



Harlow
WEALTH MANAGEMENT

AGE 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 lessons to teach your children about finances at any age. There's no need to tell them how much money you make, or never spend a penny so they have it all, but 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. These 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.



Ages 5-13

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. 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.



Ages 14-17

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 cost of tuition and fees is about \$41,400 at a private college and \$11,170 at a public college.¹ This may not include all expenses in college. While you probably don't expect your kids to pay for all of it themselves, they may be planning to take out student loans, or cover the cost of books. Whatever the case, it's important that they understand the cost and value of going to college, 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, what they need to do to fill out a FAFSA form and when it's due if your family plans to fill it out, and what costs they will be responsible for covering while in school.

Before your child goes to college, you can also teach them about credit scores and savings accounts. You might show them how much interest the money they put away years ago has earned, 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, that it's not "free money," and how important a credit score is. College students often can't get approved for a credit card of their own, but you may be able to add your child as an authorized user on your credit card. This can help them build good credit. However, you do run the risk of them racking up charges that you ultimately will have to pay.

Ages 18-22

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.

¹ <https://www.usnews.com/education/best-colleges/paying-for-college/articles/what-you-need-to-know-about-college-tuition-costs#:~:text=In%20looking%20just%20at%20schools,according%20to%20data%20reported%20to>

THE ROTH IRA: A COLLEGE STUDENT'S BEST FRIEND

When your child is around 18 years old to 22, it could be an opportune time for them to start contributing to a Roth IRA. Roth IRA contributions are taxed, and then can be withdrawn after age 59 1/2 tax-free.² Single filers making more than \$140,000 and couples filing jointly making over \$208,000 cannot contribute to a Roth IRA, but that probably isn't an issue for a college student. In 2021, those eligible and under age 50 can contribute up to \$6,000.³

WHY START SAVING YOUNG?

The number one lesson young adults reportedly wish their parents had taught them earlier was how compound interest works. Those asked believed in saving and wish they had known how to do this sooner.⁴ Your child probably learned the "rule of 72" in math class. Now is the time to prove to them that they can actually apply something they learned in math class to their lives. For example:

- ◆ $72 / \text{interest rate} = \text{approximate years it takes the money to double}$
- ◆ At a rate of 3%, it will take about 24 years for your money to double
- ◆ At 6%, it will take about 12 years for your money to double.⁵



² <https://www.investopedia.com/terms/r/rothira.asp> ³ <https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-topics-ira-contribution-limits>
⁴ <https://www.credit.com/blog/5-things-new-grads-wish-their-parents-had-taught-them-about-money-118999/?amp>
⁵ <https://www.cnbc.com/2020/01/28/what-the-rule-of-72-is-and-how-it-works.html>

Ages 23-29

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

Only about 14% of American families are directly invested in individual stocks, even though 52% have some level of investment in the market, mostly through 401(k)s.⁶ Why is there a massive gap? In one study, 45% of millennials said they didn't have enough money to invest. 16% said they didn't want to, 12% said they didn't know how to, and 6% said they wouldn't have time to manage investments.⁷ Parents can have the power to overcome these attitudes in their children by teaching them how investments work, talking about risk, and explaining that investing isn't just for the ultra wealthy or old people.

Other millennials are investing, sometimes on their own with little to no guidance. While your recent college grad giving investing the old college try is admirable, they could potentially be taking on too much risk by blindly making decisions. Explain the idea of a long-term investment strategy, as well as the dangers of apps like Robinhood. This can be a good 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 health care 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.⁸ It can alleviate some of the stress in very stressful situations by providing family members with a course of action if their loved one isn't able to make decisions for themselves. It's easy to create a health care proxy with the aid of a medical professional and an attorney. We can help you with this process and make sure everyone in your family has a document.

⁶ <https://www.pewresearch.org/fact-tank/2020/03/25/more-than-half-of-u-s-households-have-some-investment-in-the-stock-market/>

⁷ <https://finance.yahoo.com/news/43-millennials-aren-t-investing-090000387.html>

⁸ <https://www.investopedia.com/terms/p/proxydirective.asp>

Ages 30-39

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 about wealth transfer, or even begin it. 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 what you want it to be used towards and your overall legacy goals.

LOOKING TO THE FUTURE

The annual gift tax exemption limit is \$15,000. Individuals can gift up to \$15,000 per person per year tax-free, until the estate tax exemption amount is met. The estate tax basic exclusion amount for 2021 is \$11,700,000 for individuals, and \$23,400,000 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.

THE NEXT GENERATION

Your own care isn't the only thing to discuss – perhaps you've been blessed with grandchildren, in which case we offer you congratulations! You may consider setting up a 529 for your grandchildren if you have them. Once you contribute to a 529 plan, the funds can grow and up to \$10,000 per year can be withdrawn tax-free for educational costs, from Kindergarten to college.⁹ If your grandchild isn't born yet, 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.

⁹ <https://thecollegeinvestor.com/21959/529-plan-private-school/>

Ages 40-55

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. Unfortunately, long-term care can be very expensive: The median annual cost for an assisted living facility is over \$48,000, and the median annual cost for a private room in a nursing home is over \$102,000.¹⁰ Someone 65 years old has an almost 70% chance of needing long-term care at some point.¹¹ 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.



¹⁰ <https://www.morningstar.com/articles/957487/must-know-statistics-about-long-term-care-2019-edition>

¹¹ <https://longtermcare.acl.gov/the-basics/how-much-care-will-you-need.html#:~:text=Someone%20turning%20age%2065%20today,bathing%2C%20and%20using%20the%20bathroom.>

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 60's 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 hope to see and your children in our offices as they get older, and would love to facilitate any conversations about money that you might find difficult with them. We want to provide you with the best and most comprehensive retirement planning services possible, so please get in touch!



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