How Parents Can Raise Financially Intelligent Children

Parenting, like many other roles we assume throughout our lives, comes with a great deal of responsibility. Raising children who are confident, capable, and well-adapted is no easy feat, requiring patience, persistence, and lots of help from family, friends and mentors. One topic that can often be forgotten (or avoided) but is crucial to a child's development is "financial fitness" or good money skills. A child who develops a healthy relationship with money and learns to handle financial responsibilities, both large and small, will gain confidence and independence. Talking about money with your children—at all stages of development—is a key factor in their overall health and personal well-being.

Dr. Jim Grubman, a noted psychologist who works with affluent families and their advisors, believes that our financial health is not measured by the *amount* of money we have, but by our *relationship* to that money, whatever its tangible value may be.

"Balance," he says, "is the key to a healthy relationship with money." In other words, people who have healthy attitudes toward money do not put it on a pedestal, nor do they demean it. When balance is missing in life, unhappiness and damage often ensue. The same holds true for money. Where money attitudes and behaviors are off-balance, financial woes frequently follow. Helping your child develop healthy money attitudes now will set them up for success in the future.

FINANCIAL PARENTING: DESIGNING A CURRICULUM TAILORED TO YOUR FAMILY

SELF-ASSESSMENT

Before you can talk about money with your children, you must talk about money with yourself. What are some of your strongest abilities when it comes to money? Are these skills you hope to pass on to your children? Alternatively, where do you struggle with your finances? How can you help your children learn from your own mistakes? Being honest about the money skills you do or do not possess will help you form a more complete picture of the traits you want to pass on to your children, and those that you hope to help them avoid. Understanding your own strengths and weaknesses will aid you in assessing those areas where you may need some extra reinforcement to pass along positive money messages to your children. Your relationship with money will naturally color the way you approach the subject. As a result, truthfully evaluating your own money behavior can help you not only educate your children on healthy money attitudes, but also reassess your own money IQ, where there is always room for development.

SETTING A GOOD EXAMPLE

Many parents are interested in impressing a set of core money values upon their children. Values like prudent spending and saving, respect for but not love of money, the value of money well-earned, etc. represent the very characteristics all investors hope to master. The point is that these lessons become difficult to convey if parents haven't first taken a hard look at how their own management of finances can serve as an example for their children's money habits. Children learn to speak, walk, and interact by observation and imitation. It is only natural they will observe your behaviors, moods and reactions relating to money and imitate them. If parents are constantly worrying about the family finances, and that anxiety causes fights about how and where money is spent, the child will learn to associate money with negative reactions. They may then try to avoid money responsibilities so as to avert upsetting situations. On the other hand, positive money practices will send the right message to your kids. Practicing responsible spending and saving will show your children, by example, the best way to approach your finances and will reinforce the conversations you have with them about good money habits.

PROVIDE CONSISTENT GUIDANCE

Reinforcing positive money values on a *consistent* basis will help cement good financial literacy. Raising these topics "early and often" is a solid rule of thumb to help your child gain this important life skill. While activities need to be age-appropriate for the lessons to take root, children can begin to comprehend the concept of money as early as five years old. (Later in this paper we will provide some guidelines for age-appropriate money lessons.) Consistently finding small ways to incorporate math and money lessons will provide a solid basis for advanced, and potentially more challenging topics. The concept of savings can grow with your child over time. It may start as a collection of coins in a piggy bank and evolve into a savings account where a portion of their allowance is tucked away. Later, their pay from summer jobs can be added to this savings account, and eventually it could be transitioned into a CD or money market account.
The importance of savings is strengthened in concert with the child's development, such that the child becomes responsible for managing ever-larger sums of money.

Because handling money well can be a complex skill to master, it is important that parents not overwhelm their children with too much information all at once. Rather, focus on consistently finding ways to reiterate the money values you want to pass along. Over time and with persistence, parents will find that there is no shortage of opportunities for teaching money lessons.

