How to Save Money for Your Children

Nobody can predict the future, but all parents and guardians know one thing for sure – your child or children are expensive and will need money to thrive into adulthood. Assuming you are financially secure to save for your children, countless account types, strategies and resources are available to help secure a nest egg and keep kids from worrying about life's necessities.

Parents can educate themselves to ensure a financially comfortable life for the next generation and that knowledge and care will pass down to the kids. It will take time to open every account and discover every prerequisite, but think of it as an exhilarating journey to solidify your child's happiness.

Preliminary Steps

Before parents can dive into opening account after account and calling for government benefits, there are a few ways you can make the effort as flawless and stress-free as possible.

Make a Financial Plan

Construct a blueprint for your and your child's financial journey. Depending on their age, you may want to include them in this discussion to discover their priorities. Regardless, these are the main questions you'll want to consider in the planning process:

- What expenses do I want to save for, such as a home, car, education or retirement?

- Based on these priorities, how much do I want to save for each savings category?
- How much room do I have in my existing budget to allot for savings?
- When will the child or children receive access to each savings account, if applicable?
- How will I create boundaries and expectations with my kid to ensure responsible spending for accounts without restrictions?
- How old will my child be before I show them how to use their first savings and checking account?

Some accounts release to dependents at a certain age, sometimes 18 or 25 depending on the state or account type. Parents will want to see how the transfer works and how much oversight they would or could have after that transition.

Have Financial Conversations and Educate on Resources

In addition to parent-sponsored savings, kids will need instruction on using these accounts as part of the financial plan. Lead by example. Having honest conversations about money is the best place to start because it removes the cultural taboo surrounding transparency in personal finance. Plus, it will increase the child's understanding and appreciation of money.

Your savings efforts don't matter if you don't set a precedent for your kids to have a healthy relationship with money – and 42% of parents avoid money talk altogether.

As a supplement, parents can find free courses and online resources – such as YouTube channels like The Financial Diet – or seminars and help guides through their bank to read through together. Plan these conversations over time, changing subject matter as they age and when topics become relevant. For example, talking about maintaining credit scores and

skepticism around NFTs will come at a different time than what overdraft fees are.

Remember Your Reason to Save

The most important reason to save is for your kid's well-being. However, nobody can deny it's more fun to buy new clothes than allot that extra $100 into a savings account. Here are a few additional motivators that will reinforce your reason to save:

- These savings options may not exist in the future. Take advantage of them now.
- Government programs could phase out or change for the worse. Vote accordingly.
- Recall times you struggled with money and channel that into productive action for your child.
- Reframe your mindset and know every dollar is another minute of peace for your kids.
- Your children will not be victims of exorbitant school prices or inflation.
- In case of an emergency – personal or medical – there's money available without uprooting their whole life.
- If the parents were to pass away, the kids wouldn't struggle to survive.

Blanket Savings Recommendations

Some accounts and savings options aren't available for everyone and might have restrictions or prerequisites. However, plenty are relatively easy to come by to build savings momentum for your child. These are the most reliable savings options, no matter the stage of life.

General Savings Account

These are the simplest to open and maintain. You can input money sporadically or have automated transfers to ensure the

balance increases. Look outside your primary banking institution to get the most out of a savings account. Most banks offer little or no interest accumulations as the money depreciates.

Consider money market accounts or high-yield savings to bank on those extra dollars. Parents may consider removing allowances and placing all funds in savings, answering money requests from their kids on a case-by-case basis.

Retirement Savings

Unless your kid is working and has a 401k with their employer, likely, they haven't looked into or thought about retirement. The most realistic option is a Roth IRA, but you can discuss other options with your bank if they apply. Roth IRAs allow $6,500 per year in contributions – or $7,500 if you're over 50 – as of 2023. Withdrawals before age 59½ will result in a 10% tax penalty.

Parents may wonder why this is useful for their children if it will incur tax penalties. Early withdrawals without penalties are acceptable for particular instances like childbirth, becoming a first-time homebuyer or going to college. These can change yearly, so stay current with each circumstance you want to take advantage of.

Custodial and Trust Accounts

Many confuse these two account types, so here are the similarities and differences. They are the same because they are savings accounts parents can assign to a beneficiary – like a child – to overtake or co-manage the funds. Parents can reach out to banks or brokerages to start the process.

Custodial accounts limit or restrict the beneficiary's access until a designated point. Parents can refer to the Uniform Transfers to Minors Act and the Uniform Gifts to Minors Act to

understand the nuances of these resources, but they are usually flexible. Custodians manage accounts for the owners – who are generally under 18 – and can include financial or tangible assets like valuables or property.

