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WEALTH PARTNERS

Ages 5 To 55

What Your Kids Need To Know About Finances

Financial Lessons Could Be The Most Important Lessons

You taught your kids how to tie their shoes, to look both ways before crossing the street, and countless other lessons. But what have you taught them about money? Many parents may feel uncomfortable talking about the subject with their children, no matter how old they are. But there are important financial lessons to teach your children at any age, and you should impart the wisdom you've accumulated. They may thank you for helping them make smart money moves early on and for having honest conversations about wealth transfer. Open and honest conversations are essential when estate planning. But before you get onto that topic, start with the small stuff. Let's look at some important money lessons to teach your kids, starting with when they're young.

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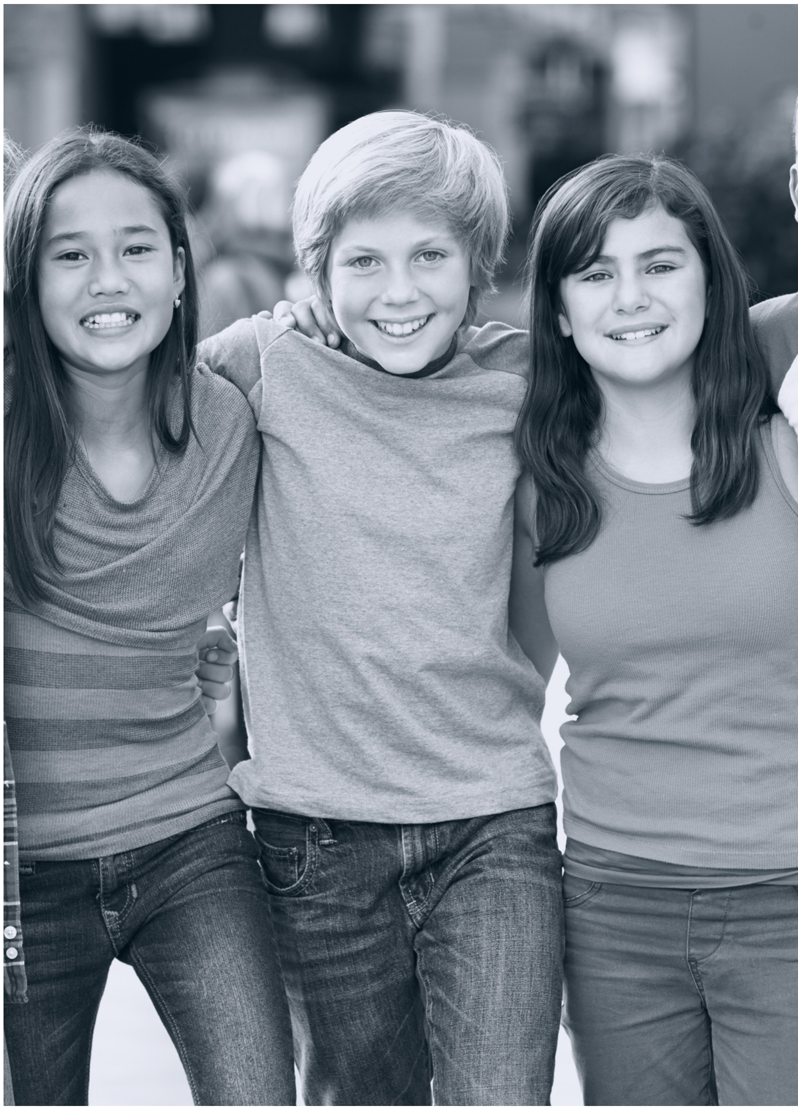

It's never too soon to teach your kids about the value of money. There's no need to give a lesson on the difference between stocks and bonds at this age; just teaching them how to save money is more than enough. Maybe you give your child an allowance, or maybe you give them some money in exchange for helping out around the house with chores and babysitting. Not all parents pay their kids for doing these things, and that's fine, too. Your kids might get money on their birthday, and that's also an opportunity to teach them about saving and delayed gratification. Rather than let them spend it all, you can have them save all or part of it. You might open a savings account for them at the bank and take them with you to teach them about how it works.

