Raising Financially Responsible Children

Age-based tips

CALLAN CAPITAL
WEALTH MANAGEMENT SIMPLIFIED™

Research shows that kids as young as 3 years old can grasp the ideas of saving and spending. The sooner parents start teaching and talking to their kids about money, the more comfortable kids will be with these concepts. Most schools do not include financial education as part of their curriculum. In fact, a recent study of high school students revealed that 88% of what kids know about finances was learned from their parents - by observing how their parents earned, spent and talked about money.

Creating financially aware children entails teaching them that wealth is not only tied to money, but also resources they develop over time. Below are money lessons and tips for activities for kids of every age.

Age 3-5

Teachable Moment: You may have to wait to buy something you want.

This is a difficult concept for people of all ages to learn! In our current culture of "instant gratification," where kids are bombarded with hundreds of advertisements per day, it is important for kids to learn that for most purchases that are not necessities, they have to save money first in order to buy the item.

Tactical Tip:

Create three jars—each labeled "Saving," "Spending" or "Sharing." Every time your child receives money divide the money equally among the jars. Have them use the spending jar for small purchases, like candy or stickers. Money in the sharing jar can go to someone you know who needs it or be used to donate to a friend's cause. The saving jar should be for more expensive items.

In addition, have your child set a goal, such as buying a toy. Make sure it's not so pricey that they won't be able to afford it, since you want to ensure their success. If your child has an expensive goal, come up with a matching program to help them reach it in a reasonable timeframe. Help them proactively allocate money to their savings jar in order to buy the item.

Age 11-13

Teachable Moment: The sooner you save, the faster your money can grow from compound interest.

Tactical Tip:

Describe compound interest using specific numbers, since this is more effective than describing it in the abstract. Explain, "If you set aside $100 every year starting at age 14, you'd have $23,000 by age 65, but if you start at age 35, you'll only have $7,000 by age 65." Consider doing some compound interest calculations with your child on Investor. gov. Here, they can see how much money they'll earn if they invest a certain amount and it grows by a certain interest rate. Have your child set a longer-term goal for something more expensive than the toys they may have been saving for. Start introducing the concept of opportunity costs and tradeoffs and long-term savings goals.

In addition, consider sharing the family budget, or expenditures vs. income on a weekly, monthly or yearly basis. By showing your kids the cost of living for your family, you are setting a good financial example of one way to maintain control and responsibility of your money.

Age 14-17

Teachable Moment: Bring your child into the college cost conversation and share plans for payment and affordability.

Tactical Tip:

Discuss how much you can contribute to your child's college education each year. Share with your child in early high school years what your plans are for payment so that it is tangible in your child's mind. If full payment from parents is not an option, consider looking together into which schools are generous with financial aid and how much in loans your child would potentially have to pay back. Early teen years are also a good time to start discussing bank accounts and the basics of checking and savings accounts, CDs, money market accounts, and basic investing instruments like stocks and bonds.

Age 18+

Teachable Moment: Only use a credit card if you can pay of the balance in full each month, and consider bringing your child into the relationship with your financial advisor.

Tactical Tip:

Together, look for a credit card that offers a low interest rate and no annual fee using sites like Bankrate or Creditcards.com. Consider placing your child on your credit card to help build their credit and monitor their purchasing and payment behavior.

Explain that it's important not to charge everyday items so that way if you have an emergency expense that you can't cover with savings, you can charge that. Teach them that saving at least three months' worth of living expenses in emergency savings is prudent, though six to nine months' worth is ideal.

As mentioned, essential topics in personal finance are not learned in high school or college, so it is essential that parents act as teachers in this area and have money conversations early and often with their kids.

Though bringing your child into a meeting with your financial advisor is a personal decision, in our experience at Callan Capital we have seen that it is invaluable for teaching your child financial responsibility and planning for the future. Have your child sit in on the next advisory meeting without revealing account balances. The financial advisor can give an overview of simple investment concepts such as asset allocation and diversification. As the child gets older and more comfortable, and perhaps has an investment account of their own, you can start to reveal more details about your personal financial circumstance with the help of your advisor. We have seen that those families who place importance on involving children in wealth discussions have greater sustained wealth and a richer family legacy that those who do not.

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