Having the Money Talk with Your Children

How much financial knowledge do they have?

Provided by Kestler Financial Group

Some young adults manage to acquire a fair amount of financial literacy. In the classroom or the workplace, they learn a great deal about financial principles. Others lack such knowledge and learn money lessons by paying, to reference William Blake, “the price of experience.”

Broadly speaking, how much financial literacy do young people have today? At this writing, some of the most recent data appears in U.S. Bank’s 2016 Student and Personal Finance Study. After surveying more than 1,600 American high school and undergraduate students, the bank found that just 15% of students felt knowledgeable about investing. For that matter, just 42% felt knowledgeable about deposit and checking accounts.[1]

Relatively few students understood the principles of credit. Fifty-four percent thought that having “too many” credit cards would negatively impact their credit score. Forty-four percent believed that they could build or improve their credit rating by using credit or debit cards. Neither perception is accurate.[1]

Are parents teaching their children well about money? Maybe not. An interesting difference of opinion stood out in the survey results. Forty percent of the parents of the survey respondents said that they had taught their kids specific money management skills, but merely 18% of the teens and young adults reported receiving such instruction.[1,2]

A young adult should go out into the world with a grasp of certain money truths. For example, high-interest debt should be avoided whenever possible, and when it is unavoidable, it should be the first debt attacked. Most credit cards (and private student loans) carry double-digit interest rates.[3]

Living independently means abiding by some kind of budget. Budgeting is a great skill for a young adult to master, one that may keep them out of some stressful financial predicaments.

At or before age 26, health insurance must be addressed. Under the Affordable Care Act, most young adults can remain on a parent’s health plan until they are 26. This applies even if they marry, become parents, or live away from mom and dad. But what happens when they turn 26? If they sign up for an HMO, they need to understand how out-of-network costs can creep up on them. They should understand the potentially lower premiums that they could pay if enrolled in a high-deductible health plan (HDHP), but also the tradeoff – they might get hit hard in the wallet if a hospital stay or an involved emergency room visit occurs.[3,4]

Lastly, this is an ideal time to start saving & investing. Any parent would do well to direct their son or daughter to a financial professional of good standing and significant experience for guidance about building and keeping wealth. If a young adult aspires to retire confidently later in life, this could be the first step. A prospective young investor should know the types of investments available to them as well as the difference between investments and investment vehicles (which many Americans, young and old, confuse).

A money talk does not need to cover all the above subjects at once. You may prefer to dispense financial education in a way that is gradual and more anecdotal than implicitly instructive. Whichever way the knowledge is shared, sooner is better than later – because financially, kids have to grow up fast these days.

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Citations.

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