# Preparing your kids for financial success—an age-based guide

Take advantage of teachable moments to prepare your children

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As a relationship executive at Vanguard, I speak with our clients every day about investing and complex wealth management topics. One question I commonly hear from families is "Paul, how do I raise my children to have strong financial literacy skills?" As a father of 2 young men, ages 21 and 27, I understand all too well the pressure to help them become financially literate adults. So this theme resonates not only in my career, but in my personal life as well.

In my home, we've always maintained an open culture of communication, and we talked about money management early and often. Teaching good financial habits, such as saving and budgeting, is one of the best ways to prepare children to have a secure financial future. We often discussed staying debt-free and investing to meet goals, such as large future purchases and even retirement. These are only a few examples of the concepts we covered, but the journey continues to this day.

Teaching kids to establish sound money management skills and strong financial acumen is important, regardless of wealth level. The good news is that Vanguard offers tools and resources to help guide families in these discussions. And during this time when many families are spending more time together at home, now is a great opportunity to use some of the activities below.

## **Younger children (under age 11)**

A great way to begin to teach younger children about money is to explain its value and its function in the world. Kids often focus on rewards-based systems, where they earn a reward for good behavior or academic achievement.

Use this time to teach them how to earn money as a reward and divide it into 3 categories: spend, save, and give. For example, spending may be related to buying a fun treat or toy, saving could be taught as a way to buy something they really want in the future, and giving is how you help those in need.

**Activity: "Money jars"**

1. Set up 3 separate containers for "bank accounts" and label them Spending, Saving, and Giving.
2. Each week, offer opportunities to earn money by using real-life experiences, such as listening well, completing homework early, or doing simple chores.
3. At the end of the week, count how much money they've earned in each category.

**Tip**: Sometimes when sharing the concept of saving with your child, it can be helpful to explain you're "paying yourself for something fun in the future" and relating it back to an age-appropriate concept they can understand.

You can make tweaks to this activity along the way. For example, if your child puts extra money into their Saving jar, you could provide a few additional dollars to help them understand **compounding interest**—how saving money can help them earn more over time. If they receive money as a gift for a holiday or celebration, bring out the money jars for a refresher. Repetition and reinforcement become important in learning any discipline, especially money management skills.

## **Preteens and young adults**

Parents often associate the tweens and teens as the years their kids desire more independence and more options. In this case, tying money management and financial literacy to something relevant in their lives can help keep them engaged. For example, I know that many young people are interested in gaming, so try to relate investing to playing a game. Before they start the investing game, provide them with an overview of the concepts of stocks, bonds, and cash, and how they operate differently, like different players in a game. The different players in the game all act together to form an investment strategy. Our [Family Legacy knowledge center](https://investor.vanguard.com/family-legacy-services/knowledge-center) has multiple resources to help with this discussion.

Depending on a child's age, engagement, and appetite for these discussions, consider introducing the concept of building model portfolios. Review [model portfolios](https://investor.vanguard.com/investing/how-to-invest/model-portfolio-allocation) that show different asset allocations, and then have each family member choose a portfolio. Once a family member chooses a portfolio, discuss what stood out to them about the portfolio. This will help reinforce the importance of asset allocation and diversification.

**Activity: Investment simulators**

1. Google the phrase investment simulators; many are available online.
2. These simulators allow you to invest in different securities and monitor their performance over time.
3. Have frequent conversations with your child about their portfolio's performance. How would they feel if those were real funds in the market they "lost" or "gained"? This can help reinforce the concept of risk and reward in investing.

## **College graduates and beyond**

At this stage, they may be ready to digest more advanced topics. Discuss the importance of [goals-based investing](https://about.vanguard.com/what-sets-vanguard-apart/principles-for-investing-success/) by asking them to think about the next big purchase they want to make—are they saving for a car, a down payment for a home, or even setting aside money in an IRA for future retirement?

Ask: What is their time frame for that investment? When do they want to reach that goal? This helps teach the importance of time horizon as it relates to investing; the longer a person has to save and invest, the greater the likelihood for success in reaching their goals.

Depending on their current situation, they may also have student loans to pay back. Budgeting may become a critical topic at this time, and sitting down with them to create that budget can be helpful. This is another important component of financial literacy and money management, and attaching it to an important life stage can make it all the more relevant.

## **Summary**

As I said at the beginning, the journey of teaching my sons good money management skills and financial and investment literacy continues to this day. During the COVID-19 pandemic, I've spoken with many of our clients who are using this extra time with their children to discuss these concepts. It's never too late to begin communicating—start as soon as you can and make learning as relevant to their age and life stage as possible.

If you have any questions, Vanguard is here to help provide the resources to help you—and your family—thrive and grow.

To learn more, check out this brief video of Vanguard clients Sianna and Collin speaking about raising financially literate adults.