11 THINGS EVERY CHILD MUST KNOW ABOUT MONEY

(Before Leaving Home)

FREEDOMSPROUT

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By Kalen Bruce

The goal here at Freedom Sprout is to teach kids the things that we, as parents, had to learn the hard way. If we teach our children solid financial principles now, we won't be teaching them how to recover from bankruptcy later.

So I've created this list of things they absolutely must know before moving out on their own. We can implement many of these ideas during teachable moments throughout the day. We can implement the more complex ideas by sitting down and having a conversation with our kids. If your child is already out of the house, you may want to forward this article to them. It's never too late, but if they're still in the house, it's never too early to start.

This list isn't all inclusive, but it is the minimum of what your children should understand before leaving home.

1. How to Open and Manage Accounts

Immediately upon moving out, if not sooner, your kid will need his own **checking account**. It's a requirement to pay many bills when living on your own. Your child must understand how to open a checking account, whether online or in the bank, and how to keep enough money in the account.

Teach your child to **have a buffer** in the account. For example, if you have a $200 buffer in your checking, then $200 is your new zero. When you get close to that mark, deposit more money so that it doesn't go below $200. This keeps padding for unexpected expenses or accidental overspending, and it can serve as a mini emergency fund.

A **savings account** or a money market account (basically a savings account with slightly higher interest) will be next. This is just as easy to open, but pay attention to any fees for pulling money out too often, as well as a required minimum amount that may need to be in the account.

Your children need to know how to open **brokerage accounts** as well. They will have the ability to buy stocks, bonds, and mutual funds through a brokerage account. Typically if they're sticking with funds, they won't have to worry about this, but it's good to know how to do it.

Managing the accounts is most important. Keeping enough money, tracking expenses to avoid over-drafting, and monitoring expenses to avoid fraudulent charges are all key points for your children to know.

2. The Importance of Giving

Whether you believe in the Bible when it says that giving "rebukes the devour" [1] or if you simply believe in helping others, giving is vital to your finances.

My wife and I have personal experience seeing supernatural things happen when we started giving regularly and consistently. Our finances didn't change until we started giving, and once we started, our finances have been more than blessed.

Other than what the Bible says and my personal experience, giving increases happiness. Studies show that your brain associates giving with pleasure and reward [2]. People who give are happier in general.

Giving is actually increasing and becoming more popular [3]. Perhaps more people are learning that it really is better to give than to receive.

3. How to Be a Savvy Shopper

If you're frugal, you likely do things that you don't even realize you do when you shop. We must teach our kids these things. You can't expect them to automatically know how you shop, and why you shop how you shop.

Some of the obvious things like meal planning, planning around sales, and buying in bulk can save a lot of money. I'll address those things, but I think the single biggest factor to saving money when shopping—and in life in general—is to not buy things based on what other people think. This goes for anything from what you eat to what you drive. So here's a quick breakdown of the basics I just mentioned:

- **Plan your meals ahead of time.** If you plan your weekly menu, you can buy exactly what you need. This leaves out impulse buys and unnecessary groceries.
- **Plan around sales.** You don't have to live your entire life eating the fattiest, cheapest ground beef because it's always on sale, but there are some good sales on some good, nutritious food. Find them before you make that weekly menu.
- **Buy in bulk when it makes sense.** Buying in bulk is not always the best option, but for things that you know you'll need and that don't expire (e.g. paper products, cleaning products, etc.), bulk is a good option.
- **Use coupons, but not too many.** Don't spend five hours clipping coupons to save $10 — that's not worth your time. However, a quick skimming of the weekly coupons can save you some serious money. Look for in-store coupons as well as online coupons. A study from the marketing firm, Valassis, showed that almost 7/10 people will switch from their favorite brand based on a coupon [4]. So much for brand loyalty, but it shows that there isn't as much difference between products as people like to believe. Don't let coupons completely change your behavior, as studies show they do [5], but let them be an addition to your savings tools.

These are just a few simple ideas, but over a lifetime, it can save your children a fortune.

4. The Dire Need of an Emergency Fund

Emergencies happen… unless you have an emergency fund. At least, that's been my experience. My wife and I had countless random expenses come up before we established an emergency fund. Now that we have one, it seems like the emergencies have subsided. Maybe it's a universal preparedness law, or maybe it has to do with Murphy's Law.

