

Good money habits for life

Tips to guide
your kids towards
financial wellbeing
as adults





Financial wellbeing **equals** security **and** choice

It means meeting your expenses, putting money aside, being in control and free of money worries.

Financial literacy for kids checklist



Money skills for ages 3-5

- You need money to buy things.
 - You earn money by working.
 - You may have to wait before you can buy something you want.
 - There's a difference between things you want and things you need.
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Money skills for ages 6-10

- You need to make choices about how to spend your money.
- It's good to shop around and compare prices before you buy.
- It can be costly and dangerous to share information online.
- Putting your money in a savings account will protect it and pay you interest.



Money skills for ages 11-13



- You should save at least part of every dollar you receive.
 - Entering personal information, like a bank or credit card number, online is risky because someone could steal it.
 - The sooner you save, the faster your money can grow from compound interest.
 - Using a credit card is like taking out a loan; if you don't pay your bill in full every month, you'll be charged interest and owe more than you originally spent.
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Money skills for ages 13+

- You need to compare costs when making purchases.
- If you can't afford something with cash, then don't buy it with a credit card.
- Money is taken out of wages to pay taxes.



Family is the first place most of us learn about money.

Parents and grandparents can have a powerful, positive impact on their children's wellbeing in the future by helping them to form good money habits for life.

We all want our kids to develop the skills, knowledge, wisdom and grit to help them realise their own dreams. However, many of us overlook the need to teach them essential money skills to reach their goals and just assume they will pick it up as they get older. The surprising truth is, children form their money habits very early on. And parents can play a crucial role in helping to develop these skills.

Behaviour experts at Cambridge University found children's money habits are formed by the age of 7. That means you can start role-modelling good money management early on, and consciously teach your kids skills they can carry into adulthood to get ahead in life.

The research also revealed that children develop financial understanding when they have their own personal "economic experiences". That means it's particularly helpful for kids to have the opportunity to handle some money themselves, and to develop their understanding of the responsibility that comes with it.

This guide aims to empower parents and grandparents to take an active role in developing kids' financial literacy. We outline simple ways to help kids understand money and develop healthy habits, including:

- [Deferring gratification \(page 6\)](#)
- [Encourage a money saving mindset \(page 10\)](#)
- [Learning about earning \(page 14\)](#)
- [Spending wisely \(page 16\)](#)
- [Learning about money in a cashless world \(page 18\)](#)
- [Dealing with debt responsibly \(page 20\).](#)

With some games, incentives and fun, we outline a number of activities you can try with your kids at different ages to help them be mindful with money and start their journey to become financially savvy adults.



Deferring gratification

Being patient rarely comes naturally to young kids. Self-control is a challenge and putting off what we want now to have a better future can feel like a mammoth, painful task to young minds and adults alike. But it's an essential skill when it comes to being smart with our money.

The good news is, it is possible to teach kids to have a money-saving mindset by teaching them to delay gratification. By helping kids learn to put off what they want right now and save instead, they will be better equipped with the skills to be financially secure adults. This is particularly important in a world where 'buy now, pay later' is becoming more popular.

The marshmallow experiment

The famous Stanford Marshmallow Experiment in the 1960s has become synonymous with will-power and self-regulation. It involved a simple experiment designed to help researchers understand pre-schoolers' ability to delay gratification for greater future rewards.

Each pre-schooler was given a marshmallow. The researcher told the pre-schooler he was going to leave the room and if the child didn't eat the marshmallow while he was away, then they'd be rewarded with a second marshmallow. However, if the child decided to eat the first one before the researcher came back, then they wouldn't get a second marshmallow.

Some kids ate the marshmallow straight away, others waited uncomfortably for as long as they could before giving in, and some managed to wait the entire time and were rewarded.

Following the marshmallow experiment, researchers followed up with the kids a number of times as they grew into adults. They found those who were able to wait during the experiment performed better academically, earned more money over their lifetime, and were generally healthier and happier. They also had lower levels of substance abuse, lower likelihood of obesity, and better responses to stress.