ALLOW FOR MISTAKES

A large part of responsible money management is not only trying to make the right decisions, but also learning from the consequences of bad decisions. No one is perfect, and children are bound to make mistakes. This is part of how they learn, and such mistakes often help to reinforce valuable lessons. A teenager who spends an entire month's allowance within the first week will quickly discover that this impacts his choices and activities later in the month, but only if he has to live with the consequences of what he did. As Charles Collier points out in his book *Wealth in Families*, "It's often a mistake for *us* to bail them out when *they* [kids] make bad decisions. Help them understand what they still have to learn or what they might do differently."[1] Talking through both good and bad money experiences is critical to helping your children understand the consequences of their actions, whether negative or positive. The key in helping them work through such decisions is to make no attempt at lessening the pain of their financial decision. If spendthrift behavior makes their money tight, then the child will learn much from an event that precludes them from purchasing the next hot gadget or participating in extravagant activities with friends.

CONSIDER THE USE OF MENTORS AND OTHERS

Imparting financial intelligence to your children may seem like a daunting task, given all of the other responsibilities that parents have. But it's important to remember that you are not alone. There are many other resources who can help your child on the journey to financial fitness. Other family members like aunts, uncles or grandparents can be a great support, as can family friends, teachers, and even perhaps your financial advisor.

Parents may also have the benefit of looking to their school systems for opportunities and guidance in providing some of the building blocks for strong money skills. For example, a simple bake or book sale where each child is given a set amount to spend can be a great learning opportunity, as the children can be asked to decide which books or baked goods they would like to purchase. The process of rationalizing what they can and cannot afford based on their budget is an experiential lesson that they can build upon. In addition, you may see what, if any, financial education is available in your school system. Some states in the US have already passed laws requiring financial literacy classes to be taught in public schools. Many more are considering doing so in light of the current economic situation. And even if your child's school has no plans or lacks the resources necessary to offer a defined curriculum around the topic, you may ask teachers and school administrators if a basic money skill program could be incorporated into existing educational plans.

For parents who work with a financial advisor, support resources may be available for you and your family. If your advisor has expressed an interest in and offers the expertise to assist in this important process, it can be a logical fit. An advisor's office can be the most natural setting for money discussions, plus an advisor who is familiar with your family and financial situation may be able to provide insight into educating your child on money matters. Your advisor's level of involvement will depend on many factors and can range anywhere from being a resource—offering educational materials like books or websites—to a guide who can offer more tailored advice specific to your personal needs. For parents who have close-knit advisory relationships, your advisor may even be able to serve as an educator who interacts directly with you and your child to assist in the development of his or her financial knowledge. Clearly, the relationship you have with your advisor will dictate how comfortable you are allowing them to take a more active role with your child's financial education. As a result, parents and advisors should discuss not only their comfort in taking on this level of support but also the degree of involvement that will be most beneficial to all parties involved.

TEACH YOUR CHILDREN AT ALL AGES

Most people think money education should start in the teens or early adulthood. Experts like Dr. Grubman say that's already too late. The really formative years are much earlier, especially if you focus on teachable moments with your children. In order for good money skills to take root, financial education must be synchronized with your child's developmental milestones.

YOUNG CHILDREN (5-8 YEARS)

This is the perfect age to begin establishing basic money skills. It is vital that kids interact positively with money, and with their families around money. Giving kids contact with money helps them feel a connection to it, suggests Grubman. There is an opportunity to supplement the basic math and counting skills that kids are already learning in school. A child's contact with money should be tangible—coins and bills—rather than abstractions like ATMs and debit cards. Introducing those forms of money comes later.

THE IMPORTANCE OF AN ALLOWANCE

One tool that can be begun during this age range is an allowance, which most experts agree can be an excellent teaching tool. An allowance makes money a much more tangible concept. For example, if a child wants a candy bar, take advantage of this teachable moment. Instead of purchasing it for them, a parent can have the child use his or her allowance money to buy the candy. At the least, the parent can hand the child the dollar directly. Let the child choose what to buy. If they want more candy than a dollar will buy, parents should explain why they can only select one. Explain that there is a tax on it and what the tax is for, in very basic terms. As the child grows, so should the allowance and the amount of responsibility. Instead of candy bars, the child may now be in charge of purchasing some of his or her toys or gadgets, paying for outings with friends to a restaurant or the movies, or even perhaps contributing to the cost of items downloaded from iTunes. These actions of responsible money management are the first steps to establishing balanced money messages, where money is neither demeaned nor elevated in its importance to individual fulfillment.

