FORCE THEM TO CHOOSE

When you discover somebody else is picking up the restaurant tab, it's amazing how your appetite increases. Guess what? That's the way life is for children. They grow up spending their parents' money, so it is no great surprise they are always requesting a new toy or another candy bar. The trick: Make your kids feel like they are spending their own money.

Give them $5 when they go on the school field trip, but tell them they can keep the change, so spending all the money at the museum gift shop has a real cost. When they ask for a soda at the restaurant, offer them a choice: They can have the soda – or they can have $1. When they're teenagers, pay them a clothing allowance every three months and then leave them to budget the money.

In each case, your children are still spending your cash. But now they're the ones making the hard financial choices. Instead of you saying "no" to them, they have to say "no" to themselves.

3. MAKE A WISH

Children are often the worst sorts of impulse shoppers, desperate for a particular toy today, only to lose interest in it tomorrow. To help temper this behavior, create a wish list where your children write down the things they want for their birthday or to buy with their savings. Every month or so, go over the list with your children and see which items they want to add and which they want to remove. The list will, no doubt, change constantly – and that's something you might want to point out.

"As you talk to your children about the dangers of credit card debt and the importance of saving regularly, you will probably find you become a little more prudent with your own money – and soon enough you are indeed setting a good example."

4. MANAGE EXPECTATIONS

Most parents happily cover the bills through age 18. Then, the tough choices begin. Parents need to decide whether they can afford to contribute to the cost of college, graduate school, weddings and house down payments – and when to stop the financial coddling.

On this one, there is no right answer. But if you decide you can't afford to pay for college or you have no intention of footing the bill for a $20,000 wedding, tell your children now, so there are no bruised feelings later.

continued

5. SET A GOOD EXAMPLE

Sure, you've had the long conversations about money. True, you've used all kinds of clever strategies. But if your own finances are out of control and your kids are well aware of it, your fine efforts at financial education are likely to fail miserably.

This, fortunately, is a problem that may solve itself. As you talk to your children about the dangers of credit card debt and the importance of saving regularly, you will probably find you become a little more prudent with your own money — and soon enough you are indeed setting a good example.

6. MAKE A MATCH

Your children may leave home after high school or college. But it could take longer to cut the financial ties. Young adults often struggle financially, as they try to cover expenses on a modest salary, learn how to cope with credit cards and get used to paying the monthly bills.

Amid all this, saving for retirement can get short shrift. Yet this is a wonderful time for young adults to start saving for retirement, because they may earn years of investment returns. On top of this, your adult children might have the chance to fund a 401(k) retirement savings plan. The plan will offer not only valuable tax benefits, but possibly also a matching employer contribution.

What to do? To encourage your adult children to save regularly for retirement, consider subsidizing their 401(k) or individual retirement account contributions. You might offer to rebate them, say, $25 or $50 for every $100 they contribute. If you do this for the first year or two, they may get into the savings habit and you will be able to drop the subsidy.

Similarly, to encourage your adult children to salt away money for a house down payment, you might offer to match their savings. For instance, for every $100 they sock away in a savings account or a money market, you might offer to kick in another $50 or $100. That way, you will help them buy their first home — and perhaps nudge them to become diligent savers.

Citi Personal Wealth Management is committed to your long-term financial success. You can expect professional advice tailored to your needs, convenient access to Citi's global resources, and a broad range of diverse investment products.

For more information, please contact your Citi Personal Wealth Management advisor.

714688 NAT025 11/10