

Teaching Kids to Be Fiscally Fit

At every stage of your family's lifetime, there are money lessons to be learned.

One of the most valuable lessons parents can teach their children is how to be smart with their money. Here are three financial lessons you can share for each stage of youth, from when they're pre-teens to when they're earning an income of their own.

THE EARLY YEARS

You can start the conversation about money well before your kids are making financial decisions of their own:

- **Practice what you preach.** Kids pay more attention to what we do than what we say. Keep your own financial affairs in order, be it creating an emergency fund or keeping your financial documents organized – if they see you being wasteful or irresponsible, they'll think it's OK to do the same.
- **Talk with them about their own money.** When your kids get money for their birthdays or holidays, talk to them about

their choices – spending it, saving it, giving it to charity. To teach them the rewards of saving or giving, consider matching whatever they save or give.

- **Let them spend.** Remember, the goal is to teach them responsible decision-making – let them make their mistakes when the risks are low. Being too frugal and making them save all their cash can lead to as many issues as being too reckless.

THE TEENAGE YEARS

Even the busiest teenagers often have time for babysitting or a summer job. Work of any kind can be a valuable opportunity to teach teenagers about money.

- **Talk about taxes.** That first paycheck is an excellent time to walk them through why FICA and Social Security are withheld, and how they might get some of that income back when filing taxes. Your Baird Financial Advisor can help you with this conversation. ▶

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- **Teach them to pay themselves first.** It's never too early to start thinking about saving, and college is a good reason for teenagers to start putting money away. A simple rule is to pay yourself first by putting away the first 10% of every check.
- **Introduce them to investing.** As teenagers start to accumulate savings, now might be a good time to talk about basic investing concepts or even buy shares of a stock or mutual fund. Again, your Baird Financial Advisor can be a good resource here and can help explain the different savings vehicles, like a Roth IRA or standard taxable account. You may also want to teach your children how to read the financial news so they don't fall victim to scary headlines.

THE COLLEGE YEARS

The college years offer many spending and saving choices that can have a significant effect on your student's future financial well-being.

- **Explain how their education is being paid for.** Make sure they understand the implications of student loan debt, both on a monthly basis and over the long term. Discuss how different choices affect the cost of their education, such as whether they should live on campus or at home.
- **Teach them about budgeting.** College is the first time many of them will make important financial decisions on their own. The ability to establish a budget – and stick to it – is critical. Consider downloading an app on their smart phone to help with this process – there are a lot of unique budgeting apps that can drive positive behaviors in a digestible and even fun way.
- **Teach them how to use credit cards.** While having a credit card – and using it wisely – can help your teen build credit, the temptation will be there to treat a credit line as free money. Make sure you're monitoring the account and are willing to shut it down if it's not managed properly.

THE WORKING YEARS

It's time for the kids to put to use all the financial lessons you shared with them. Even though they may be out on their own, you still have a role to play in guiding them.

- **Explain how credit scores and revolving debt work.** At this stage, your adult children will likely be taking out their first auto loan or saving on a down payment for a house. Have a conversation about their credit score, how it affects future costs of borrowing and the impact of defaulting on debt. Your Baird Financial Advisor could be a good resource for building your credit record.
- **Review with them their employer benefits.** With that first job come important financial choices related to health insurance and HSAs, 401(k) or 403(b) retirement plans and budgeting. Much of this will be totally unfamiliar to them, and they might be overlooking benefits that can significantly boost their bottom line.
- **Teach them the value of saving early.** The idea of putting away money when you're just starting out might seem like a pipe dream, but don't underestimate the power of compounding. Saving even \$50 per month can be a positive experience as they watch their money grow over their lifetimes.

It's important to keep your children involved in your wealth management decisions throughout their lives, both for your sake and theirs. That starts with inculcating strong money habits in them – for the benefit of both of you.

Please reach out if you or anyone you know would benefit from discussing this topic further.

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