How to Be a Good Financial Role Model for Your Child

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Parents overwhelmingly believe that they -- not the schools, the government, or any other third party -- should provide financial education to their children. Yet most don't practice what they preach. 1

Less than one-third of parents (29%) believe they are "excellent" financial role models for their minor children. The ability to communicate about money appears to be a major obstacle to education within the family: A greater number of parents say they are more prepared to talk about drugs and alcohol (32%) or sex and dating (28%) than money and finances (26%).2

Teaching the Basics and Beyond

The benefits of teaching your children about money early on can pay dividends both immediately and longer term. In the short term, children may develop strong saving habits, learn how to make smart purchases, begin to understand the true meaning of "investment," and perhaps even learn why they can't immediately get everything they want. In the long term, educating children about money now can help them avoid debt as adults. And by teaching children the value of saving for the future at a young age, you can help them establish the groundwork for a lifetime of financial security.

Tips to Help You and Your Child

Even very young children can begin to understand the concept of earning money. Here are some tips.

- Explain to your children that money is earned by working, and that you can only spend what you earn.
- Bring them shopping with you and point out the differences in prices for various necessities, such as food and clothing.
- Begin paying them an allowance for chores completed to help them understand what it's like to get paid on a fixed schedule for doing regular work.
- Help them set goals for how they spend and save their allowance. It's important, however, to make sure that you stick to the payment schedule; otherwise the lesson may be lost.
- Open a savings account in their name and make a point to sit down with them to review their account balance every month.

Regardless of their age, encourage your children to set aside a portion of their allowance or earnings for their financial goals. As they save money, you might reward them with a small additional amount, just like a bank pays interest. At the end of each month, calculate how much they have saved and then chip in a certain percentage as interest.

As your children get older, their savings will likely amass at a quicker rate. That presents an ideal opportunity to review the lesson of compounding, or the ability of earnings to build upon themselves. Explain how compounding can be more dramatic over time. The longer money is left alone, the greater the effect may be. This can lead into a discussion about investing and how certain investments can have a greater ability to compound over time.

Teaching your children about money may seem daunting, but it can help put them on the right track by encouraging smart habits.

[1]Source: T. Rowe Price, "Parents, Kids and Money Survey," April 2011.

[2]Source: ING Direct, April 2011.

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