VERUM
FINANCIAL PLANNING

A guide to **talking about money**

Introduction

The right financial education can make your children feel more confident about money so, when they are older, they have the knowledge and skills to meet their financial goals.

Often, managing your wealth effectively is about developing positive habits such as regular saving and living within your means. Fortunately, you can instil these habits in your children from a very young age.

As they get older, you can then build on that foundation by helping them expand their knowledge, so they understand how taxes and debts work, and how they may be able to invest their wealth in the future, for example.

Even as adults, they may need advice on buying their first home or choosing the right protection cover. You may need to discuss intergenerational wealth planning with them too.

Ultimately, having these conversations as a family can benefit all of you. Yet, many people shy away from talking about money and you may be unsure how to start the conversation.

This guide will help you start that dialogue and offer some guidance on which money issues to discuss with your children at various stages of life.

In this guide:

- **How to talk to children about money** – Including earning money, basic budgeting and saving, and key money concepts
- **How to talk to teenagers about money** – Including first jobs and payslips, an introduction to debt, and how investing works
- **How to talk to adult children about money** – Including the importance of protection, mortgages, and estate planning

If you need more information about any of the topics covered in this guide, your adviser is happy to help.

We can make sure that you are equipped with the knowledge you need to have productive money conversations with your family.

How to talk to children about money

You may assume that children don't need to learn about money until they reach their teenage years and become more independent. However, according to the Money Advice Service[1], children begin to form money habits by age seven.

So, if you can teach them some key lessons from a young age, they may be more likely to manage their money well when they're older. If good habits aren't instilled early and they develop a poor relationship with money, it could be harder for them to meet long-term financial goals later in life.

Some of the key concepts you could teach them are:

1. Earning money

Start with the fundamentals. Explain to your child where money comes from and how it is earned. You could also pay them for small jobs around the house, like tidying their room, to instil the concept of working and earning money from a young age.

Average weekly pocket money by age[2]

Age	Weekly pocket money
4	£3.21
5	£3.24
6	£3.65
7	£4.19
8	£4.44
9	£4.77
10	£5.40
11	£6.34
12	£8.25

Source: Statista.

2. Budgeting

Budgeting is another great concept to teach your child when they are young as it could help them live within their means when they grow up and start handling their own finances.

Giving them a small amount of pocket money each week and letting them decide how they spend it can be a practical way to get them into the habit of dividing their money and prioritising their spending.

Explain to them that you will only give them pocket money once a week, much like adults are typically paid once a month.

Then point out that they'll need to make their pocket money last until the following week so they can continue buying things they want. For example, you could explain to them that if they spend all of their pocket money on sweets on the first day they receive it, they won't be able to buy anything else for the rest of the week.

However, if they split the money throughout the week, they can treat themselves a few times before they are next 'paid'.

Practical lessons like this can be powerful tools for instilling lifelong good habits.

[1]New study confirms adult money habits are set by the age of seven years old The Money Advice Service.
[2]Average value of pocket money per week in the United Kingdom (UK) as of 2021, by age Statista.

3. Saving

The earlier we start saving, the easier it is to build an emergency fund and work towards larger financial goals like buying a home or saving for retirement. So, if you can teach your child the basics of saving now, it will stand them in good stead later.

Once your child grasps the concept of budgeting their money throughout the week, you can introduce the idea of saving. Setting a goal is a good start, so perhaps ask them if there is a specific toy that they want to save up for.

Then you can work together with them to see how much it costs and calculate how long it would take them to save up if they put a portion of their pocket money aside each week.

You could also consider opening a savings account in their name and contributing to it. This may be a good opportunity to teach them about interest on savings, too.

4. Basic purchases

Finally, you may need to teach them about the basics of making purchases. If you take them shopping with you, they can learn about paying with cash or card. They can also see how you apply your budget and manage your spending.

3 tips for money conversations with children

- Make it fun
- Stick to basic concepts
- Encourage questions

How to talk to teenagers about money

You lay the foundations for adulthood during your teenage years, and learning how to manage your finances is a vital part of this. Unfortunately, many young people do not get the education they need from school.

Indeed, according to the Young Person's Money Index[3], 82% of young people want more financial education and 70% feel anxious about money due to the cost-of-living crisis. The good news is, you can teach them what they want to know and help them feel more confident about money simply by having more open conversations.

Some of the main things you might discuss include:

1. Your own finances

Sharing details of your own finances with them is a good place to start. By showing them how much you earn and what your outgoings are, they can get a sense of how money works in the real world. You can also demonstrate why good money management is key to meeting financial obligations and working towards long-term goals like saving for retirement.

If you don't feel that it's appropriate to discuss the details of your finances with your children, you could always use an example, with assumed income and outgoings instead.

2. First jobs and payslips

Many people have their first job as a teenager, which brings financial independence for the first time. But they may need some help understanding their payslip and key information on it, such as National Insurance (NI) and Income Tax deductions.

You may also want to give them some advice on what percentage of their wages to put into savings each month.

The top things teenagers want to learn about are:

1. Financial products like mortgages, loans, pensions and credit cards
2. How taxes work
3. How student loans work.[4]

Source: The Young Persons' Money Index (full source below).

[3]Young Person's Money Index The London Institute of Banking and Finance.
[4]2022 Gen Z investment report Royal Mint.

3. How debt works

Developing a good relationship with debt from a young age is incredibly beneficial. To help with this, explain the difference between good and bad debt, how interest rates work, and when borrowing is the right option.

