How to Prepare Your New Grad for Financial Independence

By Eric C. Pritz, CFP®, CMFC

For some lucky parents, the month of May marks a major financial turning point – the end of onerous college tuition bills and the chance to begin redirecting more of your assets towards achieving other important life goals. You've accomplished a huge milestone in helping to prepare your son or daughter for the road that lies ahead, but you still have an opportunity to instill or reinforce strong financial values and ensure they start their independent life on firm footing.

A great deal has been written about millennials (the generation born between 1980 and 2000); much of it unflattering. It's a generation that is often branded as narcissistic and self-important – unable to function in a corporate setting due to a sense of entitlement and an unwillingness to put in the years of work necessary to climb the organizational ladder. Hollywood loves to depict them as isolated and socially awkward, the result of lives lived more in the virtual world of social media and online gaming than in the real world.

Thus, it comes as no surprise why parents might be overly concerned about the financial preparedness of their millennial children as they embark on their career paths. Rest assured, however, the future is in very good hands. Having grown up in the midst of the Great Recession, it's a generation that's more fiscally conservative and risk averse than their baby boomer parents. But it's also a generation imbued with a tremendous global awareness, social conscience and strong sense of social justice – leading new movements for change in corporate governance, gender equality and gun reform.

5 steps to financial self-sufficiency
Given this selfless desire to "do good" for others rather than to "do well" for themselves, what can you as parents do to ease the transition of your new graduate to financial independence?

1. **Engage in a candid conversation**: sit down and have an open honest discussion about fiscal responsibility – from saving and investing to debt management. Don't preach, but teach. Be forthcoming about any financial mistakes you regret having made, as well as the lessons you've learned from personal experience that you wish you had known starting out. Share your personal financial values and talk about the legacy you've created and how you plan to pass on that legacy down the road.

2. **Jumpstart their retirement savings**: while retirement is often the last thing on your mind when you're just starting out, we've all seen how important and impactful it is to start early. As a way to incent retirement savings, consider doing what many employers do to incent 401(k) plan participation…offer

to match your millennial's annual contribution to a Traditional or Roth IRA up to a certain dollar amount.

3. **Gift shares of stocks they can connect with**: in an effort to temper any risk aversion and show them the growth potential of equity investing, consider a graduation gift of equity rather than writing a check. Shares in several stocks that your millennial can personally connect with either from a day-to-day familiarity or socially responsible perspective (e.g., Apple, Netflix, Tesla). Depending on your own portfolio holdings, this might also offer an opportunity to gift shares of highly appreciated stocks and thus move them out of your taxable estate.

4. **Drawdown their student debt**: fiscal responsibility isn't solely about saving and investing, it's also about budgeting and managing debt. The average student loan debt for a Class of 2016 graduate was $37,172[1] (those numbers skew considerably higher when you focus solely on private four-year universities). And that debt can serve as a major impediment early on in getting favorable terms on car loans and mortgage rates. Consider offering to match a portion of your graduate's student loan repayments to help eliminate their debt more quickly.

5. **Introduce them to your advisor**: sound financial behaviors are a byproduct of education and guidance. Perhaps nobody is better qualified to instill those more than your financial advisor, who not only has the professional expertise, but also the familiarity and understanding of your family, your wealth and your legacy goals. Encourage your son or daughter to meet with your advisor to begin working together on charting a course.

Helping your new graduate find their financial footing may not be as challenging as you think. This is a generation of cause-driven and charitable social activists who are not only willing but eager to engage in creating a better future. By implementing one or more of these steps, you can make that journey easier and far more enjoyable for them.

[1] Source: Student Loan Hero, March 2018

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