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Talking to Your (Adult) Kids About Finances (Video)

Neal French – Financial Advisor

In this conversation, Grimes & Company Financial Advisor Neal French discusses the importance of teaching your adult children about finances, focusing on how to communicate effectively with them about budgeting, saving, investing, mortgages, taxes, and credit. He emphasizes the need for early financial education and the importance of treating children as adults in these discussions to foster a healthy dialogue about money.

This is part one of a two-part series, and we will publish Part 2 around talking to your adult children about *your* finances. Until then, you can watch Part 1 below and view the full transcript below the fold:

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VIDEO TRANSCRIPTION:

Hello, I wanted to introduce myself. My name is Neal French and I'm an advisor with Grimes and Company. And the topic that I was going to discuss today is how to talk to your children about finances.

I think we could all look back and go, man, shoulda, woulda, coulda, you know, if there were opportunities when my kids were younger to maybe create an account for them and they could understand savings and all of those types of things, that would be great. And if that happened, then the conversation today is gonna build on that.

But what if we didn't? What if that was a missed opportunity? Now as they become adults, we really have to roll up our sleeves and talk to them about the things that we wish we would have known. If you just look at it through that lens, think about talking to them as a peer because you don't want them to shut off about certain things that maybe when they were younger they should have. Talk to them as an adult and give them the respect that is due there.

So first, going over savings and budgeting. This is a fundamental starter. Setting up your children with savings or checking accounts when they're young, it gets them to understand that idea of the money being out of sight, out of mind. if it's somewhere collecting, and God forbid interest, then they begin to develop that idea of, if it sits there, it'll grow. And if it grows, I can buy bigger things, better things. But having that conversation is better when they're younger, but if it happens when they're in their 20s, that's fine. Budgeting is crucial to the conversation. By the way, there are a lot of tools they can use. They're probably better at it than us, right? You have Mint, you have Monarch, Quicken, Every Dollar.

It doesn't matter what they use. It's the fact that they use it and learn why they're using it.

They need to understand investing better than the sound bites that are on TV. What are stocks? What are bonds? What is asset allocation? You don't need to be Warren Buffett to answer some basic questions here. A lot of people, myself included, started their kids at a young age with stocks. If you don't have that ability, teach them as adults.

Use the rule of 72 to talk to them about time value of money. 72 is actually 72 divided by the rate of return. If it's a 7% rate of return, it's 72 divided by 7. That will teach them about the importance of growing money. That leads to retirement accounts. Start early and start a lot. Because if they start late, if they are already working, already collecting a check, and then they begin to do 401(k)s they might miss that budgeted money. If they start it sooner, they won't miss that money that they don't see going straight to their retirement accounts. And then going back to rate of return, time value of money, you can use that rule of 72 to show them what that would look like in X amount of years when they retire.

Mortgages is a big one. You know, they tend to look at our houses and think they're going to graduate and go buy a large house or that big car, need to understand what the budget part plays into their first mortgage, what the importance of a mortgage versus renting, why you might want to rent before you buy to know of an area that you want to be in.

Do you have enough if something happens in your house that you can afford to fix it? Because if not, you don't want to over buy. Taxes, three letter word, right? But you need to understand what role taxes play. How are you doing your deductions on your W-2? If you have children, are they claiming the dependence on their W-4 at work?

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They have to understand that idea of 1099 or W2. Again, it goes back to the basics. It's stuff that we know after years of falling and skinning our knees, they are on the front side of all of this.

And then finally, credit. What is the most important thing regarding credit? Payment history is 35 % of your score. Amount owed or the credit utilization is 30 % of your score. They want you to be below 30% of what you have available to borrow.

Debt to income ratio, your length of credit history is 15% of your score. But knowing things like this help you stay ahead. They help you play the game, if you will. And finally, in closing, these conversations are not one and done. They're part of building a healthy financial habit for your children, but also a dialogue for you as a parent to your child.

Take care and good luck to you.

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