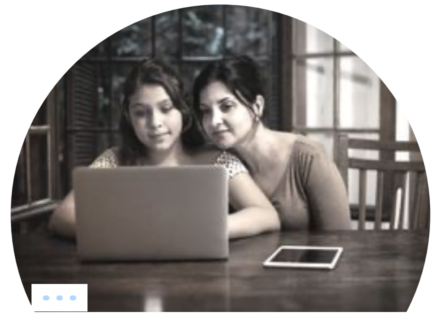
FINANCIAL PLANNING ▶
TEACHING KIDS & TEENS ABOUT MONEY

Financial Planning Tips for High School Students



BY **MIRIAM CALDWELL** | Updated March 23, 2022
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Your child graduating from high school is a big milestone in their lives and yours. As they take their first steps into the world as adults, they have a number of options to choose from. They may be planning to go to college in the fall or may be thinking about working full time. They may decide to join the military or plan on taking a year off to decide what to do with their life.

As parents, you may be willing to help them get set up, or let them find a way to cover their expenses on their own. Whichever approach you take, one thing you could do is to prepare them for what to expect. Talking to your child about understanding their financial situation may be a precursor to them making better informed financial decisions, especially as they start out on their own.

Here are 10 financial tips that could help set your child up for financial success.

Setting Up a Budget

Budgeting is a great first step in taking control of your finances. Parents could start talking and implementing budgeting exercises way before the child's finances need to be separated from theirs.

For example, even before your kids head off to college, you could conduct a budgeting exercise with them. Help them earmark their allowance according to their needs such as paying for going out with friends, saving up to buy something etc. Such an exercise, though basic, can help your child start thinking about financial decisions and trade-offs that result from those decisions. For example, you could lend your child money for a large purchase but charge a minimal interest to drive the concept home.

> **Tip:** There are many budgeting apps and tools that can make it easy for your teen to create a budget and track their money.

Once they get comfortable with the idea of budgeting, you can then have more informed conversations with about real life financial situations. For example, if they are are planning on going to college, you should include their school expenses and create a college budget. If they are planning on working, you need to help them estimate how much it is going to cost to move out and how much they need to have saved up for a deposit on an apartment. They will also need to budget for expenses such as utilities, clothes, food, and fun.

Prioritizing Spending

Merely creating a budget is not enough to achieve your financial goals, and sticking to it not easy either. Emergencies aside, it is important to talk to your children about prioritizing their expenses. The difference between essential expenses for needs and non-essential expenses for wants, maybe a good way to classify spending.

Another approach to doing that is setting financial goals. You could help them set short-term goals such as saving up for the deposit on their first apartment or for the down payment on a car, and then encourage them to put money aside for those.

"Reviewing expenses can be a valuable process and you may be pleasantly surprised as your [child] gains more independence and becomes more mature," said David Haase, a private wealth planner at New Jersey-based retirement planning company RPT Wealth Strategies, in an email to The Balance.

Making Plans for College

Completing a college degree or pursuing vocational training can improve your child's financial future. If they are already planning on college, experts suggest that you need to to have some serious conversations as a family even before they fill out their applications.

College tuition is a big financial commitment and other related costs can quickly add up as well. Student loans, scholarships and financial aid and parents' contributions are some options to meet that expense, but one or all of those options may not be enough.

"Have an open discussion about this before the child winds up applying to only dream schools that parents cannot afford, and that would take way too much in student loans to accomplish," said Catherine Valega, a Certified Financial Planner (CFP) and Chartered Alternative Investment Analyst (CAIA) with Green Bee Advisory, in an email to The Balance.

Nearly, four in ten adults who attended college in America have had to take out loans to finance their education.[1] According to the New York Federal Reserve data, outstanding student debt stood at $1.58 trillion at the end of 2021, and nearly 5% of that debt was delinquent or in default for more than 90 days.[2]

> **Important:** Encourage your child to take the college offered student loan counseling seriously because the loan choices could significantly impact finances, theirs or yours, for years to come.

While all of this sounds daunting, careful planning and preparation both on the part of the parents and the child can help. You can help your child create a college budget and determine how much money would be required to cover college costs. Then you can work together to devise a plan for them to stick to that budget.

Establishing Their Credit

It is important for your child to establish credit at this stage in their life. Making on-time payments for a car loan or on an apartment can help them do this. One option is for them to build their credit using a credit card, but if they just run up a balance they may end up hurting themselves in the long run. Impress upon them that part of establishing good credit is making sure that they pay off their balance in full and on time each month.

Minor children under 18 years of age, cannot apply for a credit card at all, and if your child is under age 21 they will need to show proof of ability to repay. Another way to do this is for the parents to add children as authorized users to their cards. In fact, a number of experts suggest going that route.

