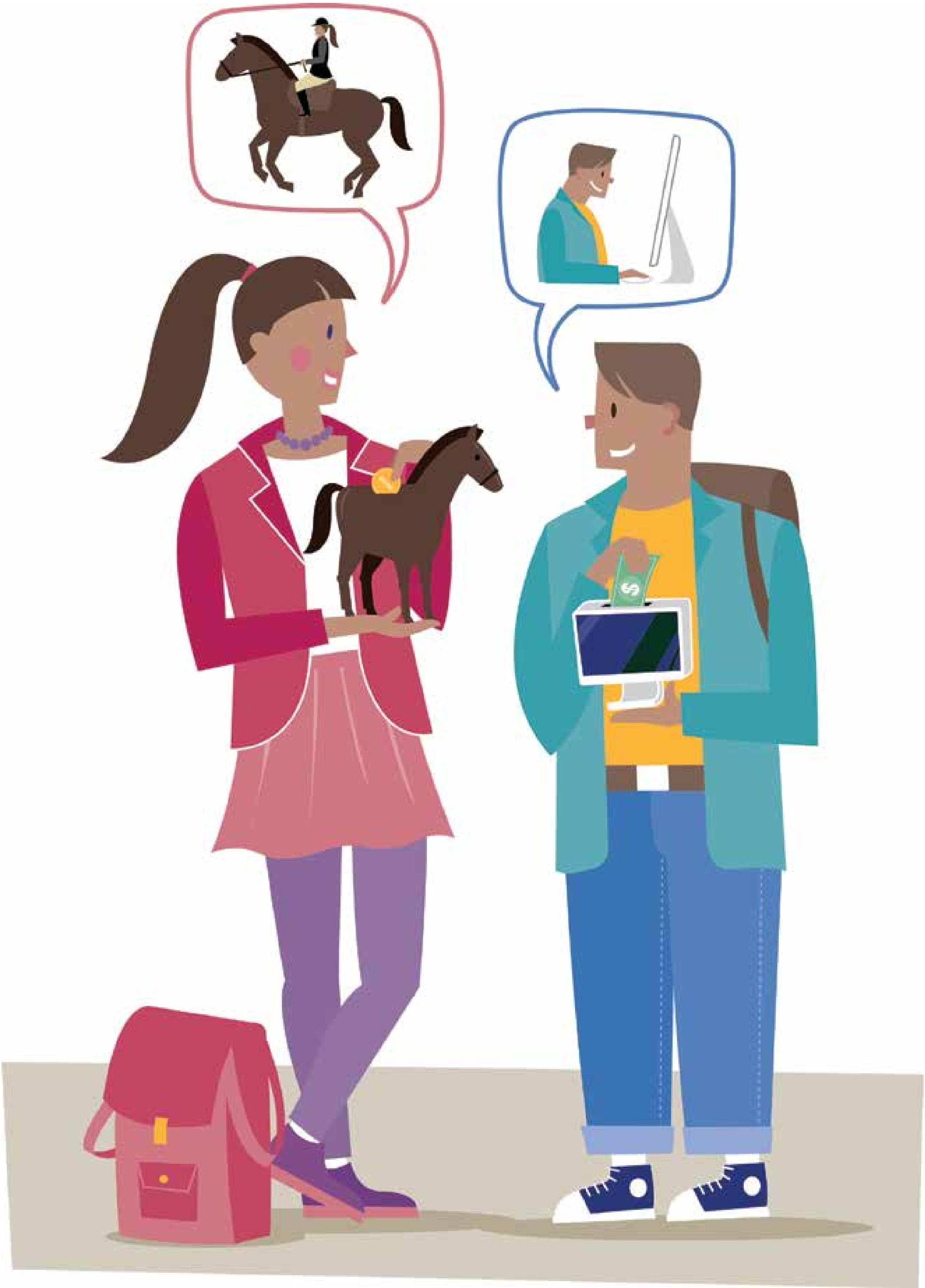

Illustration by Ronald Slabbers

Jump-Start Your Teen's Financial Future

Setting and achieving goals can be a powerful way to teach teens and young adults about wealth management.

On October 1, 1932, in the top of the fifth inning in Game 3 of the 1932 World Series, Babe Ruth went to bat against the Chicago Cubs at Wrigley Field. According to legend, Ruth pointed to the center-field bleachers as if to predict a home run. Sure enough, when the next ball raced over home plate, his bat hit it with a loud crack, launching it over the center-field wall.

Regardless of whether he truly called his shot, the story demonstrates the power of goal setting. Whether you're aiming for the center-field bleachers or an early retirement, a time when you pass the business on to the next generation or spend more time on your philanthropic activities than your business, you know that your chances of getting there are greater if you know in advance where you're going and when you want to arrive.

The trouble is, many young adults don't have articulated goals — especially when it comes to money. According to the Financial Industry Regulatory Authority (FINRA) Investor Education Foundation's 2013 study, *Financial Capability in the United States*, measures of financial capability are markedly low among 18- to 34-year-old Americans. They are more likely than Americans aged 35 and older to declare bankruptcy, withdraw money prematurely from retirement accounts, overdraw checking accounts, utilize costly credit card borrowing methods and struggle with managing short-term unexpected expenses.

As parents, you may help ensure your teenaged and young adult children don't follow this pattern. It's all about financial education, intervention and goal setting — teaching your kids to aim and hit a home run with money like The Bambino did with his bat.

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– Darren Markley

THE GOAL OF FINANCIAL GOALS

Teaching children to set and pursue their own financial goals allows them to learn money management by actually managing money. Whether they eventually take the reins of the family business, go out on their own or sit on a board, the basics of money management, revenues and expenses can be learned early on for potentially greater success. “Rather than stand in front of a podium and tell your children how to do things, create experiences for them so they realize wealth doesn’t just happen; people work hard for it,” says Darren Markley, Managing Director for The Private Client Reserve in Denver. “You want children to have a stake in the outcomes and be emotionally invested. Otherwise, they may lose sight of the value of money because there’s no work put behind it.”

