

3 Strategies for Teaching Teenagers About Money

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As an adult, it's easy to forget that teenagers might not know as much as they let on when it comes to how money works. We asked Baird's Director of Advanced Planning, Tim Steffen, for his advice on raising financially savvy teens.

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For more advice on guiding children to make smart financial decisions, be sure to check out "Teaching Kids To Be Financially Fit" on bairdwealth.com.
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What you should know:

Walk Them Through the Basics

Start by showing them a pay stub and explaining what taxes are and how payroll deductions like health insurance premiums and retirement plan contributions work. If you're comfortable with your teen getting a glimpse of your finances, you could also show them a monthly bank statement highlighting both money coming in and money going out, plus how to write a check and use an ATM. These could lead to valuable discussions about careers, spending and deferred gratification.

Tim's Tip: "Showing a child just how much they really keep per hour of work can help them make better decisions when it comes to impulse purchases."

Set Up a Personal Savings Account

While having a high-level understanding of the basics is a good start, the best way to learn is still by doing. Deposit money they receive from gifts, allowances or neighborhood jobs into a savings account in their name – and let them manage it. Help them create a budget that tracks income plus what they're setting aside for savings and spending. As a bonus, show them the value of "paying themselves first" by having them contribute a certain amount every month into a college education or retirement fund. By managing their own bank account, teens can experience firsthand, with little long-term risk, how easily money can be spent (or misspent) and how to balance personal spending against a regular monthly expense. ▶

Tim's Tip: "Be sure to let kids enjoy the rewards of working too. For example, agree that some of each check must be saved, but the rest can be spent however they choose."

Growing Up in a Cashless Society

With so many financial transactions occurring online or on credit, it can be hard for teenagers to see the real-world impact of spending choices. Explain how credit cards work, including the dangers of making minimum monthly payments and falling into debt. Just as importantly, stress the benefit of giving and contentment: It can be easy to get a distorted view of real life from Facebook vacation posts and YouTube videos. Perhaps the greatest financial lesson you can teach your teens is how to stay grounded.

Tim's Tip: "This all starts with parents setting a good example themselves by properly managing their own finances."

What you should do now:

It's important to remember that learning to be a financially responsible adult doesn't happen in just one sitting. The best way to make a lasting impact on your teen's understanding about money is through regular conversation and modeling the financial behavior you want to see. Your **Baird Financial Advisor** can help steer these discussions with your kids as well as clear up any misunderstandings you yourself might have. ■