YOUR WEALTH JOURNEY — NAVIGATING LIFE'S FINANCIAL MILESTONES

Your Child Receives Birthday Money

How to turn gifts into financial lessons that pay a lifetime of dividends

When your children or grandchildren receive money for their birthday—or any special occasion—it is an opportunity to start teaching them about investing and smart financial habits. This is true whether the gift is a $20 bill folded inside a birthday card or a check for $2,000 presented as a gift for graduating from middle school or another milestone.

Here are four ways to put that gift toward teaching children financial lessons that will benefit them their entire lives.

Let Them Spend It

Depending on how big the gift is, you may or may not be comfortable letting the child spend the full sum immediately. But giving children free rein over at least part of the gift allows you to start conversations about financial values and how spending relates to those priorities.

Questions you can use to spark conversations with your child about money, spending, and values include:

How would you like to spend this money? Do you have something in mind such as a video game or an activity?

Would you like to spend it right away or wait until you have more money saved up, so you can spend it on something more expensive?

Do you know how other people in your family decide what to spend money on?

Do you know how people earn money? Do you know what your family members do for work and how we earn money?

Would you like to hear about ways you could use this money to help people who don't have as much as you?

Help Them Save—And Set Goals

Encouraging your child to put the money aside for the future can lead to conversations about the importance of setting financial goals. Discuss how much money they need to save to reach specific goals and then help establish incremental steps for achieving them—whether that involves getting a job and saving a portion of every paycheck or creating a budget.

Examples of financial goals for children:

Short-term goal:
Buying a video game console in 6 months

Mid-term goal:
Buying a first car or studying abroad in 5 or 10 years

Long-term goal:
Buying a house in 20 years

The best place to hold those savings will depend on the specific need and when you will need it. For short-term goals, you may want to set up a custodial savings account (governed by the Uniform Transfer to Minors Act, or UTMA) on their behalf—so they can see how bank accounts work. For long-term goals, consider showing them the value of investing money and the potential to generate returns over many years.

Teach Them How to Invest

While children cannot open their own brokerage account until they turn 18, you can still put the money in an account and invest it on their behalf. This allows you and your child to track the account's performance over time, and it gives you ample opportunity to explain the fundamentals of investing—such as how stocks and funds work and the value of diversification.

How detailed you get, of course, will depend on the child's age and interest level, but even when children are young, understanding the basics of investing can help prepare them for saving and investing when they are older.

Before you help your child invest their money, there are a few important questions to answer.

What is the best type of account for investing your child's money?

The two most likely vehicles to consider for investing a child's money for general purposes are an UTMA brokerage account and a trust. If the money is for a specific goal, such as education and healthcare, there are other vehicles to consider. Each vehicle has its own pros and cons.

	UTMA brokerage account	Trust
Pro	These accounts are easy to set up and have low account maintenance costs. It is important to consider investment fees in addition to the maintenance costs.	You have greater control over when and how the child gets access to the money. A trust allows you to release the funds slowly or put in other conditions that must be met before the child receives the money. This can be especially helpful for large sums.
Con	The child will get access to the full account value once they reach the age of majority in your state, which is typically 18 or 21 years old. Note that money in an UTMA account could reduce the amount of a student's aid reward, since the student is considered the owner of the account, not the custodian.	Trusts can be more complex and costly to set up, and they can be difficult to change once they have been established.

What is the best type of vehicle to establish for your child? The decision typically comes down to the amount of money you plan to put into the account, the degree to which you want to restrict the child's access to the money, and the need to protect the assets. These can be complicated questions, so it's usually best to work with your wealth advisor, accountant, or attorney to determine the best choice.

Alternatively, there are online tools that let you set up a mock portfolio—so you and your child can talk about investing and make investment decisions without putting in real money.

What kind of investment vehicles should you use?

Individual stocks and pooled funds (whether mutual funds or exchange-traded funds) each have their own advantages and disadvantages when it comes to being a teaching tool for kids.

	Individual stocks	Funds
Pro	Your child may have companies they like or have heard of that they would be excited to invest in. Tracking the performance of individual companies is simpler and more intuitive than following a fund's performance.	Investing in funds shows your child the value of diversification. This helps children learn how to manage the risks of investing while still generating returns.
Con	Achieving diversification through individual stocks can be challenging with small dollar amounts. The stock of some of the most well-known companies costs more than $1,000 per share.	Understanding how a fund works can be confusing for a child. It will likely be hard for children to connect the dots between news they hear about a company and how that relates to the fund's overall performance.

Helping your child learn about taxes

Another bonus of letting children invest the money is that it's an opportunity to start teaching them about taxes. You can explain how they may have to pay capital gains on the growth of the investment as well as tax on dividends or interest.

Show Them the Power of Giving and Values

You may want to use the birthday gift as an opportunity to not just talk about managing money, but also share with them the family's financial values. This can include giving to charity—plus the organizations or causes your family supports and what has led you to make those decisions.

You can encourage children to donate a portion of their birthday gift to an organization of their choice. This act of giving can have a powerful effect in building a spirit of philanthropy in young ones. Another approach is to set up a donor-advised fund—and potentially match the child's gift. This allows children to learn about many different charities and be involved in making decisions about allocating money to various causes.

Recognize the power of talking with your child about financial values, money management, and investing while your child is young. It is never too early to start teaching children the importance of being thoughtful about money and building sound financial habits. The check or cash tucked inside a birthday card might just be the perfect chance to do that.

Contact Us:

Please contact your William Blair wealth advisor or contact us at *pwm@williamblair.com*.

June 2023