Learning to be good stewards of their own money can teach children to be responsible with the family’s wealth so it may be successfully passed down to future generations. It also may teach them to be productive members of society.

“Goal setting can offer huge rewards in many areas of life,” says Kristen Armstrong, Managing Director and Strategic Wealth Coach at the Center for Wealth Impact within Ascent Private Capital Management of U.S. Bank. “It not only may help them be wise users of wealth, but can also help them develop skills and tools for adult living. They can develop a sense of competence and the ability to navigate the complex economic systems they find themselves in.”

Indeed, there may be psychological benefits from achieving financial goals. “Quite often I see children who mismanage money experience self-esteem problems later in life,” says Naoko Huffman, Senior Wealth Planner for The Private Client Reserve in Seattle. “Setting and reaching a financial goal may teach children to be disciplined and can build their self-confidence.”

GOOD FINANCIAL GOALS FOR TEENS AND YOUNG ADULTS

Appropriate goals for teens and young adult children could involve earning money through employment or investing, giving money through philanthropy, or saving money to buy something.

Goals can be short-term (e.g., saving up for a new video game, a spring break trip or the down payment on a car), medium-term (e.g., saving for college) or long-term (e.g., saving for retirement). Ideally, parents should help children set all three types of goals. Huffman says the best goals — regardless of their term and regardless of one’s age — are always SMART: specific, measurable, achievable, relevant and time-based.

That’s not to say goals should be easy. The smartest ones are often challenging enough to require a little parental support, which allows parents and kids to collaborate. Expecting a child to fund 100 percent of his or her college tuition, for example, isn’t SMART because it isn’t attainable. Since many families set aside funds for college, expecting a child to fund a portion of his or her living expenses may be realistic and challenging, not to mention measurable, relevant and time-sensitive.

FINANCIAL GOAL-SETTING STRATEGIES FOR SUCCESS

Parents should begin having conversations about money — around goals, needs and wants, and how money works — as soon as their kids are old enough to understand the concept. Still, it's never too late to start, even if children are already in college. These strategies may help:

Talk about your own goals. "As parents, share what you're saving for, what you're sharing with others, and how you make decisions about what you do and don't spend on yourselves," Armstrong says. "By the time they're teens, most kids have experienced asking for something that their parents aren't willing to buy. Instead of saying, 'We can't afford that' — when you can — I encourage parents to say, 'We could afford it, but we have other priorities.'"

Give children choices. Children who know in advance what finite resources they'll have available to them are more likely to engage in financial goal setting. Armstrong recalls one family that offers each of their kids a lump sum of money for college. At age 16, the parents tell their kids how much money they will receive and that unused funds can be used later for the investment of their choice, whether it's graduate school or a down payment on a home. This helps children think more proactively about how they can make choices, such as going to a less expensive college or applying for merit-based scholarships, to maximize their post-college payout.

Families may achieve the same effect by assigning their kids financial projects that empower them to make choices with money. "If your family is going on vacation next summer, give your teen a budget and ask him or her to come up with ideas within those parameters," Armstrong suggests. "Your child can then report back to the rest of the family for input about things he or she might not have considered."

Create a budget. "When setting a new goal, children should create a budget to evaluate their current spending habits and understand their cash flow," Huffman says. "After they create a plan, parents should review it with them on a regular basis to help them monitor their progress and make adjustments when necessary."

Offer matching funds. Incentives are persuasive teaching aids. Parents can offer a certain percentage match on total savings or a dollar-for-dollar match on earned income. "Utilizing incentives encourages kids to focus on the right behaviors," Markley says. "What's important is the child isn't just getting the money; they have to work at saving it."

Demonstrate the time value of money. Teaching children about investment income, by establishing and contributing to an IRA in their name or opening a mock brokerage account, can interest them in financial goal setting by illustrating the time value of money. Because invested funds may grow faster than money in a traditional savings account, they can offer an accelerated path toward meeting established goals, keeping children engaged. "If you show that different investments have different rates of return, kids will think about how to impact future outcomes," Markley says. Your Wealth Management Advisor can help you help your children based on where they are on their financial learning curve.

In supporting your children through financial goal setting, you may increase the odds of a home run instead of a strikeout. "We shouldn't presume that our kids will have the same relationship with money that we have," Markley says. "Instead, we must intentionally create teaching moments for them so they can be effective stewards of wealth when the time comes." ■

Recovering from Financial Fumbles

Everyone makes mistakes. Your children are no exception when it comes to financial goal setting. Consider these guidelines for turning short-term stumbles into long-term successes:

- **Let them fail.** If your son is saving up for a new bike and doesn't meet his goal, "swooping in and giving him the money reinforces the worst behaviors," says Darren Markley of The Private Client Reserve.
- **Help them pick up the pieces.** When they fail, help children determine where they went wrong and encourage them to set a new goal and action plan. "Instill in your children that you do expect mistakes to be made, but you expect them to stand up after they stumble and correct them," says Kristen Armstrong of Ascent Private Capital Management. "That can make them truly capable, self-confident children and, eventually, adults."
- **Know when to intervene.** The line between letting your kids learn and protecting them can be blurry, so you need the wisdom to know which action is appropriate and when. A good rule of thumb is duration of consequence. Allowing your daughter to fail to purchase a new iPhone, for instance, causes short-term disappointment; allowing her to accumulate credit card debt has long-term implications. "Let the failures be on short-term goals with less impact," Markley suggests.