The results encouraged educators and parents to focus on nurturing the skills needed to hold off gratification. In follow-up studies, the pre-schoolers were better at self-control and delaying gratification when the researchers taught them effective strategies, confirming that the skill can be taught.



Tips to help teach kids to delay gratification

Like many things, when it comes to delaying gratification, practice makes perfect. Here are some tips to help:



Teach positive distraction

Parents learn the art of distracting their children when they are newborns. However, teaching kids to distract themselves is the key here. Whether they sing themselves a song, find something else to do, or think happy thoughts about something else, the children who learned to distract themselves from the marshmallows did the best.



Self-directed speech

Some of the children in the marshmallow experiment who managed to wait longer spoke to themselves with phrases like “I have to wait so I can get two marshmallows.” Teaching your kids positive, self-directed speech can be an easy yet effective method. For example, if your child is begging for lollies, tell her she can only have one, and ask her to say the phrase “just one lolly” before you hand it over.



Role model the behaviour

We all know kids learn by watching their parents, so be sure to demonstrate good waiting behaviour and explain instances where you are delaying your own gratification for a better future.

Over time, with practice, kids will understand that waiting for gratification is worth it and they do in fact have the capability to wait.

Activities that help teach your children patience



Fun for toddlers up to age 5

Baking can be a great way to introduce toddlers to the idea that waiting for a reward is worth it. Baking by its very nature is a great lesson in delayed gratification. When baking you patiently measure and mix the ingredients, wait for the cake to bake and then can't consume it until it has cooled down. It's a great way to start the learning process of waiting now for a reward in the future.



Money game for kids 5-10 years old

Chocolate coins can be used in a similar fashion to the marshmallow experiment, and because they look like real money, they can be a fun way to start applying the concept to real life. Firstly, give your child a few chocolate coins. Then, let your child know that if they hold out from eating them, they will be rewarded with more gold coins. They can also trade in those chocolate coins for something else they'd like – a trip to the park, a new toy, or actual money.

It's a good idea to set an appropriate amount of time for them to wait for the reward based on their age – the younger they are, the shorter the wait for the reward. For example, a day for a pre-schooler versus a month for a teenager.



Strategy for pre-teens and teens

If your child has some pocket money already, and they want to buy something impulsively on a trip to the shopping centre, you may like to try this:

- Tell them they can buy the item now with their pocket money, or...
- If they wait a few weeks (and earn more pocket money in the meantime), you'll match what they save and they'll be able to buy more.

Like training a muscle, the ability to delay gratification strengthens with repetition. The more a child experiences a reward for exercising self-control, the more likely they are to do it. Parents can teach this critical life skill by being consistent with the reward. If your child trusts the outcome, they will be more willing to practise the skill. And it's a great precursor to successful goal setting.



Encourage a money saving mindset

A new video game? A pair of sneakers? An iPhone? Most kids have their eye on something, and we can use those ‘wants’ as an opportunity to teach them one of the most important money skills for life: **saving**.

Goal setting is one of the best ways to help children to conceptualise the future and learn to save. This can help them to calculate and understand that it may take days, weeks or months before they can afford their goal. Making lessons visible is helpful; if everything is done online your children may miss it. And having regular conversations about how you save as well as role-modelling good savings behaviour really helps to encourage kids to become clever with money.

Research tells us that children learn about money by having personal economic experiences. If your child sees the savings process through, they will know it actually works. Chances are, they’ll be enthusiastic about giving it another go once they see it works. And like most habits, savings behaviour will strengthen with repetition.

Tips to help your children set a savings goal



Write it down

Together, write down what they are saving for or use pictures and place it somewhere visible, like the fridge or their bedroom wall.



Crunch the numbers

Help them calculate how long it will likely take to reach their goal, and how much they need to put aside to get there. A shorter time-frame is the way to go for first-time goal setters, because they are more likely to stick to it and feel good about reaching their goal, which should encourage them to set more goals afterwards.



Keep track

Find a way to track progress so it stays front of mind. Regularly talk about how much they've saved, and how much more they need to reach their goal. You may like to add weekly updates to the poster, using numbers or stickers.



