Prudential Investment Managers

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Five ways to boost your kid's financial future

Doing all you can to instil good financial habits in your children can have far-reaching benefits for them and for you. Launching your child into the world with a solid understanding of how to manage their finances and plan for their financial future sets them up for financial success and can spare you from having to support them indefinitely!

An international inspiration

International Youth Day, celebrated on 12 August each year, not only brings youth issues to the fore, but also strongly emphasises the potential of youth as partners in finding solutions to global social, economic and environmental issues.
In the same way, integrating young people into the world of finance, and allowing them to develop financial skills – while encouraging their input – gives them a sense of agency that might just benefit the whole family.

Involving older kids, teenagers and young adults in your family's financial journey can help set them on the right path towards sustaining a conscious approach to their finances in their adult years.
Below are 5 ways to help boost your kid's financial future.

1. Tax season presents more than one opportunity

Grasping the concept of tax and accepting that it will need to be paid is a lesson every kid should learn. With the 2021 tax season now open for individuals, why not include your youngsters in the process? They don't need to understand the details, but watching you go through the eFiling process, for example, might help them grasp the basics.

Tax refunds are another good opportunity to either boost your savings towards your kid's financial future or to put towards family savings. Why not bring them into the decision and brainstorm with them how best to invest the money instead of simply doing it yourself? Our Past Performance calculator is a great way to see how much your investment would be worth today if you started investing sooner.

2. Tax-free investing should be part of the plan

Tax-free investments are an excellent way to save for your children's future. As the growth in the underlying funds is free of all local tax, you'll have a larger capital amount when you need it. Our Tax-Free Investment Calculator can help you see just how much more your investment could grow compared to a traditional unit trust investment. You can also take out tax-free investments for each of your children. Again, use this as a teaching opportunity to explain how tax-free investing works, and even encourage their input on the selection of underlying funds. Our fund selector tool is also a great way to help them decide which of Prudential's tax-free unit trusts to choose. The fact that you're opening the investment for them will give them a sense of ownership, hopefully keeping them interested in the way it's growing.

3. Small income, big ideas

Saving some of their pocket money is one of the best financial lessons young people can learn. At Prudential, our unit trusts start from as little as R500 per month – if that's too much, perhaps think about matching their contribution? Tracking the performance of their investment is also an opportunity to explain the benefit of taking a long-term approach to investing, the 'miracle' of compounding and the reality of volatility.

Another idea is to set up a reward system for savings by establishing milestones and celebrating them. Making the rewards for reaching those milestones inexpensive also helps to prove that one doesn't always need to spend to celebrate.

4. Build on patience – practice makes perfect

Delaying gratification can be hard for young people, as they have a shorter-term perspective than adults. Many of us will know The Stanford Marshmallow Experiment, which demonstrated that kids who were able to delay gratification tended to have better outcomes across various life measures. Learning patience spills over into everyday life and using savings as part of your method to help them learn patience can help their savings go the distance too. Patience is also a fundamental attribute of successful investors. Learning this key skill now can help them stick to their investment objectives as an adult, helping prevent them from making costly mistakes when markets are volatile.

5. Joining the workforce 101

Once older children start earning a salary, the right mindset is crucial. It’s all too easy for them to fall into debt, as it will be tempting to buy all the things they couldn’t afford before. It’s crucial to help them set financial boundaries for themselves by establishing a budget. They also need to understand the perils of ruining their credit score and, ultimately, their financial reputation. Debt is a slippery slope, and parents can help their young adults to avoid the dangers of overspending – before it’s too late.

Encouraging your youngster to realise the importance of an emergency fund to help with unforeseen expenses is another important step. A reserve that equates to three-to-six months of their salary is a good rule of thumb, invested in something that earns more than a typical bank deposit and that provides access to their funds with fairly short notice. At Prudential, we have a range of short-term investments that are suitable, such as the Prudential Money Market and Income Funds.

While some of the tips highlighted above may not be applicable for all family situations, this International Youth Day message should hopefully resonate with all parents. Creating a sound financial grounding now gives children the best chances of enjoying a successful future, no matter which path they choose.

For more information, please feel free to contact our Client Services Team on 0860 105 775 or email us at query@prudential.co.za.