40% of US adults don't have the savings to cover a $400 unexpected expense, according to a study from the Federal Reserve [6]. This explains why credit card debt is getting higher and higher. The last thing you want your kids to do in an emergency is turn to a credit card. The second to last thing you want is for them to turn to the Bank of Mom & Dad. An emergency fund reduces the chances of both.

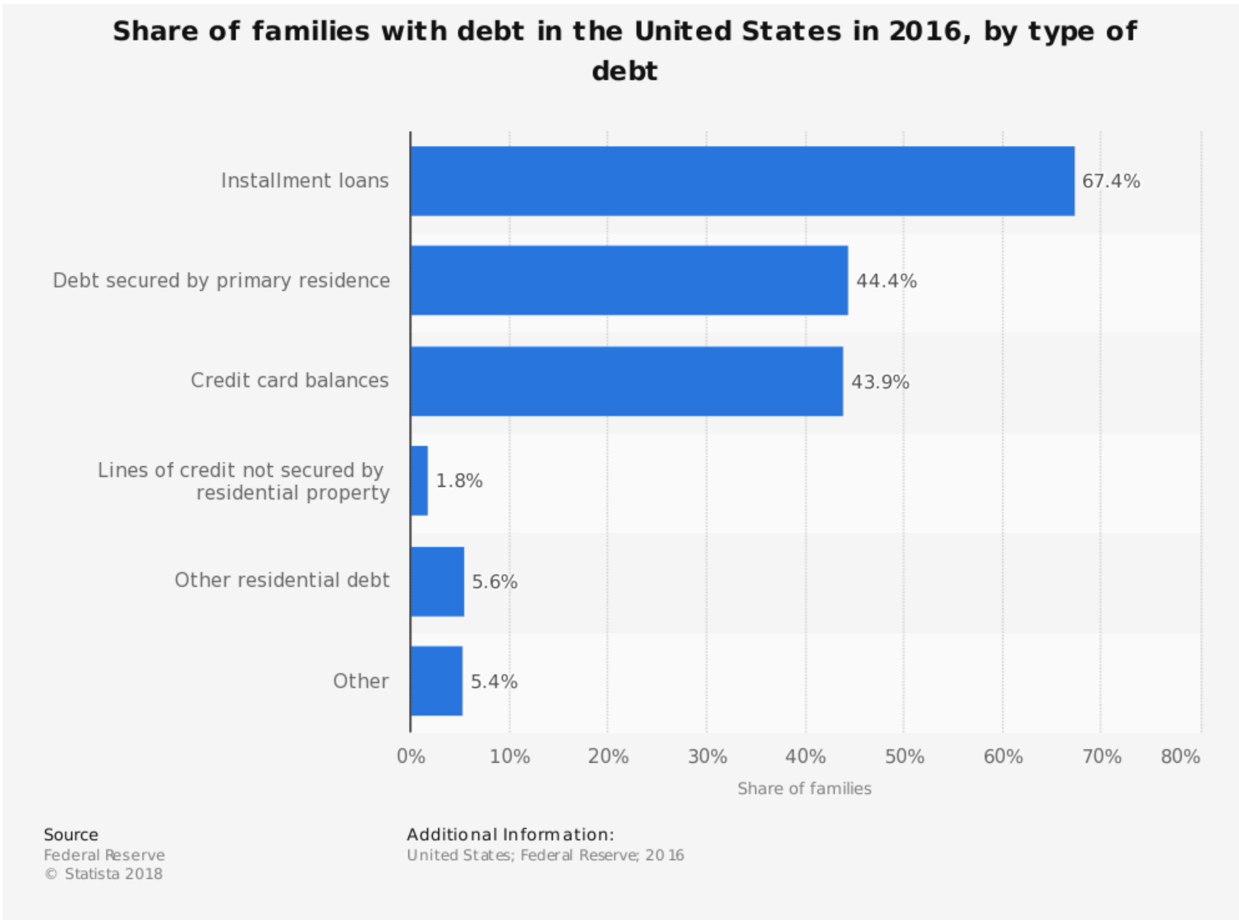
Everyone should have an emergency fund. When your children are just moving out, it's a good idea for them to have saved at least $500 for emergencies. Six months of living expenses is the ultimate goal for the fund.