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They're older and wiser now, and they're getting ready for college. This is an exciting time, but do they know how much tuition will cost? The average in-state cost of tuition and fees to attend a public college is nearly 75% less than the average sticker price at a private college, at $10,662 for the 2023-2024 year compared with $42,162, respectively. Comparatively, the average cost for out-of-state students at public colleges comes to $23,630.[1] While you probably don't expect your kids to pay for all of it themselves, they may be planning to take out student loans and work through college.

Whatever the case, they should understand both the value and cost of higher education and plan to make the most of it. It's important to discuss how much they may be taking out in loans and what this means for their future, as well as what they need to do to fill out a FAFSA form and when it's due. In addition, it's also important to discuss what costs they will be responsible for covering while in school and develop a plan for covering those.

Before your child goes to college, you may also want to teach them about credit scores and savings accounts. You might show them how much interest the money they put away has earned or may earn in the future. Explain how much interest they are currently receiving and encourage them to continue saving.

If you plan to give them access to a credit card when they go away to school, make sure to explain how it works and that it's not "free money." Maintaining or building a credit score is highly important for their future, so make sure they know that what they do with their credit now could benefit (or hurt them) years from now. College students may be able to get approved for a credit card of their own, but you may also be able to add your child as an authorized user on your credit line. This can help them build credit, establish good habits, and create credit history with your support. However, you do run the risk of them racking up charges that you ultimately have to pay.

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Even if your child isn't earning much income in college, there are still important opportunities for them to learn about money during this time. College is the first time they're on their own, and they will need to learn how to budget. If they have a job during the summer, college is a good time for them to learn how to budget that money so that it lasts the semester. This means not overspending on activities, parties, Uber, clothes, etc. If they get money from friends and family when they graduate, it's the perfect time to talk to them about what they can do with it, from saving it to using it for the initial costs of moving into an apartment when they start working.

The Roth IRA: A College Student's Best Friend

When your child is around 18 to 22 years old, it could be an opportune time for them to start contributing to a Roth IRA. Roth IRA contributions are taxed at current-year tax brackets but can be withdrawn tax- and penalty-free after age 59 ½ and having held the account for five years. Single filers making more than $161,000 and couples filing jointly making over $240,000 cannot contribute to a Roth IRA, but that probably isn't an issue for a college student. In 2024, those eligible and under age 50 can contribute up to $7,000 in earned income.[2]

Why Start Saving Young?

It wouldn't be surprising if one of the most important money lessons people wish they had been taught when they were younger is how compound interest works. While your child may have learned calculus and chemistry in their coursework, they probably didn't spend as much time on the **"rule of 72"** and how impactful saving can be in their financial futures. Because of the concept of compounding interest, it's often said that if two people save $100 per month for retirement, but one starts at 25 and the other starts at 35, the early saver will have nearly twice as much by age 65.[3] Now is the time to prove to them that a simple mathematical rule can prove the value of saving. For example:

72 / interest rate	At a rate of 3%	At 6%
Approximate years it takes the money to double.	It will take about 24 years for your money to double.	It will take about 12 years for your money to double.[4]

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Once your child is out of college, they may be ready to take a more active role in their finances. Once they start their first job, they should learn how to make a budget and continue, or start, saving for retirement. They should know where every one of their dollars is going and have a "big picture" understanding of how to build wealth.

Conversation About Investing

61% of surveyed Americans have some level of investment in the market, mostly through 401(k)s. However, there are major gaps for some subgroups.[5] In a survey, one-third of millennials said they'd choose real estate as their preferred investment for money they won't need for at least 10 years, with the stock market as their second choice at about 23 percent.[6] Given how powerful having an investment plan is, even if it's risk-averse, it's possible that your adult children may not be taking full advantage of their financial tools. Parents can have the power to change such behaviors in their children by teaching them how investments work, talking about risk, and explaining that investing isn't just for the ultra-wealthy.

Keep in mind that young people may not truly understand the risks of investing or the proper protocols for intelligent investing.
While a recent college grad giving investing "the old college try" is admirable, they could potentially be taking on too much risk by blindly making decisions or treating it as a game of betting rather than a true investment in their future. Explain the idea of a long-term investment strategy and the risks of short-term investing. This can be an effective way to introduce your financial advisor and explain why you use their services.

