

Instilling Financial Responsibility in Children



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We all know the value of teaching our children financial responsibility. Knowing when to start and how to progress, however, can be challenging. Starting early to build a strong foundation of financial knowledge and independence can set them on a path to financial success and help avoid a “riches to rags” outcome for your family. Regardless of age, here are some steps you can take to encourage your children to be financially responsible:

Younger children

- **Play games.** Make it fun for your children by playing games like “store” (some children’s museums even have pretend grocery stores stocked with “goods”) and give your children a set amount of play money to spend. This helps them to learn about making choices, that things are not free, and can help reinforce the habit to make a purchase only if they have sufficient funds
- **Give an allowance.** An allowance provides the opportunity for your children to manage real money, albeit on a small scale. You may or may not choose to relate the allowance to the completion of a set of chores. You can provide guidance in how to use their allowance. To help them begin to understand how funds accumulate, ask them to designate a small portion of each allowance payment to savings (and perhaps even to charity). If they have a purchase they are interested in making, such as a toy or video game, you can help them develop a plan to put money aside each period, and show them how they are progressing to reach their goal.

- **Open a financial account.** Hand-in-hand with giving an allowance, have your children open an account to deposit their savings and any other money they receive as gifts or for jobs they do. Showing them how their money is growing will get them excited about savings, demonstrate the power of compounding, and help them learn the concept of balancing an account.
- **Provide earning opportunities.** You can help their savings account grow by compensating them for special or additional chores (if they have regular chores tied to their allowance). This will instill in them the concept that money needs to be earned through effort.
- **Show them your workplace.** Annually, the last Thursday in April is “Take our Daughters and Sons to Work Day,” but any time is a good opportunity to show how hard you work to earn money. This is an honored tradition at Palisade Capital Management, with helpful (and fun!) activities designed to engage, entertain, and, of course, educate our children.

Teenage years

- **Become a Budgeter.** This is a time when children often have big “asks” in terms of purchases. Get teens involved by asking them to either split the purchase price or perhaps save for the entire cost. You can teach the basics of developing a budget for sources of money and potential expenditures. If potential outflows outpace cash inflows, you can help them understand they must choose to either spend less, find a way to save or earn more, or delay certain purchases.
- **Get a job!** This is a great time to encourage your children to find opportunities to earn their own money in an age-appropriate way, such as baby sitting, lifeguarding, or working as a camp counselor or in a store. This teaches an important, and often surprising lesson about paychecks and the impact of tax and social security withholding.
- **Be charitable.** Many families have formal or informal beliefs regarding philanthropy and community. Talking about your values will encourage teens to share in your philosophy. Suggesting that they give to a cause they are interested in either monetarily or through volunteer involvement will build a lifelong commitment to philanthropy. For example, if your kids love animals, they may choose to get involved with a local animal shelter.
- **Plan for college.** When your children get closer to college, talk to them about college and the cost of public versus private schools. If you have expectations regarding a portion of the expense you expect them to cover, let them know so they can begin planning on how they will meet that obligation, either through work, scholarships, financial aid, or loans.
- **Take advantage of learning opportunities.** Many schools offer financial literacy or education classes, and some states, such as New Jersey, require children to take a financial literacy class in middle school or high school. If a class is offered but not required, encourage your children to take it. Some schools have investing clubs that help kids learn about different types of securities and investing, which can be a fun and educational way to learn about the financial markets and how they operate.

College age and beyond

- **Build a budget.** As your children approach the real world, reinforce the importance of a budget, the potential for unexpected expenses, such as healthcare or home repairs, and the importance of emergency funds.

- **Find part-time jobs/internships.** Just starting out can be hard, but building work experience can help make finding a full-time position easier. Discuss taking advantage of opportunities to improve your kids' marketability through part-time employment or internships, both paid and unpaid.
- **Develop a career plan.** This is an exciting time, and there are many choices to be made. Help your children evaluate their opportunities and the financial and non-financial rewards that different careers can provide.
- **Understand benefits.** As your children begin working, impress up them that the earlier they start saving for retirement, the more they will benefit from the power of compounding, especially if their employer provides a company retirement plan contribution match.
- **Introduce them to your financial advisor.** Make sure your children feel comfortable working with your financial advisor. Helping to establish a direct relationship with an expert will provide a resource for them to obtain objective advice and guidance.

Helping your children become financially literate provides the satisfaction and comfort that your wealth can be sustained for future generations. As your advisor, we will work with you and your family to help build your financial knowledge and expertise. If you have any questions or would like to arrange a time to speak, please reach out to us at (201) 585-7733 or via email at clientrelations@palcap.com.

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