

Wealth Management Update

Teen Finance: Parental Guidance Suggested

Katherine W. Dean, CFP®, Managing Director of Regional Planning

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A recent study where Americans were tested on their knowledge of basic financial and retirement topics found that over a third of the respondents failed the 10-questions quiz outright.ⁱ More significantly, younger Americans scored lower on the quiz than older consumers. This study and others like it point to growing evidence that many of our children and young adults may lack the financial education they need.

While programs like Wells Fargo *Hands on Banking*® and Jr Achievement® have made strides to help close the financial literacy gap, the onus remains on parents. It is never too early to teach your children about the value of money and planning ahead. This message is perhaps most important to deliver to those in high school. Habits built now will stick with them into college and beyond, and sharing your wisdom can help set them on the path toward career and financial success. Below are five important financial lessons to impart on your high school student.

1. Budgeting matters

Your teenager likely has a part-time job or receives an allowance, so it is a pretty good bet they understand what it means to have money in their pocket. But do they know what things actually cost? While they likely understand the cost of movies, coffee, and gas, have they given much thought to power bills, car insurance or groceries?

The fact is that to a high school kid much of this infrastructure is taken for granted and may be a complete mystery. Your job is to help make this tangible. Take them to the grocery store and have them help you shop. Then show them how these expenses fit into the bigger picture. Explain that learning how to create and maintain a budget—a plan for your income and expenditures—can help keep track of spending and saving.

Here's an object lesson famously perpetrated by legendary TV dad Cliff Huxtable. Sit down with your child, have them pick a career, and determine what the monthly income will be for that job (after taxes). Then break out the monopoly money and actually hand it to them. Subtract the expenses based on their desired "grown-up" lifestyle, and start throwing some real-life scenarios and tradeoffs at them. This exercise can be very eye opening as your child has to work through some tough choices. It certainly worked on Theo.

2. Practice makes perfect

Make an effort to get your child some real-world experience with banking, credit, and saving while they are still in the confines of your home and under your watch. Your child should have a checking account and be paying some bills on their own now. Walk them through balancing that checkbook. Maybe co-sign on a credit card (and then diligently monitor those statements). And the next time they come to you asking for money for a new purchase, help them set up a savings plan to buy it for themselves. Many of these steps may already be taking place at your house (and that's great), but the key is to be deliberate about them. Participate **with** your children, ask questions, and be a resource.

3. Building and maintaining your credit score takes work

This is an extremely important topic. Many people end up with a poor credit history by making a few bad decisions. With missed payments or other negative marks typically retained on a credit history for seven years, these decisions can impact your credit score for a long time. No one wants a few late payments or unpaid parking tickets increasing the interest rates to an auto loan or affecting their ability to get credit at all. The small stuff matters.

The good news is that technology makes monitoring your bank account or pulling your credit report incredibly simple. Ask your kids to consider setting up low balance text message alerts, downloading the Wells Fargo Smartphone app or signing up for a credit monitoring service.

4. Saving is a discipline

Parents should consider teaching a savings discipline when their children are young to establish the habit. My colleague, WBR Chief Investment Officer Dean Junkans, suggests changing the messaging from "live within your means" to "live **under** your means." Teaching your children that saving is a key component of any budget can increase the changes that funds are available to cover unexpected emergencies or long-term financial goals, such as a new car or a down payment on a home.

It may seem a long way away, but part of the saving discussion needs to cover basic understanding of retirement savings. Do not assume your child understands the impact of compound interest or investment returns over time. A simple illustration comparing the outcomes for someone who starts saving early vs. someone who procrastinates can really enunciate this point.

5. Time is on your side

Being young, our children may not yet appreciate this next piece of advice, but the one overwhelming advantage they have is time. For financial matters like retirement savings to picking a career, they should use this asset to their advantage. Study hard, stay focused, learn about career options, be proactive with finances, and work to create a successful future. There is only one person who has a say in how far they can go in life and they need constant reminders on who that person is.

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ⁱ LIMRA: A Third of Americans Fail Financial Literacy Quiz, 04/29/13

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