Our Perspectives: Helping the Young People in Your Life

Homestead Funds

Helping young people develop an understanding of financial concepts — budgeting, investing and managing debt — can help them make smart choices that put them on a path to building wealth and creating a good quality of life for themselves.

Q. How important is it to talk to children and grandchildren about money?

When we fail to teach kids about money, they can be woefully underprepared for all the decisions they have to make as soon as they strike out on their own.

What's more, studies find that even when we don't talk to children about financial decisions, they pick up on the symbolic value of money and all of the emotions it may stir up. They can carry those emotional associations into adulthood, instead of thinking about money in a logical way.[1] The best solution is to talk to children rationally about finances.

Q. What financial topics should I discuss with my children and grandchildren?

We seem most comfortable talking to children about saving, spending and earning money. But it's also important to give them good information about when and how to take on debt, and what goes into maintaining a good credit record, especially since such a high proportion will use student loans.

It's also crucial to make sure young adults understand the basics of investing. Research shows that parents are more likely to talk to boys than to girls about investing, although men and women play equal roles in managing household finances as adults.[2]

Q. What are some ways to start those conversations?

Talk about the news. Keep an eye out for news articles or stories about things like student debt, credit mistakes or the rising cost of education. Share with kids and grandkids by bringing it up at the dinner table or emailing them a copy.

[1]Wall Street Journal, "The Smart Way To Teach Children About Money"
[2]ScienceDaily, "Talking to Kids About Money"

Ask about plans. As kids start to approach adulthood, ask if they understand the options to fund their living costs and bigger goals, and see if they have any questions. You may not know the answer offhand, but you can offer to figure it out together.

Young adults — anyone over the age of majority in their state of residence — can open and begin to fund accounts even with small amounts. Homestead Funds has very low investment minimums — $500 for a regular taxable account and $200 for an Individual Retirement Account (IRA) or Education Savings Account (ESA). We waive our minimums entirely if you fund your account with regular investments made directly from your paycheck or bank account.

Gift a book. A well-written book on the basics of smart money management can arm kids with good information whenever they need it.

Q. What are some ways I can contribute to my children's or grandchildren's education costs?

There are account options available that provide tax benefits for education savings:

An **Education Savings Account, also known as a Coverdell account,** is one great option. Savings in an ESA can be used for a wide range of eligible education expenses, from kindergarten through college. Investments grow tax-free, although distributions are taxable if not used for eligible expenses. Anyone can contribute, but the annual contribution limit is $2,000, and contributions are not deductible.

A **Uniform Gift/Transfers to Minors Account (UGMA/UTMA)** is another tax-advantaged option. This kind of account does not have annual contribution limits, although

INVESTING IN YOURSELF

65% of bachelor's degree recipients will have an outstanding student loan.

For 2018's graduating class, **65%** of bachelor's degree receipients will have an outstanding student loan.[1] Not all students stand to benefit from this investment.

College graduates typically earn more than those without a degree, so borrowing may make sense. But those who do not finish college may struggle to pay their debts and won't benefit from the income boost many graduates enjoy. People who attend community college or for-profit institutions are more likely to default on their loans than those at four-year colleges, another sign that not all loans are smart loans.[2]

MANAGING THE PAYMENTS

The typical borrower between ages 20 and 30 pays **$222** A MONTH

The typical borrower pays **$222 a month** toward student debt.[3] Meanwhile, the average total student debt of graduates in 2018 was a little over $29,200.[1]

The standard repayment plan for federal student loans puts borrowers on a 10-year track to pay off their debts, although it might take some longer. It takes an average of 14 years to pay student loans, based on an average starting salary of $40,000.[4] Making payments larger than the minimum amount will get students out of debt sooner and decrease the amount of interest they are paying.

MULTIPLE DEMANDS ON DOLLARS

50% of millennials moved home after college.

According to a recent Forbes survey, about **50%** of millennials moved home after college with the number one reason being to save money.[5]

Young people with debt may find it challenging to manage multiple payments – like rent or a car payment – and may need to make different choices or defer large purchases. College graduates are still more likely to buy a home than those who did not attend college.[6]

[1]The Institute for College Access and Success, "Student Debt and the Class of 2018"
[2]The New York Times, "New Data Gives Clearer Picture of Student Debt"
[3]Student Loan Planner, "A Look at the Shocking Student Loan Debt Statistics for 2020"
[4]Financial Post, "Student Debt: Average Payback Takes 14 Years"
[5]NY Post, "College grads are moving home for help from mom and dad"
[6]Washington Post, "Student debt is actually not holding back the housing market, says economist"

contributors are limited to federal gift limits ($15,000 for single filers or $30,000 for joint return filers) per year before triggering the federal gift tax. Investment earnings are taxed but not at the same rate as a regular taxable account, so there are benefits.

Family members who have the means can also pay tuition bills directly without triggering the federal gift tax rules, and under specific rules, parents can withdraw from IRA accounts to pay for some eligible education costs.

Homestead Funds does not offer legal or tax advice. Please consult the appropriate professional regarding your individual circumstance.

Investing in mutual funds involves risk, including the possible loss of principal. Past performance does not guarantee future results.

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