Taking out a student loan is often the first time that your child will have personal debt. As such, it may be useful to bring your teenager to speak with your adviser about the loan so they can understand what they are borrowing, how the interest is calculated, and what the repayments are likely to be.

A real-world example like this could be an effective way for your child to learn exactly how debt works and why it can be a useful tool.

By learning these lessons now, your child may be more likely to make borrowing work for them and avoid excessive debt in the future.

4. Getting started with investments[4]

Investing may be an important part of your child's financial plan when they are older, but it can be daunting if they don't understand how it works. Fortunately, you can help them get started now, so they feel more confident managing their own investments later.

You could open a Junior Stocks and Shares ISA for them and encourage them to contribute a small amount each month. Matching their contributions and showing them how to choose different investments is also a good way to engage them in the process.

Consider starting a pension for them and making contributions too, so you can kickstart their retirement savings and teach them the importance of long-term planning.

Did you know?

80% of 16–25-year-olds are making investments for their future[5]

Source: The Royal Mint (full source below).

[4]2022 Gen Z investment report Royal Mint.
[5]Majority of parents yet to discuss will with adult children, study reveals MoneyAge.

How to talk to adult children about money

You never stop being a parent, and even your adult children may need some advice about their finances as they face new hurdles and begin thinking about their long-term goals.

There are also important aspects of intergenerational wealth planning that you may need to discuss as you get older.

However, statistics show that many people fail to have these crucial conversations. For example, research reported by MoneyAge[5] found that 57% of parents have not discussed their will with their children and 49% said that talking about long-term finances in the event of death was difficult.

Fortunately, if you broach these difficult topics with your adult children, you can both be in a better position to protect your wealth, and you may even be able to pass on more of it to your loved ones when you are gone.

You might wish to discuss:

1. The importance of protection

The right protection creates a safety net for your child's wealth. Cover such as life insurance, income protection, and critical illness cover can all act as a buffer against financial shocks and ensure that they can continue working towards their long-term goals, no matter what happens.

But, as FTAdviser[6] reports, only 44% of people have enough cover to protect their family. That's why you may need to discuss the importance of protection with your child and explain the benefits of different types of cover.

Remember…

Your adult children may be able to offer you some useful advice too. So, make sure that they know their input is valuable, and listen to what they have to say.

2. Mortgages

Buying their first home is a huge financial milestone for your child, but figures from the HomeOwners Alliance[7] suggest that they may be lacking knowledge about mortgages.

For example, 27% of mortgage holders do not know what rate of interest they pay and 64% of UK adults said their understanding of mortgage terminology is 'not good'.

If they are buying a home for the first time, your child may not understand the different types of mortgages available to them or some of the key concepts that could affect their decisions about borrowing. So, sitting down with them to explain the mortgage process may make things easier for them.

It may also be a good idea to refer them to your adviser, who can offer guidance and help them find the most appropriate mortgage in their circumstances.

[5]Majority of parents yet to discuss will with adult children, study reveals MoneyAge.
[6]Savers must prioritise life cover FTAdviser.
[7]Mortgage Understanding – Two thirds admit it is 'not good' HomeOwners Alliance.

3. Gifting and Inheritance Tax protection[8]

Lifetime gifting may be a useful way to support your adult children financially and potentially mitigate a large Inheritance Tax (IHT) bill in the future when you pass on your wealth.

A cash gift, for example, could help them with large costs such as a wedding or buying a home. Additionally, you can make contributions to their pension or give regular "gifts from income" to help them cover living expenses.

Talking to your adult children about their financial needs can help you find ways to support them and reduce the size of your estate for IHT purposes at the same time.

However, it is important that you understand the gifting rules so you can be as tax-efficient with your wealth as possible and avoid any surprise tax charges for your family after you die.

4. Your estate plans

According to Canada Life[9], 31 million UK adults don't have a will in place. If you or your adult children fall into this group, it is vital that you both start thinking about estate planning together.

You can take the opportunity to make sure that you both have a will and Lasting Power of Attorney (LPA) in place. Once you have done this, go through your estate plans with your child and show them where all the relevant documentation is, so when you pass away, the process of dealing with your estate is as simple as possible.

It is also a good idea to revisit these discussions about estate planning after milestones like marriage, having children, and buying property, as their will may need to be updated.

Did you know?

In the 2019/2020 tax year, the average IHT bill was £216,000.[9]

[8] Inheritance Tax statistics: commentary UK government.
[9] 31 million UK adults don't have a will in place Canada Life.

Need help? Speak to your financial adviser

Talking to your children about money is one of the best ways you can support them in building their own financial plan.

Your initial conversations when they are young help them develop positive financial habits by teaching them simple concepts about earning money, budgeting, and saving.

When they reach their teenage years, you can build on this knowledge as they start earning their own money. Helping them get started with investments and saving, and letting them see how you manage your own finances will stand them in good stead as they approach adulthood.

Finally, once they are adults, you can give them advice about long-term financial goals like buying a home and saving for retirement. You may also want to discuss your estate plans with them and find ways to pass on as much of your wealth to them as possible.

If you need more advice about any of the topics covered in this guide, and how to help your children at each stage of their life, get in touch with your adviser today.

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A pension is a long-term investment. The fund value may fluctuate and can go down, which would have an impact on the level of pension benefits available. Your pension income could also be affected by the interest rates at the time you take your benefits.

The value of your investment can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance.

The Financial Conduct Authority does not regulate estate planning, tax planning or will writing.

Your home may be repossessed if you do not keep up repayments on a mortgage or other loans secured on it.

Note that life insurance plans typically have no cash in value at any time and cover will cease at the end of the term. If premiums stop, then cover will lapse.

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