Think of this as "bare bones" living for six months. This is easy to calculate. Just imagine how you would spend money if you lost your job (no eating out, no extra entertainment, etc.), and come up with how much you would need to pay all of your bills and eat for a month. Then multiply that by six. Remember, just because you or your child earns $3,000/month, that doesn't mean $3,000/month is required to survive in the event of an emergency. And you don't want any more money then necessary in a savings account earning no interest.

If you want to give your child a monetary gift when they leave home, consider giving them the gift of financial security: an emergency fund. But don't feel obligated.

5. Debt Can Ruin Your Life

Debt is often the first topic in any finance book or course. Why? Because it's the single largest contributing factor to keeping people poor. Let's look at the debt in this US:



Source

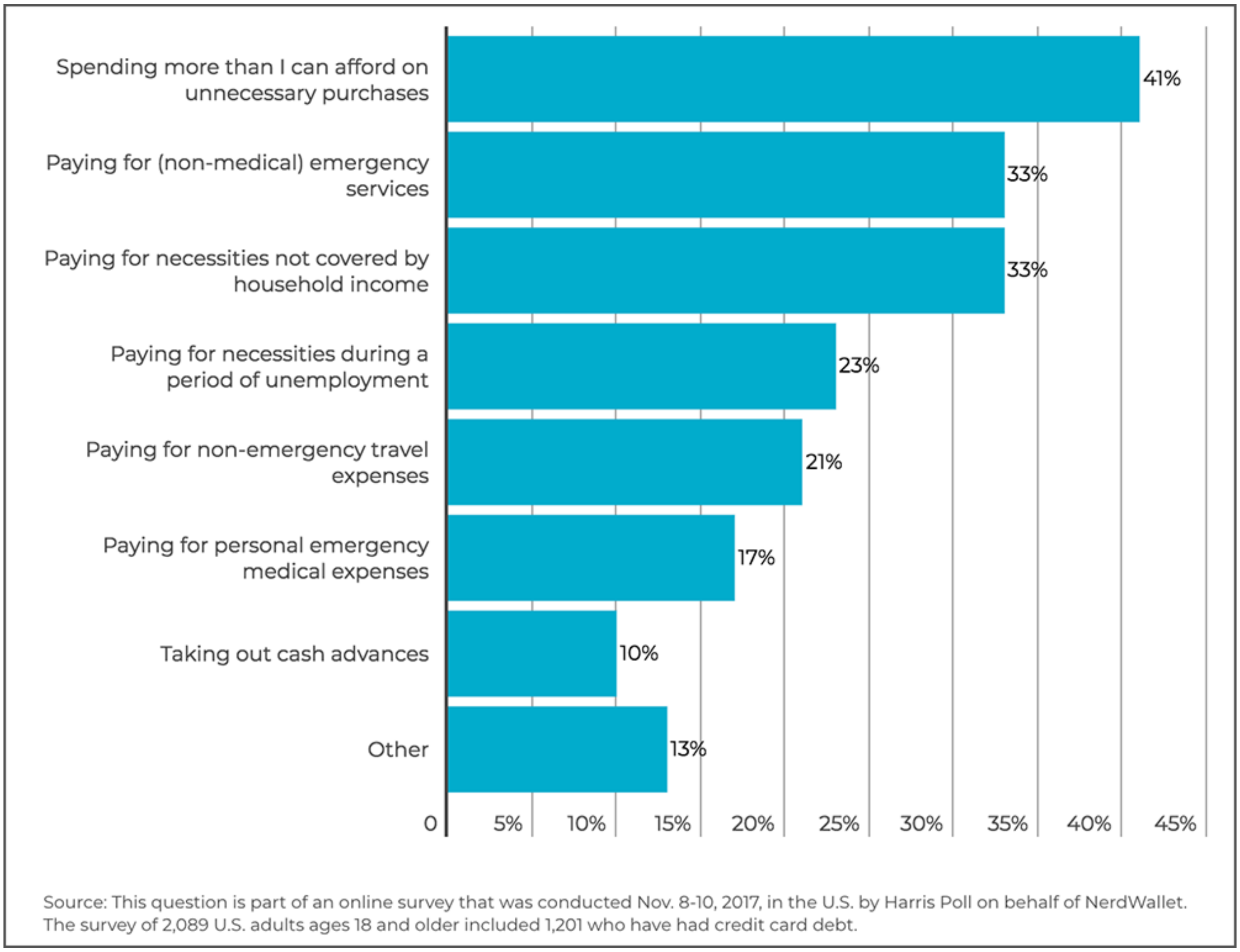
The majority of US citizens have installment loans (mostly mortgages), and an astounding 44% of Americans have revolving credit card balances. I suspect it's actually much higher than that.

