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High School Graduation: A Good Time for Financial Planning

Whether your child is graduating with their high school diploma or completing higher education, it's important to help them plan for their financial future. You want to set a strong foundation for long-term financial stability by broadening their scope of financial literacy. Sharing the following tips can help prepare them.

Budgeting Expectations and Boundaries

Less than half of high school juniors and seniors in the United States know how to check their credit score or maintain a budget. Nearly one-third of young adults have not set up a budget because they believe they don't have enough money to need one.

Without a budget, they can end up creating a huge stumbling block for financial success. A budget can help them understand their financial situation. With one in place, they can better control where money goes instead of wondering where it went.

Before creating a budget, talk through short- and long-term goals like home ownership or starting a business or a family. Write out the three or four most significant accomplishments to achieve in the next five to 10 years.

Next, narrow the focus to two things to accomplish regarding finances within the next year such as:

- Pay off credit card debt, student loans, as well as other debt to improve your credit score
- Start a new career
- Secure a credit card in your name and begin to establish a credit history

- Build an emergency fund in a savings account

Then further narrow the focus on what they can accomplish in the next month or two. It might be saving a certain amount of cash or not using credit cards for 30 days.

Set Up a Budget

Setting up a budget requires gathering paperwork like bank statements, pay stubs, and investment accounts. From this data, calculate expected monthly income and typical monthly expenses. The hope is that monthly income exceeds monthly expenditures, including rent, utilities, food, and entertainment.

If not, it's time to find some possibilities for cutting costs. Some expenses are variable. Find a way to balance out increases in monthly cash flow with extra savings throughout the year.

Track Expenses

This step is where many people attempting to budget tend to fail because they don't follow the budget they created. Track your daily transactions and subtract them from the proper budget category. Monitor expenditures using apps, spreadsheets, or pen and paper. Discuss what will work best to stay disciplined, as living within a budget is the first step to building financial security.

Financial Literacy

Parents can help their young adult children by teaching them to set goals, create a budget, and manage their personal finances. It may be tempting, but avoid routinely bailing them out financially if they aren't following their budget.

If you must provide financial assistance, make it temporary. Learning to save and live within or beneath their means in these early adult years is crucial to their success. Whether they are high school students or even younger, teaching them financial responsibility will serve them well going forward.

You may want to discourage children from taking the summer off after college. In a competitive world, losing time in the business world can equate to lost opportunities. Waiting for the perfect job is not a realistic approach. The sooner they begin building a resume, the better the chances of finding that dream position.

Estate Planning Attorneys

An estate planning attorney can play a valuable role in assisting parents of graduates. They can, of course, assist parents in planning for their own financial future.

But they also can help your adult child understand long-term financial goals. Your child may want to start a business, save for retirement, or buy property at some point. An estate planning attorney can work with them to set attainable goals and develop a plan to achieve them.

Start Investing Early

Long-term financial growth typically begins with a modest initial investment when young. Time is on your graduate's side to allow compound interest and savvy investing to accumulate wealth.

Encourage them to take advantage of employer-sponsored retirement savings plans, such as 401(k) or 403(b). If their employer offers matching contributions, all the better. Additionally, explore individual retirement accounts (IRAs) or other investment vehicles suited to their goals and risk tolerance.

Consider Insurance Coverage

Evaluate insurance needs, such as health insurance, renters or homeowners insurance, and vehicle insurance. They may be young, but having a grasp of disability and life insurance is important.

Unexpected life events can happen at any time, and these services can protect them and their loved ones. Typically, the healthier and younger you are, the lower the premium cost. Many policies are flexible to regain premium payments in the future if you no longer require the policy.

Create an Estate Plan Early

Your child may think estate planning is unnecessary. Yet a living will is critical since accidents and loss of capacity can happen at any age. In a living will, they can outline their preferences for medical treatment if they can't communicate their wishes.

If they start a family, creating a will is just as critical. The will explains how to distribute their assets and personal property to their loved ones. They also can appoint guardians for minor children.

They can modify or completely rewrite their wills as they age and circumstances change.

Parental Input

For your child to receive financial messages without sounding like another money lecture, stick to the basics, such as:

- Basic budget and goal-setting
- Now versus later thinking
- Delayed gratification and tradeoff requirements necessary to attain goals
- Establishing and maintaining good credit

- Saving versus investing and the importance of starting early
- Bigger-picture planning in financial life management

Once they understand the importance of legal and financial planning, they’re ready for the next steps in financial responsibility and setting realistic expectations around money.

Fostering Financial Independence

Some adult children will be more willing than others to heed parental advice on creating a financial plan. You may want to provide some modest capital for early investment purposes. If you worry they might squander the money rather than watch it grow, an estate planning attorney can put guardrails on such a gift. They may do this via a trust or other legal mechanisms that limits their ability to withdraw funds.

Likewise, you might consider finding a financial planner for them and setting up an appointment. This could even be part of their graduation gift. Learning about the meaningful impact they can have on managing their finances will boost their confidence about money matters.

All parents want to see their children do well in life. A large part of their success is contingent upon achieving financial independence. Educating them early about building wealth can give them the clarity, control, and confidence they need. Partner with them to create a strong financial foundation that will serve them throughout their lives.