

This is an original article written by Philip Loh.

Teach your kids how to handle money

In the course of my financial planning career, I have met many people who seem to suffer from what I call the “Adult Child Syndrome” (ACS). These ACS sufferers behave and think like adults in all respects but one – money management.

The root cause of this is usually the lack of training in handling money when they were young. As a result, they take a considerably long period of time during adulthood to figure out exactly how they should manage their finances.

Now, I am sure you have heard of many parents who try to make it up to their children by spending substantial amounts of money on them, because these parents feel they had neglected their children when the latter were younger.

To show their remorse, these parents think nothing of depleting their retirement savings so that their children will receive the best in everything, be it an overseas education or cosmetic surgery or other such lavish privileges that the latter’s less well-to-do peers can hardly dream of enjoying before they start to make their own living.

Because they were not trained to handle money when they were younger, but instead were given a lot of money to spend without having to work for it, many of these adult children often realise later in life that they are way behind their peers in term of wealth accumulation and retirement planning. As such, they have to work doubly hard to catch up with their peers.

For those who still do not realise why they are in such a predicament, they may end up feeling very depressed when they are getting on in years and wonder why life has been so harsh on them while they watch their peers enjoying their golden years in a state of financial security.

In fact, I know of a gambling addict who is already in his fifties and yet is saddled with so many debts that he still needs his 80-year-old mother to bail him out.

Mothers are money-handling role models

Like good values, good money-handling principles are more often imparted by a role model, rather than taught in a formal setting like a school. And while fathers typically provide their children with a secure and comfortable environment at home, it is usually the mothers who play a crucial role when it comes to instilling financial discipline.

After all, it is usually the mother who manages the household expenses. Since she is also often the one who spends more time with the children, as compared to the father, their views on how money should be used and saved are generally shaped by how their mothers spend and save.

Family influence is key to good money habits

Most money-handling habits are formed when we are young. Once entrenched into our psyche, they are very difficult to change. Since ignorance and money are a dangerous combination, it is never too early to start talking to your children about it.

In fact, parents should start to discuss the concept of money with their children once the latter begin to demand certain items like toys and the like. It is an opportune time to start teaching them that these items come at a cost, and that we have to work hard to earn the money to buy these items. They should also be taught that money kept in the bank is called savings and savings earn an interest, and so on.

Only then will our children understand from young the importance of hard work, saving and investing our money wisely to earn an interest or return. And when they are in the upper primary level, more complex concepts like compound interest can slowly be introduced.

In the case of my daughter, who is now in primary school, I ask her to give me a simple account of how much money she brings to school on a particular day (my wife changes the amount she brings every day), what she spends on, and how much change she gets back.

This interesting exercise, which I call her recess report, not only helps me to know my daughter's dietary preferences, but also serves to reinforce the concepts she has learnt regarding the management of her daily allowance.

During family trips to restaurants, hotels and other countries, I also try to explain to her how much certain items cost and how much we are paying to obtain the level of service we receive. This helps her to make numerical sense of the world around her.

More importantly, it reinforces the point that money does not grow on trees and that most people have to work hard to earn it, save for the privileged few who are fortunate enough to be born with a silver spoon in their mouth.

And when my children become teenagers, I will probably encourage them to take on vacation jobs, so that they can be exposed to real-life lessons on how money is actually earned.

The folly of keeping up with the Joneses

It is imperative also to make clear to your children the dangers of keeping up with the Joneses. Spending beyond your means to bolster your image is actually foolish, because, in many cases, the Joneses are doing exactly the same thing to keep up with you. Do not be misled by sensational media reports of big spenders shelling out large sums of money on luxury goods and come away with the impression that all millionaires lead an extravagant lifestyle. Nothing can be further from the truth.

More often than not, individuals I talk to who are financially carefree are usually living below their means, because being frugal is actually the cornerstone of wealth-building. Few can sustain profligate habits and simultaneously build wealth. In fact, Singaporeans generally build up their wealth by keeping to a tight budget and controlling their expenses, and they also use the same method to maintain their affluence.

One way of doing so is to live in a less affluent neighbourhood than what you can afford. This may sound counter-intuitive as a typical Singaporean's dream is to live in the biggest and most expensive house that he can afford. Look at it from a different angle instead. Try thinking of the amount of money you have to spend to "put up a front" if you are rubbing shoulders with the ultra-rich. Worse, you will not only have to service a bigger mortgage, but also change your lifestyle so that you will not be the odd one out in the neighbourhood.

If you are still not convinced, just look at the example set by Warren Buffett and Li Ka-Shing, two of the richest men on earth. Despite their immense wealth, they have not moved house for the most part of their adulthood. Their frugality, rather than their wealth, is what makes them truly legendary.

Dangers of associating happiness with wealth

In addition, do instil in your children the notion that happiness and contentment can be derived from living with less. This is especially important when we are living in a highly commercialised world which constantly exhorts us to "buy, buy, and buy".

What many do not realise is that advertisements nowadays go to great lengths to associate a certain product with happiness, leading you to think that purchasing the product will make your life better. While this may indeed be true, the pleasure you get is fleeting. You will have to purchase something else to find more "happiness" and a vicious circle begins.

It does not help that nowadays, most families are dual-income, and the parents often return home from work late, as their children get the impression that money must be very important since the parents work so hard for it that they are willing to sacrifice family time and rest in the process.

Rather than lavish your children with more material goods, spend more time to care for them and get to know them better. This will not only improve and strengthen family ties, but also debunk the myth that the level of your wealth is commensurate with the degree of happiness you experience.

Conclusion

The Book of Proverbs, a collection of wisdom teachings in the Bible, says that we should teach our children well so that we can have peace in our old age. Indeed, this ancient adage is as applicable today as it was when it was written centuries ago.