LIFE AND FINANCIAL LESSONS FOR YOUNGER GENERATIONS

By: Rob Whitney, JR., MBA, CFP® Vice President, Senior Financial Planner

There's a good chance many of the life and financial lessons that have stayed with you through your adult years were taught as far back as you can remember by members of your family. In fact, it's a common belief that parents are the single most powerful influence in their children's long-term financial lives. What your parents taught you about money when you were growing up likely had a profound effect on your financial habits today.

But what if you lived in a house where those "financial conversations" didn't happen? When you were young, a lot of parents didn't openly talk about money matters—they were part of the "Silent Generation" (people born before 1945). As a rule, what they earned and how they spent their money were kept very close to the vest. Many from the Silent Generation followed the same behaviors they learned and observed from their parents—that actions speak louder than words.

"During these historic unsettled times, you are in a unique position to share some of the life and financial lessons you either were taught or observed early in life with the small children and young adults in your family. In fact, talking with your grandchildren, nieces, and nephews about what—as well as how—you learned about managing money when you were younger could turn out to be one of your most lasting and memorable family legacies."

GETTING CHILDREN ON TRACK TO ACHIEVE FINANCIAL GOALS

Your young family members are probably at very different stages in their financial journeys: saving for a special toy, earning an allowance, working at an after-school job, graduating from college, embarking on a career, getting married, buying a home, starting a family, or already saving for retirement. But they all have one thing in common—they are eager to take control of their own money.

With that in mind, here are some suggestions to get the children and young adults in your family on track with their finances to achieve their future goals and dreams—however far out that horizon may be. Encourage them to:

Talk with a financial advisor at the appropriate time. Young children will fondly remember and practice the important basic life lessons you teach them. But when they grow older and the timing is right, transfer their focus to seeking out a professional advisor who will accompany them on their financial journey and provide guidance in their best interest at every stage of their life. They should build an open, trusting relationship with this individual and feel comfortable enough to ask questions about anything—especially in stressful times. An objective advisor can help them avoid mistakes and bring a candid, unbiased perspective to a volatile or game-changing life event when you or their parents are no longer there to do so.

Determine a path early. Remind even very young members in your family that it's never too early to think about what they want in life and plan how they're going to get it. Encourage older children and young adults to outline one-year, five-year, and ten-year goals for what they want to achieve personally, professionally, and financially. They should keep a record of their goals and revisit them on a regular basis.

Identify and organize financial assets. Before a young adult can formalize a plan for the future, he or she must identify all financial assets (i.e., salary, savings, investments, retirement plans, bank accounts, cash, insurance policies, trust funds, inheritances, personal and real estate property, fine art and collectibles, etc.). Once assets have been identified, suggest they document the information for future reference in the event an illness, job loss, divorce, or death occurs.

Make saving a priority. For generations, introducing small children to the concept of money and the value of saving is what parents and grandparents have been doing with piggy banks, big jars, and savings accounts. Gifts and money earned are divided into three parts: one for spending, the second for saving, and the third for sharing with others. It's a practice many carry on throughout their lives, all the way up to and through retirement—and it's never too early or too late to start.

Encourage the young adults in your family to establish a budget—setting aside funds in a separate savings account at the top of the list. Budgeting the rest of their expenses will help them become disciplined enough to live within their means. If these troubled times have taught us anything, it's the importance of having an emergency fund to fall back on. Rule of thumb is to save three to six months of living expenses in an interest-bearing bank account. Also, suggest those who are working participate in their employer's retirement plan, especially if the employer matches all or part of their contribution (it's free money!).

Weigh employment options. Those closer to the end of their career versus just starting out understand the many steps, obstacles, and detours between landing that first job and eventually retiring. Recent graduates may find it hard to imagine ever doing anything other than what they trained for in college. New parents may be wrestling with the challenges of having careers and raising a family. And most likely, all young adults may find it extremely difficult to start over after an economic recession or sudden job loss. You've seen it all in your lifetime—your love, support, and guidance can help your family members work through hard times, tackle challenges, and strive to reach their potential.

Establish and maintain solid credit. The sooner young adults do this the better. Help them understand the rates and terms of the loans they take out (i.e., student, mortgage, auto, and credit cards). The ramifications of bad credit are significant—and they can follow a person for years. Talk about the importance of making timely payments and regularly checking their credit score at annualcreditreport.com, the only website authorized to provide the free annual credit report you are entitled to under law.

Weigh insurance options. For basic insurance options for young adult family members, recommend they consult with their employer's human resources department. Employment specialists can advise them on the specific benefit choices available and costs for health, life, and disability insurance needs. If specialized coverage is required (i.e., liability insurance to protect business interests or disability coverage for higher paying careers) suggest contacting a private agent.

THE IMPORTANCE OF ADVICE

With the proper guidance, the children and young adults in your family can grow into financially responsible adults. They will learn how a capable, knowledgeable advisor can help build a team of professional specialists who not only will assist in identifying goals, creating a plan, and managing money, but also empower young adults to make educated financial decisions for all aspects of their lives, based on their unique personal and financial circumstances.

From learning about asset allocation, risk tolerance, and diversification in their first investment portfolio to working with their estate planning attorney to ensure their final wishes are honored, each young family member should include an objective financial advisor as an integral partner in their financial journey. Contact Commerce Trust Company today to learn more about how we can help with these important conversations with the future generations of your family.

The opinions and other information in the commentary are provided as of December 15, 2020. This summary is intended to provide general information only, and may be of value to the reader and audience.

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ABOUT THE AUTHOR

ROBERT E. WHITNEY, JR., CFP®

Vice President, Senior Financial Planner

Rob is a senior financial planner for Commerce Trust Company. He is a member of the financial advisory services team — a dedicated financial planning practice within Commerce Trust that provides objective financial advice to clients. Following a thorough assessment of a client's unique situation and thoughts regarding wealth, Rob develops holistic and coordinated plans to help clients meet their short-term and long-term goals as well as take full advantage of various planning, tax, and investment strategies along the way. With more than 20 years of experience, he specializes in building relationships with clients and providing comprehensive financial planning services to business owners and individual investors to help them achieve their goals. Rob holds the CERTIFIED FINANCIAL PLANNER™ designation. He received his bachelor of administration degree in business finance from Loyola University in Maryland and his master of business administration degree from the University of Delaware. Additionally, he is an Eagle Scout.

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