Provide encouragement

Help them to stay strong! The first savings journey can be tough going for kids, as they haven't yet experienced the reward at the end and may struggle to understand how long it will take to get there. Keep talking to them and use positive encouragement to keep them going.



Make it fun

Create a sense of fun around the task, especially for younger children.



Use incentives

Match their savings, give bonuses along the way to keep them on track (eg an extra \$5 when they save their first \$20) or reward them for reaching their target.



Talk and reflect

Talk to your kids about what you do to save to create a savings culture in your household. Let them know there are trade-offs to reach their goal, like foregoing some of the things they want to buy along the way. Once a goal is reached, reflect on the process together. If the goal isn't reached, talk about why and be sure to have another go.

Activities that help encourage your children to save money



**Activity for
kids 5-10 years old**

Savings thermometer

This is a fun, visual way to help motivate kids to reach their savings goal. Follow these steps:

1. Print out or draw a large thermometer and stick it on the fridge.
2. At the top of the thermometer, write down what your little one is saving for, or draw or print a picture of the item.
3. Also write down the cost of the item your child is saving for at the top.
4. Track your child's savings progress by filling up the thermometer in a creative way – perhaps colouring it in or by using stickers.
5. Include the dollar amount they've saved alongside the thermometer. This is a great way to visualise how small contributions add up to a bigger goal.

Saving, spending and giving jars

Label three clear jars or money boxes as 'saving', 'spending' and 'giving'. If the jars are transparent, they can better track their progress.

Whenever your child receives money, for example pocket money, the tooth fairy, on their birthday, they divide the money equally between the jars. The spending jar can be used for small items like stickers, lollies or small toys. The giving jar is for a charitable cause or for something altruistic, and the saving jar is for a more expensive, longer-term goal.

Whenever your child adds money to the jars, help them to count up how much they've got together and talk about how much money they need to reach their savings goal. It can help to give your child a sense of accomplishment when it comes to being patient and saving. The money can be moved to a savings account, however it's good to start with cash in a jar, as it's visible and tangible.



Money lesson for pre-teens

This is a good time to start introducing the idea of compound interest, so children understand that the sooner they start saving, the better. A good way to do this is to simply use real numbers in real examples.

For example, explain if you save \$100 every year starting at age 13, you'll have \$4,293 by the time you're 40. If you start at age 30, you'll only have \$1,281.

You may like to use ASIC MoneySmart's compound interest calculator to crunch the numbers on different scenarios together.



Money conversation for teens

It's a good time to talk about the need to have savings put aside – not just to spend on a particular item, but for a rainy day or emergency. Task them with finding a no-fee, high interest account to put their savings in, separate to a transaction account.

If they earn an allowance or have a job, you can have their pay directed into their bank account. Encourage them to regularly transfer money to their savings account and keep track of their progress. You can check the balance together using a mobile banking app.

You can help them to set up automation – so that a particular amount comes out of their earnings and is directed to their savings account regularly.



A competition for siblings at any age

Cultivating a savings culture in your household by rewarding and valuing savings and work can help kids on the path to a healthy financial future from a young age.

If you have more than one child in your house, you can inject a bit of fun and competition when it comes to savings. For example, set a challenge between the siblings and offer a reward:

- Who can save the most this week?
- Who can earn the most this week?
- Whoever saves the most gets a bonus at the end of the week.



Learning about earning

There are lots of schools of thought on the best way to pay your children money. No matter the approach you take, the key is allowing your child a real-world learning opportunity with actual cash.

Whether they earn money through chores, get paid an allowance, receive money as a reward for doing something well or by getting their first job, the method is up to you. The idea is for them to experience what it means to earn, and that money is not in infinite supply.

With money in their hands, they can begin to understand what it feels like to make decisions about money. The message parents aim to deliver here is “don’t spend more than you earn”.

One method for calculating how much money to give your kids each week is by giving 50 cents or \$1 for each year of their age, eg \$3 per week for a 6 year old, \$3.50 per week for a 7 year old. You might then like to think of things you’ll no longer pay for and explain to your child that they will have to cover these things with their allowance. For example, small treats or game downloads.