PRE-TEEN (9-13 YEARS)

The pre-teen years are among the most important to an individual's development. Kids this age learn a lot about initiative and taking reasonable risks. This is also a time for setting limits on and consequences for behavior. Let kids use their own allowance money to make purchases, such as video games, clothing and recreation. Says Grubman, "If they overspend or run out of money, it's important that parents not rescue them. Kids need to learn how to delay gratification. They need to make the connection between personal responsibility and their ability to achieve their goals." This is also the right time to help kids start to understand how money really works, especially in its abstract forms, such as with debit cards, checks and ATMs.

TEENAGERS (14-19 YEARS)

Young people at this age begin to break away from their parents and establish their independence. This is the ideal age to develop more advanced money skills and really cement the money basics. Parents can make the allowance more important and give children more responsibility for paying for things themselves such as clothing, cell phones, or car insurance. But they should also allow for mistakes and consequences at a higher level to really drive home the need for personal responsibility.

Parents may want to consider helping their children get their first credit cards, establishing limits on their use. But they should first talk about how money in its abstract forms can be too easy to spend. For example, help them become aware that the fast and convenient download of songs from iTunes has a very real cost to their own wallets. The same holds true for other Internet sites like Amazon that offer 'one-click' purchasing.

LOOK FOR TEACHABLE MOMENTS

Teachable moments are a springboard for more in-depth conversations about financial literacy and can easily be found in everyday life. Listening to your children really means picking up on their concerns and recognizing those teachable moments when a child's natural curiosity or interest creates an opening to talk about something important. Jon and Eileen Gallo offer many examples of opportune teaching moments in their book *Silver Spoon Kids*, pointing to many common scenarios:[2]

- Your child is toddling around the house, picks up a coin on the floor, and asks, "What's this?"
- You and your spouse are debating a money issue, and your child asks what you're taking about.
- Your child asks if you're rich.
- You open a checking [or savings] account for your child.

Each situation very easily lends itself to a parent imparting some money information to the child. Seize these moments to fully answer your child's question and impart a money message.

CONCLUSION

While it might not come naturally at first, teaching children about money is a critical stepping stone on the path to becoming a responsible adult. Remember that effectively talking to and educating your kids about finances is tethered to your own relationship and personal experiences with money. When parents have a clear idea of the role that money plays in their life, it becomes easy to instill positive ideals and habits in your children. Your child's money skills will continue to develop and evolve throughout life. Helping children mature into financially intelligent and independent adults can enrich their lives, providing them with fiscal rewards and personal happiness. And when it comes right down to it, isn't that precisely what all parents want for their children?

ABOUT JAMES GRUBMAN, PHD

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Dr. Jim Grubman is a psychologist, consulting to ultra-high-net-worth individuals, couples and families about the impact of wealth on personal and family dynamics. He is a frequent speaker and consultant to wealth management firms about family dynamics, the integration of psychological services with financial services, and training of advisors to improve client relationship skills. He designed and taught the first graduate-level-only course in the US about psychology and financial advising at Bentley University, and he is a faculty member for the Certified Private Wealth Advisor certificate sponsored by IMCA and the University of Chicago Booth School of Business. A member of the Boston Estate Planning Council, the American Psychological Association, the Society of Trust and Estate Practitioner (STEP), and the Family Firm Institute, Dr. Grubman has earned the Family Business Advising certificate and provided training for the Family Wealth Advising certificate. He has been featured in print, online, and television media along with publishing multiple journal articles. Dr. Grubman has a doctorate from the University of Vermont and a master's degree from the University of Michigan. More information is available at www.jamesgrubman.com.

TALK TO YOUR FINANCIAL ADVISOR

For more information on resources to help you raise financially responsible children, contact your financial advisor.

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[1] Collier, Charles, *Wealth in Families* (Harvard University, 2001) 67.

[2] Gallo, Eileen and Jon J. Gallo, *Silver Spoon Kids: How Successful Parents Raise Responsible Children* (McGraw-Hill, 2002) 100-101.

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 IBG-5841 Exp. Date: 4/30/2013 IBG.EDU.RFIC.0412