10 Ways to Help Your Kid Build a Lifetime Emergency Fund

One of the most effective financial tools you can give a child is an appreciation for an emergency fund and the advice on how to build it themselves.

An emergency fund should contain 3-6 months worth of money to cover living expenses – its main focus should cover all loss of income, not just a car payment or a refrigerator repair. With parents losing jobs and college expenses continuing to grow, the younger you can get a person started, the better. Some advice:

1. Start by encouraging them to save something, no matter how small the amount: Even if it's a few cents out of an allowance, a teenager should be encouraged to set up a separate savings or checking account – someplace not easy to access – where they can house the money. Interest-bearing accounts are better. For young children, this is why piggy banks work so well. It's about setting goals and knowing where the money is.

2. Help them develop a balance between treats and sacrifices: Financial independence requires a balance of risk and reward. Life can't be all about building reserves, so tell the teen when they hit a certain level for the fund – maybe a midpoint toward the three-month mark – they can treat themselves to clothes or an electronic device. After the purchase, they go right back to saving.

3. Encourage them to direct all change into the emergency fund: No matter how old or young the child, it's a good idea to take non-essential funds and direct them toward the emergency fund. Change is a great way to get started.

4. Set an example: Can your child see you saving? Do you physically set aside money and talk about goals for that money? Your child hears all of this. While parents can't be perfect, think about the money behaviors you're demonstrating in front of the kids, and try to make them positive.

5. Keep them away from credit as long as possible: It's one thing for a teenager to use their parents' credit card while they're still living at home. It's quite another when they get their first taste of freedom hundreds of miles away. Parents may co-sign the student's credit card but keep it in the student's name. That way, parents will know when financial missteps occur; this will be a strong incentive for the student to keep his credit rating clean for the next four years.

6. Set up money meetings: Whether the child is living at home or off at school, it makes sense for the parent and child to have a few meetings during the year to talk about the range of money issues the child is facing, and during that time, the emergency fund can be up for inspection and discussion.

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7. Make them set up a real budget: Budgeting comes with saving. Young kids can do their first budget on paper – they can track what they spend and save over a month or two and then establish what comfortable amounts for both will be. Teenagers and prospective college students might find it useful to have personal finance software to track their everyday expenses, though they should make sure both the computer and the passwords necessary to access their program are secure. Again, review these details during your money meetings.

8. Get them interested in better-paying, safe savings vehicles: At some point, the piggy bank's got to go. An emergency fund can eventually gravitate to other interest-bearing accounts that might pay more, but only as long as the money stays liquid. If the emergency fund is healthy, it's also wise for parents to talk to their children about setting up their first IRAs to get a jump on retirement planning and considerable tax savings.

9. Remind them that today's emergency fund may not fit next year's needs: An emergency fund will almost always need to expand in size as the person ages. More years, more expenses, more emergencies – make time to convince your child that emergency funds should change with life circumstances.

10. Train them to start saving tax refunds: If Uncle Sam kicks back a few bucks, then by all means, put it in the emergency fund or other savings vehicles.

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