And this is normal.

US consumers owe $927 billion in credit card debt alone, which makes for over a $15,000 average per household, according to a study by Nerd Wallet [7]. However, in a recent study by Ramsey Solutions, the total consumer debt is more than double that figure, at $34,055 [8].

What’s the cause for all that debt? Often, it was emergencies.

Nerd Wallet asked consumers what primarily caused their debt:



Source

Refer back to #4, and help your children establish an emergency fund. This will drastically reduce the chances of unexpected credit card debt. You don’t want your kids to fall into the debt trap.

Debt really can ruin your life. It happens every day. Your kids need to know the destructive powers of debt, before they get their first credit card offer.

6. Credit Isn’t That Important

Plenty of finance gurus and bloggers will tell you that obtaining a high credit score is an important first step for your child.

In reality, it's not that big of a deal. Unless your kids want to live a life of debt. And if they do want that, please refer them back to #5.

If you're teaching your kids to stay out of debt, a credit score isn't so important. Your child will still be able to get a mortgage later on—if they choose to do so—through a process called manual underwriting.

As The Balance puts it:

The key to high credit scores is a history of borrowing and repaying loans. But some people choose to live without debt, which can bring simplicity and significant interest savings. Unfortunately, your credit eventually evaporates along with your interest costs. You don't necessarily have bad credit—you have no credit profile at all (good or bad). Still, it's possible to get a loan with no FICO score if you go through manual underwriting. In fact, having no credit or thin credit can be better than numerous negative items (like bankruptcy or collections) in your credit reports [9].

If you're thinking these sound like hurdles that could be avoided with a credit score, consider the other possibility of what could happen if "building a credit score" goes wrong: your child could get trapped in mountains of debt. Try to persuade your kids to not make decisions purely to build their credit.

Once they're responsible, if they want credit so badly, it's easy to build credit over time by using credit cards and having them set to automatically be paid off *every single month*. They can start with secured credit cards and work their way up to standard credit cards with no annual fees and good rewards. But again, this shouldn't be done just to build a credit score. Especially if they don't plan on needing one.

If your kids choose to go the debt-free route for their entire life, The Balance also give some good tips for how to live that way.

7. Budgets Give You Freedom

The word "budget" is an ugly word to many. It sounds boring. Contrary to a popular finance blog's title, budgets are not sexy. But they are freeing.

Don't teach your kids that budgets are a necessary evil. Teach them that they can be fun, they stretch their money, and they allow them to do anything they want to do.

Things like a "fun money" category show your kids how budgets can be exciting. You can allocate X amount of dollars to spend on anything you want for that month, and not even feel guilty about it.

It's almost 2019. Paper budgets are likely—though not always—going to steer your kids away from budgeting. If your kid loves spreadsheets and numbers, try a paper budget or a digital budgeting template. But for most kids, technology will win them over to budgeting.

What are the best budgeting tools? I'm glad you asked!

Here are my favorite free digital budgeting tools:

- **Personal Capital** – My personal favorite. You can link all of your accounts, see your net worth, and track every single expense.
- **Goodbudget** – Track your expenses easily with the app, and create separate envelopes for every category.
- **EveryDollar** – Dave Ramsey's budgeting software. Easy to use. Similar to Goodbudget, with more options.

There are a thousand other possible tools to use. Find what works for you and your children.

8. The Power of Compound Interest

Compound interest is the eighth wonder of the world. He who understands it, earns it … he who doesn't … pays it.

Compound interest is the most powerful force in the universe.

Compound interest is the greatest mathematical discovery of all time.

– *Albert Einstein* [10]

Your child needs to understand compound interest before it starts working against them, so that it can instead work for them.

