Teaching Financial Preparedness

Teaching children preparedness is like teaching good English. It requires setting a good example, lessons, participation and reminders.

I use the example of teaching English because both my sister and I had parents and teachers that spoke good English. If we ever said, "Me and James are going to the movie," we would get an instant correction: "Bud, if you want to go to the movie, you are going to have to make the request in English. Now say, "James and I are going to the movie!" Then would come the explanation that "me" is an object while "I" is the noun. And politeness demands that you use the other person's name before your own. Having had the lesson and making the correct statement, we'd get to go.

And so it is with preparedness. My father always reminded me to save at least 10% of my income for retirement. In those days, I had lots of other things on my mind as well as other priorities, but I always saved at least 10%. We also didn't have retirement planning programs on the Web, and I'm not so sure but that if we did, I'd ever have looked at one. It wasn't until I was in my 40s that I had a professional planner help me with retirement planning. The planner was impressed with my discipline—something I didn't even think about. Now most planners recommend saving 15% for those who have no pension.

Dad recommended that we have an emergency reserve for cash. He said you can't foresee everything. He was right. We have had many financial surprises over our life including things from very expensive uninsured dental care to helping distressed relatives at a time when they had no income.

My family had a budget—and we all knew about it. Mom had a certain number of dollars she could spend for groceries. When we went to the grocery store with her, she would make comments that something we might have wanted would make her run over the amount she could spend. The same was true for clothing and shoes. Dad saved for a vacation every year, and would make sure that we went to places where he had some control over the spending. Dad also saved for retirement, but he didn't have the capability to account for inflation or market variability, so the inflation that reached 13% during the Carter years and plummeting stock values destroyed the image he had of retirement.

My father also taught me some things about investing. Some of those lessons were good, like the advice to diversify. Some advice was not so good as I subsequently learned. Dad felt he could pick a number of big companies, buy their stock, and hold until needed in retirement. I followed that advice but got bum steers from my broker. It wasn't until my 40s when the professional planner told me to get out of individual stocks and into low cost index funds. That was fantastic advice as I learned over the next thirty years. Now authors like John Bogle (who started index funds at Vanguard) and Larry Swedloe publish books proving the point while the vast majority of professional planners also recommend index funds.

My folks told us always to pay our credit card bills fully every month. They said that credit card interest was legal usury. They also said that it was much better to save for something than to get a loan to pay for it. Of course they couldn't do that for their house, but when they died, they were debt free. Saving before spending not only lets us earn interest on that money so that it can grow, it avoids having to pay the interest that ultimately makes items bought with debt so much more expensive. We've also found that during the savings process, we often wonder why we wanted some of those things in the first place.

So what can we do for our children? Even when young, we can teach them to save for things. We can show them what we do. We can teach them sound financial principles. We can question the wisdom of buying something. Instilling the discipline of saving before buying teaches them so many lessons, particularly if there is enough time to see the savings grow or to show them how much an item would cost if we had to pay for it with a credit card loan. And we can show them that savings can be used for emergencies if we have an emergency reserve.

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