Your kids are watching you

Find out how your spending and saving habits can impact your children's financial lives as adults

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According to the T. Rowe Price's 2017 Parents, Kids & Money Survey in the US, it was found that parents with troubled financial history passed on poor money habits to kids. This can impact their financial lives as adults. As a parent, you need to sit up and take notice of this.

"The biggest disconnect between parents and kids is that most of the time even parents do not know that they have wrong money habits," says Priya Sunder, Director, PeakAlpha Investment Services. In fact, many a time well-meaning instructions can also cause long-lasting damage. The child could end up being repulsed by money; not understand how to save, spend and invest it; even find it hard to deal with the day-to-day rigour of running a household. To avoid this, imbibe the good habits and forgo the bad ones.

IMAGES BAZAAR

GOOD FINANCIAL HABITS

Talking about money

How parents communicate about money subconsciously becomes a financial template for the child to work with as an adult. "It is very important because otherwise it will leave children ill-equipped to earn, maintain and multiply money. This could result in their overspending and under-saving," says Prerna Kohli, a clinical psychologist.

It is also important to talk to the child, explain the reasons for spending and saving, and start him on the process of financial management by letting him manage his own pocket money.

Being organised

Do you maintain a budget, compare your inflow and outflow periodically, do not miss deadlines for paying bills or premiums, and make investments and check them regularly? Your ability to keep your finances under a firm check and manage these in an orderly manner lends financial stability and security to the household. Since you will know exactly how much money is available for saving and spending, you can impose financial discipline on your kids and not give in to their random demands.

Saving & investing for goals

If the parents have saved and invested systematically throughout their lives for all their goals, including children's education and weddings, the kid is most likely to do the same for his family on growing up. "Planning is the only way to reach goals and it is important to choose the right tools for the right goals," says Sunder.

It is also important to involve the children and make them understand the process. As they turn 16, they should be involved in discussions about funding their higher education.

Healthy risk appetite

It's almost a given that children are influenced by the type of investments their parents make. So if equity and stock markets have been seen as a risk, the children are unlikely to explore them. If you have consistently chosen real estate and gold as safe investments, your child will follow suit.

Securing risks

Your finances can never be secure if you do not buy adequate insurance, as well as a will, to ensure that your legacy passes on safely to the heirs. Not having these can expose your loved ones to undue hardships.

The child will have to undertake tedious paperwork if you do not have sufficient insurance, both life and health. He may have to incur a huge medical expense or take on debt to repay loans in case of the parent's sudden demise.

BAD FINANCIAL HABITS

Taking on a lot of debt

The parents who are constantly repaying debt either due to poor money management, or taking too many loans to fit into a particular lifestyle, or not paying the credit card bills in full, will not be able to balance their income and outflow, stick to a budget, or even save enough to reach their goals. In case of a sudden demise of the parent, the children may even be left to fend for themselves. They are teaching the kids not to live within one's means, and conveying that instant gratification and borrowing are justified.

Overspending or being too frugal

The parents who live life kingsize, overspend on their kids and fulfil all their demands without question are setting them up for disappointments. It's not necessary that as a grown-up, he will have the resources to live the kind of life he has been used to and may either end up frustrated and heavily in debt, or use foul means to achieve the ends.

On the other hand, if the parents lived too frugally and ran the house with a tight fist, he may end up compensating for lack of spending by splurging when he starts earning as an adult.

Being reckless or an impulsive spender

This habit has the potential to make the budget go haywire and impact the goals. If the parents are prone to making impulsive, big-ticket purchases or indulging in too many vacations or outings frequently, there is no way they can stick to a budget or regulate savings and spending. This can mean sacrificing important goals or necessities.

This can inculcate financial indiscipline in the child and he will not learn to live within a budget.

Fighting about money

"Never argue about money or even other issues in front of the children. They take away messages for life," says Sunder. "Talk about the problems in a manner that is conducive to participation, not one-on-one confrontation. This may force them to take sides and cause distress," she adds. So the discussion should take place in order to find a solution as a family.

This can make kids reluctant to talk or discuss money issues as adults if they witness constant bickering at home. They will see it as a source of anxiety and may not even want to take responsibility for managing it.

Not being charitable or being too charitable

If parents are charitable and offer financial help to those in need, they are telling the child that one needs to give back to the society if one has the resources. If, however, the child witnesses no charitable act, he will assume that this is the way to live and that he has no obligation to help others. However, parents must make sure that charity is not done in excess because it may upset the budget and affect important goals.

"If the parents do not indulge in charity, it is very unlikely that children will," says Jayant Pai, Head, Marketing, PPFAS Asset Management.

Good intentions, bad results

Even parents with good intent can harm their kids.

GIVING IN TO KIDS' PURCHASE DEMANDS

You may think it's all right to indulge your child, but this seemingly harmless act of succumbing to pestering sends the message that it's not important to budget or have financial discipline; that spending at will is acceptable, and implusive purchases do not have consequences.

PAYING THE CHILD FOR HOUSEHOLD CHORES

It is the child's responsibility to help around the house. By linking monetary rewards to chores, you are teaching the child to expect payment for performing his duty. He will not only lose motivation for doing any errands at home unless linked with money, but will also demand higher payments for more difficult tasks.

BAILING OUT KIDS

If you teach your child to manage his own money or achieve goals, do not intervene at any stage and help him out. It just makes him grow with the belief that there will always be a safety net and that even if he is in a financial crisis as an adult, you will be there to bail him out.

NOT TALKING ABOUT FINANCIAL CRISES

You may think you are doing the child a favour by not exposing him to financial problems, but you are actually making him ill-prepared to deal with them. Discussing it will teach him that financial irritants are a part of life and the entire family needs to pitch in to tide over them, if required. For instance, a child will be more willing to cut expenses or forsake pocket money if you explain why you need to save.