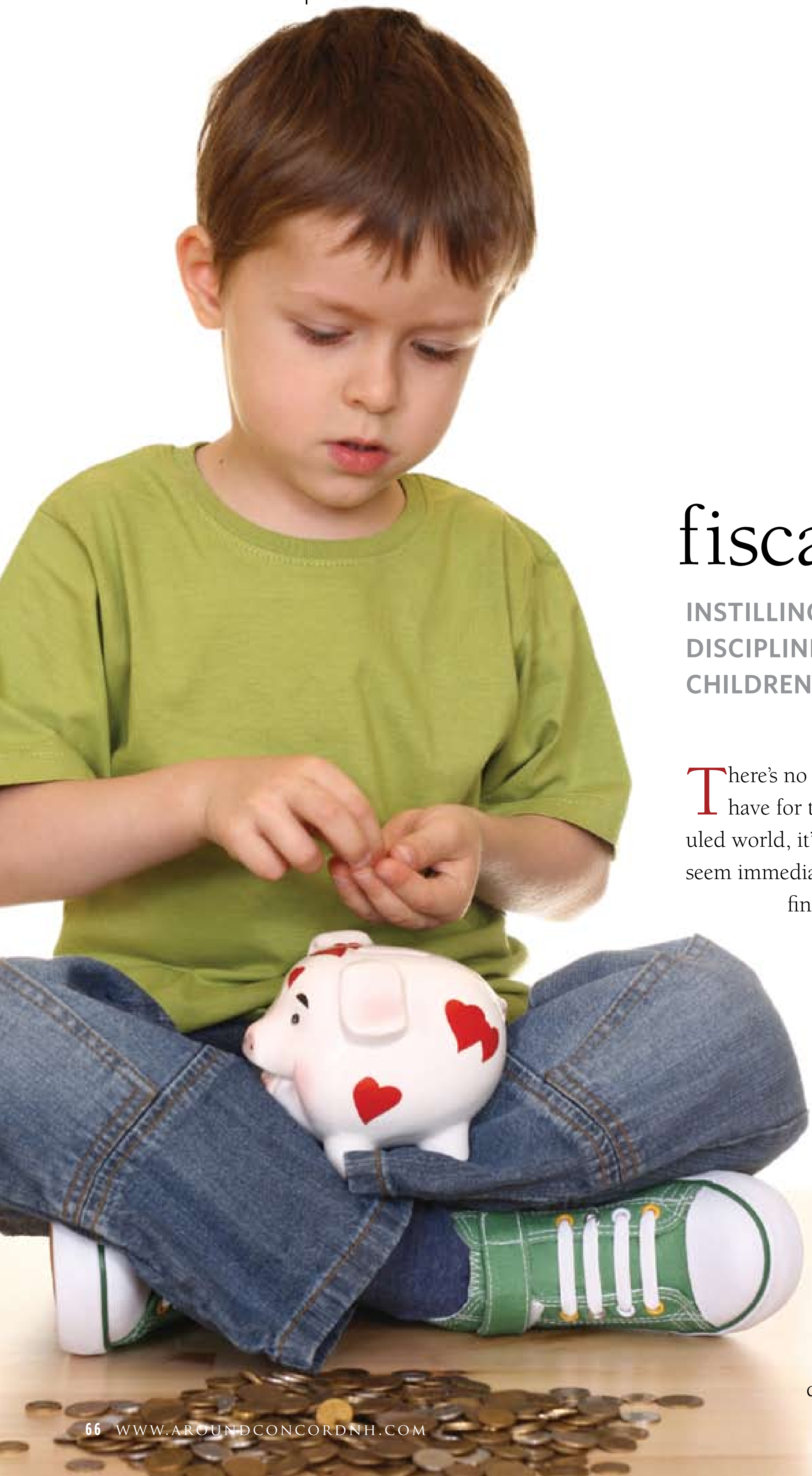

fiscally *fit*

INSTILLING FINANCIAL DISCIPLINE IN YOUR CHILDREN

There's no shortage of responsibilities parents have for their children. In today's over-scheduled world, it's easy to avoid the tasks that don't seem immediately necessary. Teaching children financial discipline often falls into that category. But instilling financial values in your kids, starting at a young age, will help them become competent money managers as adults and avoid a lifetime of struggling over finances and making costly mistakes.

Teaching children to be disciplined about money can be difficult. It requires communicating with them, early and often, about finances. For many people, the importance of these discussions is often overlooked.

Using savings to teach philanthropy is valuable, too. Show your kids that $10, which may just mean some downloaded iTunes to them, could mean something truly significant to someone else.

