Having “The Money Talk” With Your Children

What’s the most important conversation for parents to have with their kids? These days, it’s more likely to be about money than the birds and the bees. And “the money talk” is a discussion they’re increasingly comfortable initiating.

According to Chase’s Generational Money Talks study — a major survey conducted by Chase and the University of Colorado Center for Research on Consumer Financial Decision Making, which examined the similarities and differences in, and the implications of, how different generations feel about money — 96% of Baby Boomers surveyed said the money talk is important, versus 89% who said the sex talk is.

Boomers also said it’s easier for them to discuss finances and money management than the birds and the bees, and, in fact, they would rather discuss family finances. This marks a departure from their own childhoods, when their Depression- and WWII-era parents avoided talking about money. Nearly 70% of Boomers say they’re more comfortable talking about finances and money management than their parents were.

The positive trickle-down effect is clear: Today’s Millennials are very comfortable talking about money and plan to discuss financial matters with their children at a younger age — 13 years old, as opposed to 15 for Boomers. These earlier conversations, in turn, will likely help the next generation be more prepared than ever to handle their financial future.

EVEN EARLY STARTERS NEED A LONG-TERM PLAN

For many Millennials, retirement programs are just a normal part of work, an automatic component of the typical benefit package they’ve known since they entered the workforce. Research shows that most who have access to them are using these programs to invest for a secure retirement. On average, Millennials started to invest for retirement at age 23, compared with Boomers who started at 40. At the same time, many Millennials do not believe that Social Security will be available to them in its current form. As a result, they acknowledge the need for a long-term savings and investment plan. Let’s take a look at how having the money talk can help young people avoid financial pitfalls and prepare for the future.
A positive trend...
Boomers are talking to their kids about money

DEFINING THE MONEY TALK
So, what exactly is the money talk? Individuals and families will have their own perspective, of course, about the most important aspects of personal finances. However, we think there are certain key ideas that everyone should understand, regardless of their individual approach to saving and investing.

➤ Planning
A good plan is the essential starting point for wisely managing finances, and it's something even teens can put into practice.
- First, take a long-term view. Many goals are a long way off. Time and the power of compounding can really be an advantage.
- Make a long-term plan that identifies specific goals and time frames for each.
- Make a realistic budget and stick to it. Take a good look at how much you're taking home, list all your expenses and see how much you have left over.

➤ Saving
These three categories address the goals and expenses most adults will need to balance in their financial lives:
- Retirement: Use all the retirement savings and investment programs available — 401(k), 403(b), SIMPLE, SEP, etc. — as soon as you are able to do so, especially benefits like matching contributions.
- Major purchases: Consider a savings program with separate “buckets” for big-ticket items, including a down payment on a home, and for travel and vacations.
- Emergencies: Build up an emergency fund that can carry you through a difficult period. If possible, commit to setting aside even a small amount from each paycheck to your savings account, on top of automatic payroll deductions.

➤ Investing
Millennials are considerably more comfortable than Boomers investing for long-term returns and making good financial decisions that are new to them. The money talk should help children:
- Learn about investing concepts like securities, markets, types of risk and diversification.
- Consider working with a financial professional to develop a personalized investment plan.

➤ Borrowing
Borrowing via a credit card is not “free” money, but rather a convenience to avoid carrying cash for everyday purchases and a strategic tool to make important large purchases feasible. Understanding this at a young age can be very beneficial.
- Establish credit but learn to use it responsibly.
- A good way to start is by using credit to purchase something you can afford to pay off in 3–5 installments. Don't charge anything else until it’s completely paid for. Repeat until you feel comfortable.
- Maintain a debt-to-income ratio of 15%–20%. 
HOW TO START — OR CONTINUE — THE MONEY TALK WITH YOUR FAMILY

If you've already started talking about personal financial matters with your children, you're ahead of the game. Here are a few ways you might approach the money talk with your own family for the first time, or to carry the conversation further. Your starting point will be different depending on the age of your children.

- **Teens and younger children:** Parents of teens might use a general discussion of coming college expenses as an entry to a broader conversation about finances. But even younger children can learn the basics about saving for some of their immediate goals, like buying something they'd like to have.

- **College students/recent grads:** Parents of college students or recent grads could use an event like getting a first apartment to discuss the relationship between independence and financial responsibilities.

- **Grown children:** When children are adults, it can be hard to broach financial discussions without seeming like you're intruding. But Boomers with children in their mid-to-late 20s or 30s might consider having a family legacy discussion, for example. There are a wide range of legacy issues that are often overlooked, and these go beyond concerns about inheritance and final arrangements, such as fulfilling charitable goals or providing gifts to children and grandchildren today rather than in the future, or perhaps buying a vacation house for the family to use and pass down. Or, starting a conversation could be as simple as asking whether the child's new job has a good 401(k) plan.

Regardless of how old your kids are, consider enlisting the help of an Advisor, who can be particularly useful at providing a context for the wide array of personal finance concerns that young people will face over time. Bringing a professional into the conversation can also help emphasize not only how important it is to be informed about financial matters, but also that there's no need to go it alone.

Overall, our survey showed that Millennials are more optimistic about their own financial future, with 64% expressing this outlook compared with 57% of Boomers, and this optimism can carry over to the financial discussions they have with their children. Boomers who are eager to have the money talk but feel they're not the best leaders of the conversation can especially benefit from bringing an Advisor to the table.

**One final benefit of having the money talk with children:** It's an opportunity to revisit your own finances as well.

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**...with pay-it-forward benefits**

Millennials are comfortable — and optimistic — about handling their finances

- **64% of Millennials say**
  I'm optimistic about my financial future.

- **57% of Boomers say**
  57% of Boomers say

- **76% of Millennials say**
  I'm comfortable investing for long-term returns.

- **61% of Boomers say**

- **78% of Millennials say**
  78% of Millennials say

- **59% of Boomers say**

**I follow a budget.**
IMPORTANT INFORMATION

Investing involves market risk, including possible loss of principal, and there is no guarantee that investment objectives will be achieved.

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