Next Gen Money Tips

By Trey Pittenger

Our clients frequently seek guidance on best practices for saving, spending, and overall money management for their children. The following concepts provide a solid foundation for addressing these questions.

Set a Good Example

As parents, it's crucial to remember that our children observe our financial behaviors. If we argue about money or constantly worry about it, our kids will notice. Conversely, if we handle our finances harmoniously and make confident, well-thought-out decisions, they will notice that too. Money habits in children are often formed by age 7, but these habits continue to evolve well into adulthood.

Provide a framework for them - The Five Uses of Your Money

Understanding how to allocate earnings is fundamental. Simplistically, every dollar we earn can be used in one of five ways:

- To Live (spend)
- To Give (charity/other)
- To Pay Debt
- To Pay Taxes
- To Save

For teens and young adults, we recommend the following allocation ranges:

- Live (spend): 40-60%
- Give (charity/other): 1-10%
- Debt: 0-10%
- Taxes: 0-15%
- Save: 10-15%

As they grow older and incur healthy debts (e.g., a mortgage) or face higher taxes due to increased earnings, adjustments may be necessary. But the basic concept of saving and giving first, before spending, can be quite powerful.

Ensure they know the 8th Wonder of the World - Compound Interest

Albert Einstein famously called compound interest the eighth wonder of the world, stating that those who understand it will earn it, while those who don't will pay it. Understanding and utilizing compound interest is crucial for long-term financial success, especially for young investors who benefit from the advantage of time. The power of compound interest lies in time and consistency. Starting early and regularly contributing to an investment account maximizes the compounding effect over time.

Encourage them to avoid consumer debt

Consumer debt can significantly hinder long-term financial success, with credit cards being the most common form of such debt. Credit cards not only leverage compound interest against the borrower but also involve spending money that isn't available. It's essential to teach children to spend only what they have, which practically means using debit cards instead of credit cards. Encourage them to avoid consumer debt, especially debt not tied to an asset.

In Summary

Money is an integral part of our lives. Achieving a harmonious relationship with money, understanding how to manage it, and allocating it wisely allows us to focus less on financial worries and more on what truly matters: relationships. By instilling these foundational money principles in our children, we prepare them for a financially stable and successful future.

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