Help them brainstorm ways to make money – jobs they can do around the house or actual jobs if they’re older, things they might like to sell online or at a garage sale. For budding entrepreneurs, discuss simple businesses they can start up with your help. You might also like to offer bonuses for child-initiated projects to encourage them to be proactive about growing their earnings.

Help your children learn by talking to them about...



Stories that inspire

Storytelling is a wonderful and engaging way for children to learn. Share your own stories – about your first job, buying your first car, saving for something that was important to you.



Tax

If your teen is already working or thinking about getting their first job, it's important for them to understand that PAYG tax may come out of the money they earn at their job.



Giving

While earning and saving are essential money skills for kids, teaching them about giving is equally important as it helps children understand the world beyond themselves. It's also a great way to show them that putting aside small amounts can often make a big difference.

To get started, speak to your kids about what they're interested in or passionate about. It could be animals, the environment, helping the homeless, raising money for research to name a few. Together you can investigate which charities support a cause they're passionate about.

Then, agree together how much they'd like to set aside from their allowance money/earnings over a period of time you decide on. You might choose a percentage or a set dollar figure to set aside regularly.

Tally up the total amount saved when the time is up and make your child's donation to the charity together.

As an extra incentive, you can offer to match what they save for donations if they make all their regular contributions.

It's also a good idea to follow up and show them how their chosen charity is making a difference.



Spending wisely

To help your child to learn to spend wisely, it helps to involve them in some financial decisions, and to give them the responsibility of handling some real money.

For very young children, start by having conversations. If you're at the supermarket, try explaining to your little ones the reason you bought the 'home brand' sauce is because it costs \$1 less and tastes the same. Or talk about why you stocked up on the detergent while it was on sale, or that you can get frying pans cheaper at another store, or the reason you bought paper towels in bulk was because it worked out cheaper per item.

For children at all ages, it's useful to demonstrate shopping around for better prices. This could be done online together at home, or out and about when shopping. Also talk to them about sticking to a budget.

Activities that help teach your children to spend wisely



Fun for toddlers up to age 5

Cash register or shopping games are a fun way to introduce your kids to the idea of how money works. You can write shopping lists together, and practise paying for things and counting out change. These games can also be a simple way to introduce basic maths – adding and subtracting.



Activity for kids 5-10 years old

Give your child money at the supermarket – around \$5-10 – and ask them to make choices about what fruit to buy within guidelines that you set. This gives them a direct, personal and economic experience about what it feels like to make choices with money within a budget.



Activity for pre-teens

Give your child the responsibility of planning one category of shopping for the week – for example, fruit. They can plan and write a list and look for specials. If they manage to come in under budget, they can keep the change.



Activity for teens

Find a deal

Giving teenagers real responsibility with money in the household can teach them important money skills for life. For example, give them the responsibility of finding the cheapest petrol each week to fill up the family car. Or get them to shop around among electricity providers and see if they can find a better deal. If they succeed, a good way to reward them is to give them part of the discounts they find as cash or pay them a ‘commission’.

Stick to a budget

Also find opportunities for your teen to make choices within a budget. For example, get them to select and pay for their own data plan for their phone. If they go over their data allowance, they'll have to forego spending on other items.

Remember that making mistakes is an important part of becoming wise with money. If your children have overspent, think twice before bailing them out. It can be a good opportunity to learn about the implications of not sticking to a budget and not spending wisely.



Learning about money in a cashless world

Tap and go, buying groceries, clothes, gifts online - there's a good chance your kids rarely see actual cash handled or exchanged.

Most financial transactions can be done within moments using a smartphone. In this environment, it's easy for the concept of money and value to be lost.

Paying with credit cards in particular can be a difficult concept for children to grasp. Where does the money come from? Seeing is believing when it comes to kids, so it makes sense to show them as much as you can about how money works.

Activities that help teach your children about the cashless world



Activity for kids up to age 10

Go to the bank with your child and deposit money with a teller. Then, login to your online account or mobile banking app and show them that the deposit has arrived and increased the balance. Then, pay for something using tap and go or buy something online, and show them that the balance has been deducted from the account. That way, they can see and understand the whole process. You can also use this opportunity to explain how ATMs work.