Investing should start as soon as possible to get the most benefit from it. I showed how starting earlier can make all the difference in, *15 Finance Terms Children Need to Understand*. Warren Buffett comments on how compound interest got him to be the richest person in the world:

My wealth has come from a combination of living in America, some lucky genes, and compound interest.

– *Warren Buffett*

If your child starts young, invests in simple index funds, and lets compound interest do the work, their retirement will be just fine. That's all it takes. But starting young and understanding compound interest are the keys.

9. Automation is Powerful

There is no need, with technology today, to pay your bills manually. You can automate investing, saving, utilities, monthly bills, and even giving. That's exactly what I do.

Automate everything you can, and you're left with a small amount to budget each month. You can even automate budgeting to an extent with the tools above, by connecting your accounts and having the categories sorted automatically for each expense.

As David Bach puts it in his book, The Automatic Millionaire:

- You don't need a budget
- You don't need willpower
- You don't need to make a lot of money
- You don't need to be that interested in money
- You can set up the plan [to automate your finances] in an hour

You can take the time, in the beginning, to set your finances on a system of automation. That leaves you focusing on a small percentage to actually make the spending decisions.

10. How to Nail a Job Interview

There are hundreds of good articles online about how to nail a job interview, but it all comes down to a proper understanding of dealing with people. If your son or daughter can talk to people well, they can nail a job interview.

The basics of a good interview consists of things like a firm handshake, eye contact, confidence, and honesty. But that's not just for job interviews, that's for any area in life when you deal with people… which is most areas of life.

Instead of giving you a few common points for a good job interview, I suggest that you teach your kids how to deal with people in an authentic way.

These are some great books your kids should read before leaving home:

- How to Win Friends & Influence People by Dale Carnegie
- How to Have Confidence & Power in Dealing With People by Leslie T. Giblin

- Crucial Conversations by Patterson, Grenny, McMillan, and Switzler

All of these books should be required reading in college, if not high school. If your kids know how to deal with people, a job interview will be easy. So I suppose this point may be better as “How to Deal With People,” but I wanted to stress the importance of these skills in a job interview.

11. How Insurance Works

You children may still be under your heath insurance, but once they leave home, they’ll have to worry about several different types of insurance.

Here are the basics your kids need to know:

- **Health Insurance** – Once they’re no longer on your insurance plan, your kids will need to find their own (to have proper coverage and by law). I suggest helping them through this process since it’s a big decision, and a big deal. It’s important they get a reasonable price, while also receiving good coverage. Many employers will cover health insurance, but it depends on the type of job. Part-time jobs often provide no coverage.
- **Car Insurance** – Your children will need to understand the difference between full coverage and liability. Get them to look for a quality insurance company. Odds are, the cheapest company won’t provide the best coverage and service.
- **Rental Insurance** – Before your child buys their own home, they’ll likely be renting a house or apartment. Insuring the contents of that home is important, and it’s typically quite affordable.

And later on (but not much later):

- **Home Insurance** – Your kid may not be immediately moving into a mortgage from your house, but when and if they do decide to buy a home, they need to know what to look for. Teach them to read the fine print to see what’s covered. Many insurance policies don’t cover things like burglary, house fires, or destruction during a time of war (yes, this is actually outlined as something *most* insurance companies won't cover).

- **Life Insurance** – Life insurance is for the people survived by you, not for you. If your kid doesn't have a family of his own, he doesn't need to worry about life insurance, other than possibly burial costs. But down the road, and before he is old enough to start seeing a dramatic increase in rates, he will need life insurance. Once the time comes, prefer term life insurance over whole life insurance. Many companies offer cashback-term policies now, which means at the end of your term, you can get up to 100% of the money you paid back if your policy doesn't pay out (a.k.a. if you don't die). For the differences and why term is the better option, see Dave Ramsey's view on this.
- **Disability Insurance** – This is important from an early age, but it's not always necessary as soon as your child moves out. Make sure she understands what disability insurance is, and has a plan to get it once she starts a family.

Children often look for the cheapest version of any insurance without considering the coverage.

Quality is important, but insurance premiums shouldn't bankrupt your child. There's a balance.

Most other insurance outside of what's mentioned above are either unnecessary, scams, or they apply to a very specific situation. The only other type of insurance you may want to consider is identity theft protection. There's nothing ID theft protection companies can do that you can't, but it will save you a whole lot of time in the event that you're a victim of ID theft.