Five Tips for Talking About Money With Adult Children

Help your clients with this difficult conversation.

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Lighten up the conversation, make it more casual. *Zinkevych/iStock/Thinkstock*

As parents, our clients want the best for their children, perhaps especially when those children become adults. Learning good financial habits can be central to a successful and independent adulthood. Yet, most young adults feel they're thrown into the world without any education on how best to handle their finances. Remembering their own money mistakes and successes can help put your clients in the best position to pass on advice that will help their young adults learn to manage their money successfully. I suggest five steps to help the conversation go smoothly and ensure your clients touch on all the right topics.

Start the Conversation

Starting the conversation is the hardest part for many parents. After being on their own a bit and making their own financial decisions, many adult children may already feel they're quite self-sufficient. How does a parent broach the subject without seeming overbearing or too "parent-y"? Start with the scenery. Sitting around the living room coffee table may be intimidating; perhaps having the conversation over an activity can lighten up the conversation, helping to make it feel more casual. What about having a talk over a long walk or maybe on the golf course?

Your client should think about how they'd like the conversation to go if they were in their child's position. Did your client struggle with overspending? Did they delay saving for retirement? Can they share stories of any less-than-stellar financial decisions? Most people don't want to admit their faults or mistakes—especially to their parents. By starting the conversation with a personal story, your client can pivot the whole discussion from a lecture into a back-and-forth conversation.

Save Regularly

The importance of saving regularly is often discussed but rarely taken to heart. The easiest way to change behavior is to make it personal. Why is it important that your client makes saving a priority? Has something happened to a family member or close family friend that could have been resolved with some savings? Can your client share experiences about their savings success and failures as a young adult?

In terms of how much to save, we recommend starting by saving 20 percent from each net paycheck. Your client can suggest that the adult child set up an auto-draft to automatically pull that portion from each paycheck and put it in a savings account. If the adult child can open that savings account at another bank, even better. The harder it is to access the money, the harder it is to spend. In addition to regular savings, your client should counsel that the adult child put away a percentage of future raises and at least half of every bonus.

And don't forget about retirement! If an adult child's company does any kind of retirement plan with a company match, your client should walk them through how to participate and make sure they receive the maximum company match. It's free money. Who doesn't love that? If the company doesn't offer any plans, perhaps suggest starting a traditional or Roth IRA.

Discuss Spending Habits

Discussing savings naturally allows the conversation to flow into spending. No one likes to think about budgeting, but we all know how important it is to live within one's means. To get adult children interested in budgeting, your client has to help them find the budgeting strategy that works for them. Some people like a very extensive budget, with line items for every category of spending. For others, that's overwhelming and something simpler is called for. I recommend the 50-20-30 technique: 50 percent of the budget for "fixed" expenses (that is, rent, phone bill, etc.), 20 percent for savings and 30 percent for the nights out, new clothes and latest gadget. If this one doesn't fit, there are many others techniques your client can find online. There are also lots of tools out there that can help. Few people actually like traditional spreadsheets to track their spending, and now lots of Internet options and mobile apps exist to help set goals and track spending.

Plan Housing Expenses

For 20- or 30-somethings, the largest fixed expense in their life, after student loans, is usually housing. Clients shouldn't share their parents' advice with their young adult. No longer is it the best advice to, "Buy the biggest house you can because you will grow into it." Keeping monthly housing costs as reasonable as possible is the mantra of today. Whether it's rent or a mortgage, keeping payments down offers unmatched financial flexibility for people. In today's fast-paced and mobile world, where opportunities and locations can change quickly, having the ability to be nimble is increasingly important. And although housing costs vary by area, I recommend that the adult child limit their housing budget, including rent/mortgage, insurance and property taxes, to no more than 35 percent of take-home pay.

Take Control of Debt

Credit card debt and student loans can quickly spiral out of control. Your client can help their young adult tackle an overwhelming debt burden by first knowing what they're facing. Your client should help their child review their credit report at least annually. Reviewing these reports not only helps spot errors and identity theft, but it also helps the adult child understand what and where they have debt. Once they know the full story, your client can begin focusing on those credit cards, putting the most towards the highest interest-rate card first. If the adult child has significant student loan debt, they can look into student loan consolidation and refinancing options. Remember, credit card and student loan interest will always be higher than any interest that can be earned on a savings or investment account. So, it's best to focus first on paying down debt as quickly as possible.