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Vital Planning Tips for When Children Reach the Milestone of Age 18

Turning 18 is a milestone that every young person looks forward to and a time when parents look back proudly at their child's accomplishments. It is also that magical age when—in the eyes of the law in most states—the child becomes an adult and is now legally entitled to the privileges of being an adult, such as voting, establishing credit, signing contracts, and becoming legally independent from parental oversight.

At this milestone in a young person's life, parents should engage in a review of their own financial and estate plans, as well as take the opportunity to educate their children and help them plan a future driven by their own decisions.

Estate Planning

While most 18-year-olds haven't accumulated enough assets to make financial planning top-of-mind, there are three essential documents that every young adult should have when they turn the age of majority.

» **Health Insurance Portability and Accountability Act Release**–more commonly known as a HIPAA release form. This document authorizes medical professionals to release confidential information regarding the child's medical condition and location. Without it, parents may face a situation in which they cannot access basic medical information about their child's condition in situations when medical treatment or hospitalization is required.

» **Health Care Power of Attorney.** Should the child require medical treatment and be unable to participate in his or her own care decisions, this document names someone who is authorized to make medical decisions on the child's behalf.

» **Power of Attorney.** This document names someone able to make financial decisions on the child's behalf should the child become incapacitated. It can be either permanent (durable) or temporary (springing) in nature.

Many families wrongly believe that if something ever happened to their child, they would be entitled to information or have the ability to make certain decisions on their behalf. Unfortunately, based upon the situation, this may not be the case.

Foundation for a Strong Financial Future

As young people set off to college or begin a job, parents and families have an opportunity to instill in their children the skills necessary to build a strong financial future. While families' ability and willingness to provide financial support to children differs, there are a few basic recommendations that everyone should consider:

» **Open a Checking and/or Savings Account.** Opening a deposit account is a step toward building a financial foundation for young adults. Depositing funds, monitoring balances, watching outflows, and learning how to reconcile accounts with monthly statements provide good foundational money management skills.

» **Set Limits.** All young adults should make a budget and track spending. It's important they know how much income they receive each month—whether from a job or support from parents—and understand how they are spending it. This is a real life learning experience for when they begin to financially support themselves.

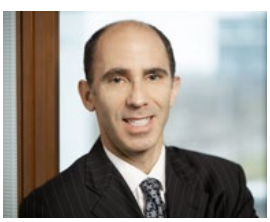
» **Live Beneath Your Income.** In the age of materialism, living within your means is hard for almost everyone. For young adults especially, before making any major purchase or impulse-buy, they should ask themselves three questions:

- Do I need it?
- Can I afford it?
- Can I get it elsewhere for less?

» **Save.** If a young adult is employed, he or she should be encouraged to pay themselves first in the form of after-tax savings or contributing to retirement plans (401(k), IRA or Roth IRA). Establishing a savings pattern will contribute to future financial freedom.

» **Establish Credit.** Children grow up watching their parents use credit cards to buy things but rarely see them pay the bills. By imitating the former and ignoring the latter, young people often see interest on debt add up quickly and engulf their finances. However, the solution is not to avoid credit cards entirely, since beginning early to build up a credit profile is important. Factors later in life such as qualifying to buy a home, the finance rate for a car loan, or the premium paid for insurance will be based upon it. With proper guidance from parents, a credit card—paid off in full every month—can help teach valuable early-life lessons as well as establish a strong financial foothold.

Entering young adulthood is an exciting time for both children and parents. When approached sensibly and with some planning and forethought, children's transition to young adulthood can be smooth and help prepare them for whatever adult life may have in store.



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