



Proactive Wealth Management

Monthly Letter

Do Your Children Understand Money?

Are the young people in your life financially literate? By helping them learn about money, you give them an important head start on important life skills like developing good savings behavior, living within their means, and avoiding many common financial pitfalls.

Unfortunately, many young Americans are not learning the right financial lessons. Research shows that 46% of teens don't know how to create a budget and 55% would like to know more about managing money.^[i] We can't rely on schools to teach financial skills because many of the practical classes we took no longer exist. Too many kids reach adulthood without knowing how to budget or make important financial decisions.

Based on our experience working with young people, here are some recommendations for helping kids develop the right financial behaviors:

Start early. If your kids are old enough to ask for things, they are old enough to start learning about money. Teach young kids that we have to save for the things we want by helping them choose a toy and then saving to buy it. Use an allowance to teach budgeting skills and incentivize chores with older children. Give kids an age-appropriate allowance - Mint.com has a great piece on average allowances by age.^[ii] Some parents choose to tie an allowance to specific chores, while others prefer to treat chores as an expected family contribution that is separate from an allowance.

Set financial expectations and be honest about money. Until kids start earning a living and being responsible for their own expenses, it's easy for them to believe that money grows on trees. Involve kids in everyday shopping decisions so that they understand your thought process behind common financial decisions and learn your values about money. Depending on their age level and maturity, you can also ask for their input when making financial choices. Give them a budget for back-to-school shopping and help them prioritize their spending so that they learn about living within their means.

Expect kids to contribute to their financial future. If your kids have an allowance or receive money on birthdays or holidays, require them to set aside a certain amount for the future.

We recommend using the three-bucket approach: one third of every dollar goes to long-term savings, one third goes to charity, and one third is pocket money. Long-term savings can be used toward education expenses or to pay for a major purchase like a car. By teaching your kids how to allocate money, you help them establish critical saving while teaching them about your values.

Teach kids about debt. It's very easy for young adults to get in over their heads with credit card debt or student loans. Teach your kids how debt works so that they can evaluate offers and avoid predatory lending. If possible, help your kids establish their credit through a secured credit card or low-limit card that they must pay off each month so that they learn how to manage debt responsibly.

If you'd like help teaching your children, grandchildren, or other young people about money, please reach out to us. As financial professionals, we know the difference financial education can make in someone's life, and we want to offer ourselves as a resource to you and your family. Together, we can sit down and come up with strategies to make sure the next generation is fully prepared to navigate their finances and make smart decisions about money. We can help you:

- Establish smart savings behaviors in young children
- Create college savings strategies
- Prepare teens for young adulthood
- Develop strategies for boomerang kids

If we can be of service to your loved ones, please give us a call. We're always happy to listen and help.

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(i) <http://www.jacolorado.org/financial-literacy-statistics-adults-and-parents/#sthash.DyHFSWTd.dpuf>

(ii) https://www.mint.com/blog/trends/average-allowances-in-america-by-age-0813-2/?doing_wp_cron=1411032415.2714619636535644531250

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