

TEACHING YOUR TEENAGERS ABOUT MONEY

OPEN A ROTH IRA AND MATCH THEIR CONTRIBUTIONS

If your child has a part-time job, one of the easiest ways for them to start saving is by opening a Roth IRA. Any earned income (e.g., wages, salary, tips) is eligible for contribution to a Roth IRA. The maximum contribution is currently \$5,500 per year. One way to incentivize saving is to propose *matching* any contribution they make to their Roth IRA. (Example: your child earns \$4,000 this year – if they contribute \$2,000 to their Roth IRA, you will match it with another \$2,000 so that their account is funded with \$4,000 in fully eligible contributions for the year). We suggest they open a Roth IRA with Vanguard or Schwab and choose something simple but broadly diversified like the Vanguard Life Strategy Growth Fund, which is a complete portfolio of low-cost index funds, all in a single account. A Roth IRA is a great tool for young adults to use early in their careers when they aren't earning much, don't need an upfront tax deduction (because it is funded with after-tax dollars), and grows tax-free over time.

LEARN TO BUDGET

Whether your kids are in high school or college, they should have a budget. Set them up with a savings and checking account. Rather than paying directly for all their general wants and needs (e.g., gas, clothing, movies, etc.), empower them with a monthly budget. First, have them prepare a detailed list of their estimated monthly costs, line item by line item. Then, come to an agreement on what seems like a fair monthly budget for them. Transfer this budget figure to their account at the beginning of each month and let them decide for themselves how it is spent or saved appropriately. Lastly, stick to it!

COLLEGE FINANCING

Rather than letting your teen consider college as a paid vacation, bring them into the college financing discussion early! Years before they start firing out applications across the country, they should know how your family intends to pay for college and what their role is. In-state versus out-of-state, public and private colleges - all have variable costs across the map. So, set the expectation ahead of time. Enlighten them on what you have saved and talk about how scholarships, grants, and loans fit into the financial aid picture. Any skin in the game may well help shape their appreciation for the daunting cost of college and hopefully give them more determination to graduate on time!

SUGGESTED READING LIST

The Richest Man in Babylon

Rich Dad, Poor Dad

The Investment Answer

The Millionaire Next Door