Activity for pre-teens and teens

If you pay pocket money, consider doing it electronically and give them a debit card to use. Be sure to set the rules for using the card and track their spending closely. Each month, review the statement together.

Online safety is an important lesson for kids of all ages. Be sure your kids understand that it can be dangerous to share information online. This includes any personal information and financial information such as credit card or bank account details.



Dealing with debt responsibly

We live in an instant-access culture of smartphones, WIFI, uber eats, online shopping and online gaming where most needs and wants can be met almost instantly.

In this context, it's more important than ever to set a good example of living within your means. Just because something can be bought easily, doesn't mean it should.

A precursor to dealing with debt responsibly is understanding the difference between wants and needs, and not using credit whenever they really want a "want".

Kids might think it's no big deal to charge a small sum on a credit card. You can help them to learn how easily the small amount can snowball if they start getting charged interest on the card. Crunch some numbers together and be transparent with how you manage your debt responsibly.

Should you give your teenager a credit card?

Giving a teenager a credit card may seem risky or even irresponsible, but it can be a great teaching tool if the right conversations, rules and limits are put in place.

You might like to start with a pre-paid card or a debit card, so there's a limit on what they can spend. Set the rules on what it can be used for and how much they can spend. If they manage the process well, and if you're confident that they're responsible enough, you could give them a credit card (which would be a supplementary card connected to your own, as children under 18 cannot have their own card).

Understanding the difference between spending with a debit card, which is linked to a bank account, and borrowing on a credit card is an important money lesson. Before you give your teen a credit card, take the time to have a conversation about credit card fees, interest rates, and how spending irresponsibly can give you a bad credit rating, which is bad news for their future. Be clear that they will be responsible for all expenditure on the card – if they can't afford it with cash, they shouldn't put it on the credit card.

Speak to them about how to be responsible with a credit card and avoid financial trouble, including:



How interest works

It's important that they understand that a credit card is like a loan and if they don't pay it back on time, they'll be charged interest. Run an interest calculation with them so they understand how much they could be up for.



Paying it off in full every month

Show your teen a credit card statement and explain that if they only pay the minimum amount, they'll still be charged interest. Explain the importance of paying off the full amount every month.



Paying on time

Show them where they can find the due date for payments and help them to set up reminders for themselves to pay on time every month to avoid interest.



Avoiding overspend

Teach your teen to keep track of their spending, and to never spend more than they earn. Use the credit card's app to keep a tally on spending. To keep track of your teen's progress, see if your credit card allows you to set up alerts whenever your teen makes a purchase, so you can monitor their spending.

Understanding 'buy now, pay later' services

Services such as Afterpay, Openpay and zipPay, allow shoppers to buy a product, take it home and pay for it in instalments via an online 'buy now, pay later' account, which deducts your preferred debit or credit card.

It's little wonder these services are popular with teens and young adults. Enjoying the instant gratification of the purchase without having to part with any money upfront can be very tempting. According to ASIC, most users are millennials or Generation Z, aged 18-34.

While these services can be very handy if you have available funds and can pay on time, if you don't, little debts stemming from things like late fees can quickly snowball into bigger debts, which can have various repercussions. For this reason, it's important that your teenagers understand the need to have a budget in place when it comes to spending, so they don't get in over their heads. Like credit cards, it's wise not to spend more than you have.

Added to that, while the buy now, pay later provider might not charge interest on your purchase, you may still have to pay interest to your credit card provider if you don't pay the full amount owing on your credit card by the due date.

It's also a good idea to explain to your teen the potential long-term impact that using these services can have on their credit rating. While buy now, pay later services might not check their history, they're still able to report any black marks against them to credit reporting agencies, which could make it hard to borrow money in future.

Parents want the best for their kids. Taking an active role in developing your kids' financial literacy can help better equip them to make thoughtful, purposeful financial decisions and self-regulate their financial behaviour.

By helping your kids develop healthy habits earlier, you are helping position them for a more satisfying future.

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