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It is easy to understand why many children don't understand the value of money. Their parents buy whatever they ask for. The idea that money is a limited and scarce resource does not register in their minds and they don't understand how hard their parents are working to earn the money they use. In short they take wealth for granted.

The danger of spoiling our kids in this way is that they will continue their spent-thrift ways even after they have left the "nest" and begun their own lives.

Data from the National Bank of Malaysia indicates that many young working adults between the age of 21 to 25 years are getting themselves deep into debt because they overspend on credit cards and take home and car loans that are beyond their income. This is the symptom of a lack of understanding about the value of money and the lack of fiscal responsibility and discipline.

We've also heard of how even business empires that have been painstakingly built up by the parents have been whittled away and destroyed by the free-spending next generation who assume that the family fortune would last forever.

It is, therefore, crucial to raise our children with good "money-sense" from young.

1. Learn to say NO sometimes

Children learn to understand that not everything is affordable. Whether it be food, or toys, or books, as parents we must say NO when something is not within the budget. Some parents make the mistake of saying yes to everything, perhaps a way of compensating the fact that they don't spend enough time with their children.

It is alright to buy things for your children but there should be two rules that apply.

Rule number one, you should determine the occasion when something is to be purchased. In other words, "we don't always buy something" when we visit the store. Parents should pre-determine whether this is a "buying trip" or just a "window shopping trip" and this should be communicated clearly to the child to avoid any confusion in expectations.

I've heard many parents while entering the toy shop with their children say, "we're not going to buy anything today, okay, today we can look at just enjoy playing with the toys on display, but no buying." Of course the challenge is holding true to this principle. No matter how much they beg or throw a tantrum, don't change your stand. It is important to teach the child that we cannot always afford to buy something.

Rule number two, even if you do decide to buy something, decide on a budget before hand and communicate this clearly to your child. For example, "okay we will buy you a new schoolbag today, and the budget is RM30. So you are free to choose one bag that is within this budget."

Of course, parents should set reasonable and realistic budgets, but once the budget is set, you should stick to it. This teaches the child that even when we do spend money, we always spend within our means even when this means having to deal with disappointment at not getting our first choice. This is an important lesson for life.

After all, even adults experience this: we may want to have our vacations in Europe but we cannot afford it, we may want to be able to buy million dollar cars but we cannot afford it, we may want the expensive new kitchen set, but we cannot afford it. As responsible adults we don't sulk, or moan, or throw tantrums just because we cannot afford what we may want. Rather, we remind ourselves that there is more to life than material possessions. We remind ourselves that "new things" don't guarantee happiness. We remind ourselves that no matter what, we spend within our limits.

2. Teach them to budget through a set pocket money system

By the time a child is 6 years old and attending kindergarten, they are old enough to understand the

pocket money system, which is the first form of budgeting most children will experience. For young children, parents can begin with a weekly pocket money ration which will cover anything they want to buy in school as well as on the weekends.

The idea behind the pocket money system is that it helps teach the child that there is always a limit to the amount of money we have, and therefore, they need to make decisions about what they want to buy, because they cannot have everything. It also helps them learn the basic discipline of saving in the short term in order to save for something in the long term.

For example, my wife and I have a system with our daughter in which she is given a set amount every week, which means that if she wants to buy something special that week, for example, a toy or a new pencil box, or a present for a friend, she will need to save the money from her daily rations; which means that she will have to spend less during recess time and lunchtime at school. This is a simple, but effective lesson in budgeting.

Of course with older children, the budgeting systems can be more complex and advanced, with monthly budgets that are divided into daily necessities and discretionary spending. The principle though is to get them to management their financial resources

### 3. Get them to work for their income

I am not advocating for child labor of course, but I think from a young age, children can start to learn the principle of “earning their keep”. For younger children it may mean doing household chores in return for their pocket money, as a part of a “social contract” that exist.

For teens, once they hit the legal age for work, my advice is to encourage them to get part time jobs. I know many parents worry about part time work taking away time for their children to study and participate in school activities. My argument is that as long as the working times are not overly long and disruptive, it is a good opportunity to teach our children how to balance their time well, and more importantly, the fulfillment that comes from earning an income of their own.

Of course what a teen earns part time will not fully support their existence; but it can help contribute to their “discretionary expenses” like buying new clothes or even sharing the monthly payments of their motorcycle or car.

One of the benefits of getting our children to work to support their income is that they fully appreciate how hard it is to earn money, and therefore, they will treasure money a lot more.

### 4. Teach them to save and invest

Many parents start saving accounts for their children, usually for their education and perhaps even their weddings. A valuable exercise though is to get your 7 or 8 year old to start and manage one savings account of their own, which could be used for a medium term investment (3-6 months); for example buying a game or toy they want.

The idea is that getting a 7 year old to save for their college education 10 years later is just too far-off in their mind. At that age we cannot expect them to fully grasps and understand the importance of something like a wedding or an academic degree.

We should treat this as a lesson in short term saving and investment; getting a 7 year old to save and keep money aside for a 6 month period is already a major long term accomplishment in their minds. The older they get, the stronger the habit will become, and you can then encourage them to save for bigger and more long term items; for example getting your 17 year old to save RM 5,000 over a 1 year duration in order to meet the down payment for their first car.

## **In conclusion**

Getting children to be careful and prudent in their spending and saving is a habit we can start early on. It does not matter whether your family is rich or poor. Never spoil your children. Never allow them to take wealth for granted. Teach them that money is not the most important thing in life, but like any valuable commodity, it is to be used wisely.

***This article on education and parenting ideas have been published in the Parenthood magazine between 2008 - 2010***