TEACH CHILDREN TO BE PRODUCTIVE

Financial experts agree that the best way to train your children to be fiscally fit as adults is requiring them to work from an early age. There's no shortage of ways for children – from pre-schoolers to teens – to pitch in at home. And the point of participating around the house (not "helping," which implies that they're doing you a favor) isn't necessarily making sure that the laundry's done and the dog is fed. It's to teach kids to be productive members of their households, which are really just microcosms of the society they'll be joining when they leave the nest. Studies have shown that teenagers who demonstrate a strong work ethic (in school, at home, in jobs outside the home, and in extracurricular activities) are far more likely to be happy, healthy, socially well-adjusted and financially secure adults than those who have poor abilities to work. (Interestingly, intelligence plays only a small role in the outcome.)

LEARNING TO MAKE WISE CHOICES

You also need to teach your kids that their impressions about their friends' and neighbors' wealth are irrelevant. Other peoples' lifestyles and material possessions often have nothing to do with whether those people are financially secure or not – the exploding number of foreclosed luxury homes and repossessed luxury cars makes that point pretty clearly. Children must understand that there's a difference between having a lot of money and spending a lot of money.

You can't expect your kids to figure this out by themselves. Involving your kids in the want-versus-need analysis for things you yourself are considering buying will teach them to do it themselves. They also can help with this analysis for family purchases. For example, flying to Disney for a week will cost $x. Going to Storyland for the weekend will cost $y. What's the difference between $x and $y? Even if you can afford $x, is it worth the extra money? If you go to Storyland instead, what should you do with the difference between $x and $y? Even small children can grasp this concept, and it can help them appreciate not only how much things actually cost, but also the financial choices that you, as parents, and the family as a whole, must make on a regular basis.

TEACH CHILDREN TO SAVE

Starting a savings program is an easy, practical way to foster financial discipline in children. If you give your kids an allowance, consider requiring them to contribute a portion each week to a savings account (and consider calling it "taxes," so they learn early on how painful that can be). You and your child should decide together how and when the savings will be spent.

Older children can learn the basics of investment by using some of their savings to purchase stock in a company they're familiar with (Pixar, Disney, or Apple, for example). You can purchase one share at a time on websites such as oneshare.com, which even has a special section for kids.

Using savings to teach philanthropy is valuable, too. Show your kids that $10, which may just mean some downloaded iTunes to them, could mean something truly significant to someone else. Adopt a local needy family during the holidays, and have the kids use a portion of their savings to purchase gifts. Or go global, and teach them the concept of microfinance, a lending system that helps poor people in developing countries become self-sufficient. The website OneHen.org features educational games that help simplify this concept for kids—and adults! Starting in May, children will be able to make real donations to microfinancing projects through "virtual loans" on One-Hen (other websites, such as kiva.org, also provide microfinancing opportunities but are geared towards adults).

INSTILL GOOD HABITS

Consider rewarding your children for good grades and for good effort in school. This provides an incentive both for kids who try hard but don't get good grades, and for those who can cruise and get high marks without trying.

> Beginning at age 22, saving and investing $3 per day, instead of spending it on a cup of coffee, will produce a fund of $350,000 by age 65!

Require older kids to have summer jobs, and to be responsible for paying some of their own expenses with the money they earn. Once they enter college, kids should get credit cards (with initially low limits) to establish a good credit history, although they shouldn't charge anything unless they can pay off the entire balance each month. Debit cards are convenient but should be used cautiously, since they make it easy to lose track of actual expenditures.

After entering the full-time job market, a child should establish a budget and allocate a portion of each paycheck to a savings account, first to create an emergency savings account (ideally, this should hold three months' worth of salary) and then to save for future large expenses. The child also should contribute to the employer's retirement plan, at least to maximize the employer's matching contribution. The rest of each paycheck can be used for living expenses.

You might meet some resistance to the "pay yourself first" plan, so explain the power of early saving and compounding. A 20-year old who saves for only 10 years (from ages 20 to 29) will accumulate more money by age 65 than a person who begins saving the same amount each year from ages 35 to 65!

Also explain the financial consequences of daily convenience purchases, such as buying coffee or lunch. Beginning at age 22, saving and investing $3 per day, instead of spending it on a cup of coffee, will produce a fund of $350,000 by age 65!

Helping your kids to understand the basic concepts of finance, spending, and saving isn't easy, and it won't happen overnight. But if you consistently reinforce these concepts, you'll help your children become self-sufficient, financially responsible adults.

Amy Kanyuk is a partner at the Concord firm of McDonald & Kanyuk, PLLC. She concentrates her practice in estate planning, trust and estate administration, focusing on wealth transfer tax planning strategies. She can be reached at akanyuk@mckan.com or (603) 228-9900.