Jan G. Valecka, a Dallas, Texas-based investment advisor and Certified Financial Planner, added her college-bound children as authorized users to her credit card with a monthly limit.

"They can use the card, establish their own credit score FICO, we pay and can talk to them about budgeting. The limit protects us if they lose their card. I show them the bill and how much they have spent vs their budgeted amount. [It] works great," Valecka said in an email to The Balance.

Thinking About Insurance

When they were in high school, your children were on your health insurance and car insurance. It is important to explain to them that they have the proper coverage once they graduate.

You have the option of keeping your kids on your health insurance even after school. Same goes for car insurance. But have that conversation as a family, talk about the reasons why that may or may not work. There are age limits and other restrictions on how long children can be covered by their parents' insurance.[3] [4] Remember, your kids will have to get their own insurance at some point, having them stay on yours is merely delaying that step.

> **Note:** If your child is planning to rent off campus, they will also need to consider renters insurance to cover any theft that may happen in their apartment.

Planning for Future

College could offer the first taste of financial freedom to your child. Financial decisions and habits they get into now, could have some bearing on their future finances. Creating a financial plan is a sound practice that could benefit your child now and even years later.

Creating a financial plan brings together values and financial goals.[5]One way is to start early and communicate the family's

reviewing financial decisions if they diverge from the family values.[6]

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A child heading off to college will likely take bigger financial decisions in the coming years. This can include things such as buying a new car, purchasing a home, or getting married. Although these events may sound like they are in the distant future, planning sooner rather can later can be very beneficial. You could suggest creating a five-year plan that will outline the steps they want to take to meet those goals in the next few years.

Creating An Emergency Fund

Your child will incur expenses that they do not expect—from car repairs to medical bills. As parents you may be willing to chip in on this, but they are now ultimately responsible for these expenses.

An emergency fund can help them cover the unexpected and take the pressure off. You could suggest them starting out by saving one or two months of income and, then work towards building it up to a year's salary as they work on meeting other financial goals.

"If the student is working a part-time job, share with them that they need to put aside some money each pay period (at least 10%) into a savings account for emergencies," said Haase.

But he added a word of caution for the parents as well. "I will leave it up to you to determine if the emergency is truly an emergency. Usually, a midnight pizza is not an emergency," Haase said.

Thinking About Retirement

For kids heading off to college, retirement may seem too far off to worry about. But you know, when it comes to retirement planning, its better to start sooner than later. One way to do that is to talk to your teen about the power of compounding.

> **Tip:** Using a compound interest calculator can help your child visualize how small contributions towards their retirement can grow exponentially over time.

If your minor child is earning income doing small jobs or working part-time, consider helping them set up a custodial brokerage or individual retirement account. If they're working full-time and qualify for their employer's 401(k) plan, encourage them to make contributions each month. Explain to them how those contributions will come out of their paycheck automatically. The sooner they start saving, the more likelihood of them meeting their financial goals as they near retirement.

Balancing Checkbook and Using Money Apps

While a lot of banks are now moving away from overdraft fees, they haven't quite gone yet. Getting your child to understand the importance of balancing their checkbook each week can go beyond helping them save money in overdraft fees.

Its a useful way to monitor their bank account. That can your kids not just get a better understanding of how the money is flowing in and out of their bank account but can also alert them of any unwanted or unintended charges. Using an app that handles both budgeting and balancing your account can make it much easier to balance your account

Being Smart With Money

Lessons in becoming smart about financial decisions don't need to start when your teen is getting ready to head to college. It also doesn't mean merely talking to them about financial pitfalls they need to watch out for, but perhaps also by modeling sound financial behavior. This includes paying your bills on time and carefully evaluating decisions such as when to take on additional debt for a car or on credit cards.

Though its not always possible, but starting out with solid financial habits can help build a good foundation. Instead of spending years recovering from mistakes, your child could be ahead because of their wise choices.

Frequently Asked Questions (FAQs)

Why is financial planning important for college?

Attending college is a big financial decision. While tuition is the biggest component of college expense, there are many related costs that can add up. Students and their parents should have clarity on how to fund those expenses. Without proper financial planning for college can have serious financial consequences for both students and parents.

How can teens start saving for retirement?

Most financial institutions will not open bank or brokerage accounts for minor children under 18 years of age. Teens can start saving for retirement using custodial account like a UTMA with the help of an adult acting as a custodian. Teens can also start contributing to specific custodial retirement plans such as a custodial IRA or a custodial Roth IRA.

How to manage college expenses while in college?

You can start managing your expenses at college by creating a monthly budget to track them. That can tell you not just how much money you need to cover those costs but also give you insight into prioritizing those expenses. With that information, you can come up with a plan to set aside money to meet essential expenses and consider cutting back on non-essential ones.

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