Create A Health Care Proxy

This is also a good time to make sure your child creates a healthcare proxy. A healthcare proxy, or proxy directive, is a legal document that assigns the healthcare decisions of an individual to another person in the event of that person's incapacitation. This is also sometimes called a living will or durable power of attorney. It can alleviate some stress or uncertainty around what may happen in the event of an unfortunate accident. It's easy to create a healthcare proxy with the aid of a medical professional and an attorney.[7]

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By now, your adult child probably knows quite a bit about how to handle their finances. Hopefully, they are getting established, and you can help them continue to build their wealth. You may discuss their strategy for buying a house, saving for their own retirement, paying off the rest of their student loans, and their investment strategy. It's also a good time to talk or begin a discussion about wealth transfer. There are several ways parents can transfer some of their wealth to their children during their lifetimes that could help reduce taxes on their overall estate. We can help you strategically transfer wealth within your family and facilitate conversations about how you want it used and your overall legacy goals.

Looking To The Future

The annual gift tax exemption limit is $18,000 in 2024. Individuals can gift up to $18,000 per person per year tax-free until the estate tax exemption amount is met.[8] The estate tax basic exclusion amount for 2024 is $13,610,000 for individuals and $27,220,000 for couples. Note that this limit could decrease when the Tax Cuts and Jobs Act expires or if we see policy changes regarding taxes and estates in the future.[9]

The Next Generation[10]

If you've been blessed with kids or grandkids, firstly, we offer our congratulations! As a way to meaningfully support them, you may consider setting up a college savings plan for them. One of the most common college savings plans is called the 529 plan. Once you contribute to a 529 plan, the funds can grow from investments and can be withdrawn tax-free for educational costs, from kindergarten to college. If you expect grandchildren, you can name your son or daughter as the account beneficiary. Then, if grandchildren come along later, you can name him or her the beneficiary instead. If you pass away, your adult child can take over the account and name their child as the beneficiary. If they do not end up having children, they or you can give the funds to any relative.

Contributing to a 529 plan can be a good way to pass on your values, as well as wealth. If you want to emphasize the importance of education and saving to your children and grandchildren, giving the gift of education with a 529 plan could be part of estate planning for your loved ones.

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By this point, your children may not necessarily need so much advice from you, but that doesn't mean you should stop discussing finances. This is the time to continue discussions about wealth transfer and tax minimization strategies with them, as well as how you would like to be cared for in your old age. You don't have to wait until you need care to have this extremely important discussion, and you should definitely think about your wishes before that time.

Talk to your children about whether you would prefer to live in an assisted living facility, a nursing home, or remain at home. If your children live far away, it's important to discuss the logistics of care and consider how much care they will be able to give you. Having a plan can help avoid crisis and confusion later, as well as conflict among siblings over these important decisions.

Since long-term care and estate planning can be intertwined, it's important to discuss how your potential long-term care needs could affect your loved ones. While it may be difficult to think about, you'll want to consider planning for a point when you can't do these basic tasks yourself. Furthermore, it's estimated that 70% of Americans age 65 and older will need long-term care at some point in their lives.[11] On top of that, long-term care can be expensive: When you consider that the average cost of a private room in a nursing home is a little more than $9,000 per month, covering long-term care costs can be a major financial burden.[12]

Whether you have a long-term care insurance policy, a long-term care annuity, or will use another type of insurance to cover potential costs, explain to your adult children how it works, how much care it covers, and how any remainder may or may not be passed onto them.

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Conclusion

Figuring out finances can be difficult, especially for younger people. Rather than bailing their adult children out of tough financial situations, parents might consider imparting money lessons to their children at any age. After all, give a man a fish and you feed him for a day. Teach him how to fish and he eats for life.

There's no reason to wait until your children are in their 60s to begin talking about estate planning and wealth transfer, long-term care, or your children's own retirement plans. There are important lessons to impart about money no matter how old your children are. We at VestGen Wealth Partners hope to see you and your kids in our offices as they get older and would love to facilitate any conversations about money that you might want to have with them. We want to provide you with the best and most comprehensive retirement planning services possible, so please get in touch with us at **GetRetiredStayRetired.com** and **(847) 907-9600!**

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