Teaching your children sound financial habits

It is important to instill the value of money in your children from an early age. If no one teaches your child, how do you expect them to handle their money later in life?

Children learn from example, and if they are not taught about debt, compound interest and the like from an early age, they'll be on the back foot when compared to their peers once they're in their twenties, and will have to teach themselves good financial habits.

Unfortunately, some people do not manage this and soon find themselves facing an insurmountable pile of debt. Don't dismiss the importance of teaching your children good financial habits.

Research by the Money Advice Service has found that money habits, particularly adult money management habits, are formed in children by the age of seven.

"Most young children grasp all main aspects of how money works and form core behaviours which they take into adulthood and which will affect financial decisions they make for the rest of their lives," it stated.

Says Danelle van Heerde, head of advice processes at Sanlam Personal Finance: "The best way to teach your children anything is by example. Money habits are no different. Your own attitudes towards money will rub off on your children, so daily life presents a wonderful opportunity to teach children good money habits."

Remember, it's not what you say but what you do that often has a lasting impact on young children.

If you contradict what you say, children will often fall back on following your example, therefore it is pivotal to ensure that you practise what you preach.

Says Charl Nel, head of communications at Capitec: "Children learn from imitation from an early age. They also learn by picking up patterns in their own daily experiences – called inductive learning – so involve them in age appropriate money activates as often as you can. Getting the basics right will help your child to build a strong financial base."

Unfortunately, one of the most common mistakes that parents make is trying to keep up with what other parents offer their children.

This may be hard when your child comes up to you complaining that their friend has just received the latest gadget.

Perhaps the friend's parents are in a better financial situation than you; the last thing you want is to get into further debt by trying to keep up appearances. Rather, encourage your child to save for such items.

"Introduce them to the principle of saving," says Van Heerde. "Suggest that they save a portion of their weekly allowance for a couple of weeks and eventually they will have saved enough money to make the purchase."

So what basics can you teach your children to ensure that they will become financially savvy?

Says Frank Magwegwe, CFP and head of Momentum Personal Adviser Services: "Just talking about money with your children goes a long way. I am surprised by the number of parents I talk to and the topic of money is off limits with their children.

"Discuss household income and expenses with the depth of the discussion taking age into account. Explain what the income is spent on. This introduces concepts of paying rent or a bond, food, school fees etc. This also introduces the concept of budgeting and saving."

It is important to set an example for your child whatever their age. While financial habits are learnt from an early age, setting an example when your child is older is just as important.

Van Heerde recommends that you open an investment or savings account for your child. "You can use it to teach your child about savings and how their money grows over time with the interest that is added.

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