

# BUILDING BLOCKS FOR RETIREMENT

## Retirement Planning Essentials

### Teaching Your Children Good Financial Habits

Why is it important to teach your children about money, saving, and investing? Because good financial habits can go a long way toward helping a person successfully navigate the financial challenges they are likely to encounter in adulthood. Learning about the following money-related topics will very likely prove useful to your children throughout their lives.



#### **Budgeting**

One simple way to teach young children about budgeting is to give them a small weekly allowance. When you require your children to do chores in return for their allowance, you help them appreciate the value of the money they've worked for. Once your children have their own money, you can teach them how to manage it by

having them create a budget. The budget could allot some of the allowance for entertainment, some for saving for something special, and perhaps something for a charity. A budget will teach your children how to prioritize spending in order to achieve a specific goal.

#### **Saving and Investing**

Create a savings account for each child. Explain how regular additions to a savings account, combined with interest, can add up over time. Think about requiring your children to increase the percentage of their allowance that they put into their savings account whenever you increase their allowance.

You could open a mutual fund\* account for each of your children as they become smarter about money and saving. It's an opportunity to explain to them how a mutual fund works and the differences between stock, bond, and money market\*\* mutual funds. Show them how to follow fund performance and use their fund statements to illustrate the way their account grows or declines in value.

#### **Earnings and Taxes**

It is important that your children understand how your and your spouse's earnings cover the cost of running the household. It can be helpful to explain to them how you budget



each month for routine household expenses and for non-essential items, such as sports activities and equipment, vacations, and entertainment.

Your children's first part-time jobs offer an opportunity for you to explain how taxes work. Most likely, the difference between gross pay and net pay will come as a shock to your children when they get their first paycheck. Go over their pay stub and give them an overview of the federal and state taxes that are typically paid through withholding.

### **Debt and Credit**

Debt is another worthwhile financial topic you should discuss with your children as they become older. They should understand that very few people can afford to pay cash for a house or an automobile and that most people must borrow to finance these purchases. Explain that taking on debt to pay for items can end up costing borrowers considerably more than the item's purchase price when interest payments are considered and that's why they should be very careful about the amount of debt they take on.

By empowering your children with a basic understanding of money management, you are helping them become better prepared to take charge of their own finances as adults.

#### **Source/Disclaimer:**

*\*You should consider the fund's investment objectives, charges, expenses, and risks carefully before you invest. The fund's prospectus, which can be obtained from your financial representative, contains this and other information about the fund. Read the prospectus carefully before you invest or send money. Shares, when redeemed, may be worth more or less than their original cost.*

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