

TEACHING CHILDREN HOW TO SPEND

You don't have to wait to leave a monetary legacy for your children. Instead, help them develop healthy savings and spending habits now that will set them up for future financial freedom.

As parents, we have a significant role to play in teaching our children the value of money. These lessons should not be limited to lessons around saving money, but should be extended to how to spend.

I was shopping with my children a few months ago when my son asked me to buy an expensive Lego set. "Put it on your card," was his solution when his request was denied.

You still have to pay for whatever you spend on your credit card, I explained, adding that you have to earn enough to cover your spend.

Since "spend less than you earn, buy less than you can afford" is my mantra, I only spend on my card what I can afford to "repay" at the end of each month.

Having decided that my children would benefit from a money chat at this point in their lives, I adapted a story from a children's book, *More Than Enough*, distributed by Foord Asset Management.

Here's what I told them: When squirrels get old, they don't have as much energy as they did when they were young, and they like to rest and enjoy the forest a little more.

However, when squirrels are young, they are full of energy and need to collect as many acorns as they can, for a few different reasons:

- They collect acorns so that they and their family can eat.
- They collect acorns for the winter in case food is more difficult to find during these months.
- They also collect acorns for when they are old and don't have the energy, or the ability, to go out and look for acorns.

These three reasons easily translate into our daily lives and are the motivation both to earn and save money:

- Earn so you can buy food and clothes, pay

Stephen Katzenellenbogen offers lessons from a father on how to teach kids about the value of money



rent or a bond, pay school fees and maybe even go on holiday.

- Create an emergency pot of money in case things do not go according to plan – making provision for unanticipated expenses, job loss, health issues and so on.

You can also add long-term insurance to this pile of acorns. This is a crucial part of an investment portfolio to provide for you and your family in the event of death or disability.

- Save money for your retirement.

OUT-OF-POCKET PRINCIPLES

Arguably as important as why to save, it is imperative to teach children how to spend their

earnings and savings. I have often heard friends proudly noting that their children save all their pocket money. That means they continue to spend their parents' money, thereby losing a valuable opportunity to learn a lesson on the value of money.

Following our squirrel tale, my children started to receive their pocket money and manage their own credit cards (debit cards for now, but they don't yet know the difference).

I advised them that half the pocket money was going into a "spending account", for whatever purchases they wanted, and the other half into a "savings account" – not to be touched until they turn 18.

For now, I put R50 a month into each spending and savings accounts, and separately have a unit trust for each of them that they are unlikely to be aware of until adulthood.

What's important is not the amount, but the principle. There is already evidence of the spending lesson taking root.

Over the past few months, my children's spending habits have changed.

What started off as spending on rubbish and sweets has transformed into waiting for a few months of pocket money to get something they really want.

They occasionally ask me how much their savings accounts have accumulated so they can weigh up a purchase.

Each child has had a birthday since we started this and any cash gifts from family and friends go into the spending accounts.

Their savings accounts earn interest, albeit at a paltry rate, which is an opportunity to teach them about the free money (interest and compound interest) they earn by leaving the savings pot alone.

NOW IS THE TIME

We have a duty to teach our children about money and, more importantly, the value of money. This does not mean your sole purpose needs to be to find a job that pays the most.

What it does mean is understanding where you are and where you want to go.

Financial security, I believe, is within most people's reach, although this will mean different things to different people.

If you earn R30 000 a month, for example, it's unlikely you will drive a Ferrari and go on annual overseas holidays, but you could probably put something away to secure your future.

It's never too late to start learning about money and savings – it's also never too early.

Katzenellenbogen is a senior executive and wealth manager at NFB Private Wealth Management