

Preparing Teens for Financial Adulthood

Learning how to properly manage money is a crucial life skill that can take years to develop. For teens who may be earning an income for the first time, there can be a steep learning curve when it comes to financial literacy, but laying the foundation for this education early can help establish healthy financial habits that carry into adulthood. You can guide your teen by teaching them the basics of money management at home to help them build a strong foundation of financial literacy and avoid financial pitfalls along the way.

1. Foster a habit of saving

Whether it's an allowance or their first paycheck, as soon as your teen starts earning money teach them the importance of saving. A good rule of thumb is to encourage your teen to start by saving 10% of their earnings. They may eventually want to work up to 15% to 20% — the rate many experts recommend for adults.

Explain to your teen how savings provides a safety net if something unexpected happens. It can also help them reach long-term goals, like buying a car or paying for college. Saving to reach goals can help teens learn how to balance wants versus needs by teaching them to forgo immediate gratification to achieve longer-term objectives.

2. Help your teen create their own budget

Budgets are critical tools that help your teen spend their money thoughtfully. Introduce them to the concept by walking them through your own budget process. You don't have to use exact dollar amounts if that makes you uncomfortable. But it can be helpful to teens to see that you set aside money to cover fixed bills like utilities and car payments, earmark other money for savings and have a pool of cash you draw on for discretionary spending. Then, help your teen create their own budget.

To keep it simple, start with a basic income and expenses tracker that can help highlight the differences between fixed and discretionary expenses. Fixed expenses might include auto insurance payments or putting a certain amount away each month to go toward college. Have your teen total their monthly fixed expenses and subtract them from their monthly income. Any income left over is considered discretionary and can go toward more fun purchases.

Encourage your teen to keep track of their spending and talk through strategies for keeping expenses low, such as comparing prices and resisting peer pressure to get the latest iPhone or pair of designer shoes.

3. Have a talk about credit

Credit cards are alluring and can seem like free money to teens, but that couldn't be farther from the case. Explain how credit card companies use interest rates to charge you for the ability to borrow. Explain the importance of paying off your credit card in full each month and how high-

interest rates can cause your debt to compound quickly if you carry a balance from month to month.

Talk with your teen about how to build their credit score by reliably paying bills. Consider teaching your teen about credit by opening a secured credit card, which is backed by a cash deposit that limits how much they can spend. A secured card is a safe way to help your teen get into the habit of paying bills monthly, and it helps build up their credit score at the same time.

4. Be a role model

Your teen is always watching your actions and behaviors. Reflect on how you can set a good example in the way you manage your own finances. Do you have a habit of making purchases without consulting your budget first? Or do you sometimes take on more debt than you should? Talk with your teen about your own relationship with money, how you make your spending decisions, and the financial mistakes you made when you were younger.

Developing smart financial habits starts at home. Help guide your teen by fostering saving habits early and openly discussing budgets, credit cards, and your own financial decisions.

Sources:

<https://www.consumerfinance.gov/consumer-tools/money-as-you-grow/teen-young-adult/explore-saving/>

<https://www.dol.gov/sites/dolgov/files/ebsa/about-ebsa/our-activities/resource-center/publications/savings-fitness.pdf>