Trust accounts require the parents to assign a fiduciary, making the process extensive with all the legal admin. These organizations or individuals should act as financial advisors to the beneficiary to promote long-term savings, maybe for an estate. They are more specific in purpose and are a better option for families considering unexpected deaths or charitable contributions.

Savings for Specific Circumstances

Depending on circumstances or income, you may only have access to some financial programs that serve people who need curated assistance. These savings options for parents could help children in these scenarios.

Health Savings (HSAs) and Flexible Savings (FSAs)

HSAs are savings accounts where families can set money aside specifically for health expenses like medications or surgeries. Not everyone qualifies for them, so here are some base qualifications as of 2023:

- You have a high-deductible health plan.
- You're not enrolled in Medicare or other health insurance unless otherwise specified.
- Nobody is claiming you as a dependent.

The tax-deductible contribution limits are $3,650 for individuals and $7,750 for families. There are no penalties for withdrawals. Verify with current regulations what medical expenses HSAs cover.

It’s OK if you don’t qualify because you may have other options through your employer. Reach out to see if they offer FSAs, which are similar tax-wise but can’t store as much and usually don’t roll over into subsequent years.

Higher Education Savings

Lucky for parents, there are many ways to save for a child’s higher education. Here are two investment strategies to consider so your kid doesn’t fall among the million burdened by student loan debt repayment:

- **529 Plan:** Name your child as a beneficiary to this tax-advantaged account for them to use for school-related expenses. These plans vary by state with no income caps. There are two types – savings and prepaid tuition plans. The savings allows parents to choose the portfolio they’re most comfortable with. Prepaid plans take the tuition price from when your child is born and let parents fund that amount for schooling, which helps avoid price hikes.
- **Coverdell Education Savings Accounts:** Operates similarly to a 529 plan to save for higher education. However, contribution limits are $2,000 per child each year. They have more flexibility with the investment portfolio over 529 programs because parents could also look into mutual funds, stocks and bonds.

As of 2023, you could open multiple college savings accounts to spend on tuition, books or school supplies. There are restrictions on what constitutes an eligible expense, so ensure to verify with school officials or the account institution.

ABLE Account

If you have a child with a diagnosed disability before age 26, look into the ABLE account. Parents could contribute as much

as $17,000 post-tax dollars in a single tax year – meaning these investments grow tax-free. They do not cause withdrawal repercussions if spenders use them for qualified disability expenses. No matter what the parents contribute, governments don't consider this money when determining eligibility for the account participants for government programs like Medicaid.

Invest in Stocks

It's the riskiest form of savings, so it's not recommended for all families. Households with emergency funds, little or no debt and stable incomes may want to invest in low-risk options like index funds to build slow, passive wealth. Each investment will determine penalties and fees for withdrawals, but it's another savings option for parents who have disposable income.

Other Tips to Save

There are myriad ways to save money for your kids without using fancy savings accounts – though you should prioritize them because of their benefits. These are less formal ways to save a few extra dollars in your everyday life that could amount to significant savings for your kids over time:

- Buy store brands instead of name brands.
- Shop with cash for a tangible limit and leave the cards at home.
- Shop secondhand.
- Look into apps that give you money, no side hustle necessary.
- Unsubscribe from promotional emails that tempt you to make unplanned purchases.
- Shop online and avoid in-person impulse purchases or shopping as retail therapy.
- Minimize or eliminate vices like alcohol, smoking and gambling.

- Take “staycations” instead of luxury trips.
- Pack lunches.
- Reach out to utility providers for discounts.
- Make coffee at home.
- Cancel unnecessary subscriptions.
- Use the library instead of buying new books, movies or video games.
- Invest in high-quality clothes and cosmetics to avoid excessive repurchasing.
- Order water at restaurants.
- Use blackout curtains, low-flow shower heads and other tools to reduce energy costs.
- Buy reusables, such as hand towels, to replace repurchasing paper towels.
- DIY gifts or offer services instead, such as house cleanings or babysitting.
- Seek out coupons and codes.
- Carpool or use public transportation.
- Save coins in a traditional piggy bank.
- Never expect surprise money, like tax refunds or cash gifts – put it into savings instead.
- Automate savings transfers.
- Avoid ATMs with surcharges.
- Pay off credit cards in full each month to avoid interest and fees.

The most important item to remember while saving is not to give up or feel there aren’t options to make meaningful contributions because there is something out there for everyone.

Locking in Your Child’s Financial Stability

Saving for your kids isn’t just about what kind of accounts or investments you have – though they’re a huge help. Financial

responsibility is about having the appropriate attitude and being honest about your circumstances. Acting as a positive monetary role model will be the best way to ease your children into the stressful yet promising world of money with security and calm.

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