



## HFS Wealth Advisors

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# Teach Your Children Well: Basic Financial Education



*As soon as your children begin to handle money, start teaching them how to handle it wisely.*

Even before your children can count, they already know something about money: it's what you have to give the ice cream man to get a cone, or put in the slot to ride the rocket ship at the grocery store. So, as soon as your children begin to handle money, start teaching them how to handle it wisely.

## Making allowances

Giving children allowances is a good way to begin teaching them how to save money and budget for the things they want. How much you give them depends in part on what you expect them to buy with it and how much you want them to save.

Some parents expect children to earn their allowance by doing household chores, while others attach no strings to the purse and expect children to pitch in simply because they live in the household. A compromise might be to give children small allowances coupled with opportunities to earn extra money by doing chores that fall outside their normal household responsibilities.

When it comes to giving children allowances:

- Set parameters. Discuss with your children what they may use the money for and how much should be saved.
- Make allowance day a routine, like payday. Give the same amount on the same day each week.
- Consider "raises" for children who manage money well.

## Take it to the bank

Piggy banks are a great way to start teaching children to save money, but opening a savings account in a "real" bank introduces them to the concepts of earning interest and the power of compounding.

While children might want to spend all their allowance now, encourage them (especially older children) to divide it up, allowing them to spend some immediately, while insisting they save some toward things they really want but can't afford right away. Writing down each goal and the amount that must be

saved each week toward it will help children learn the difference between short-term and long-term goals. As an incentive, you might want to offer to match whatever children save toward their long-term goals.

## Shopping sense

Television commercials and peer pressure constantly tempt children to spend money. But children need guidance when it comes to making good buying decisions. Teach children how to compare items by price and quality. When you're at the grocery store, for example, explain why you might buy a generic cereal instead of a name brand.

By explaining that you won't buy them something every time you go to a store, you can lead children into thinking carefully about the purchases they do want to make. Then, consider setting aside one day a month when you will take children shopping for themselves. This encourages them to save for something they really want rather than buying on impulse. For "big-ticket" items, suggest that they might put the items on a birthday or holiday list.

Don't be afraid to let children make mistakes. If a toy breaks soon after it's purchased, or doesn't turn out to be as much fun as seen on TV, eventually children will learn to make good choices even when you're not there to give them advice.

## Earning and handling income

Older children (especially teenagers) may earn income from part-time jobs after school or on weekends. Particularly if this money supplements any allowance you give them, wages enable children to get a greater taste of financial independence.

Earned income from part-time jobs might be subject to withholdings for FICA and federal and/or state income taxes. Show your children how this takes a bite out their paychecks and reduces the amount they have left over for their own use.

## Creating a balanced budget

With greater financial independence should come



greater fiscal responsibility. Older children may have more expenses, and their extra income can be used to cover at least some of those expenses. To ensure that they'll have enough to make ends meet, help them prepare a budget.

To develop a balanced budget, children should first list all their income. Next, they should list routine expenses, such as pizza with friends, money for movies, and (for older children) gas for the car. (Don't include things you will pay for.) Finally, subtract the expenses from the income. If they'll be in the black, you can encourage further saving or contributions to their favorite charity. If the results show that your children will be in the red, however, you'll need to come up with a plan to address the shortfall.

To help children learn about budgeting:

- Devise a system for keeping track of what's spent
- Categorize expenses as needs (unavoidable) and wants (can be cut)
- Suggest ways to increase income and/or reduce expenses

### The future is now

Teenagers should be ready to focus on saving for larger goals (e.g., a new computer or a car) and longer-term goals (e.g., college, an apartment). And while bank accounts may still be the primary savings vehicles for them, you might also want to consider introducing your teenagers to the principles of investing.

To do this, open investment accounts for them. (If they're minors, these must be custodial accounts.) Look for accounts that can be opened with low initial contributions at institutions that supply educational materials about basic investment terms and concepts.

Helping older children learn about topics such as risk tolerance, time horizons, market volatility, and asset diversification may predispose them to take charge of their financial future.

### Should you give your child credit?

If older children (especially those about to go off to college) are responsible, you may be thinking about getting them a credit card. However, credit card companies cannot issue cards to anyone under 21 unless they can show proof they can repay the debt

themselves, or unless an adult cosigns the credit card agreement. If you decide to cosign, keep in mind that you're taking on legal liability for the debt, and the debt will appear on your credit report.

Also:

- Set limits on the card's use
- Ask the credit card company for a low credit limit (e.g., \$300) or a secured card to help children learn to manage credit without getting into serious debt
- Make sure children understand the grace period, fee structure, and how interest accrues on the unpaid balance
- Agree on how the bill will be paid, and what will happen if the bill goes unpaid
- Make sure children understand how long it takes to pay off a credit card balance if they only make minimum payments

If putting a credit card in your child's hands is a scary thought, you may want to start off with a prepaid spending card. A prepaid spending card looks like a credit card, but functions more like a prepaid phone card. The card can be loaded with a predetermined amount that you specify, and generally may be used anywhere credit cards are accepted. Purchases are deducted from the card's balance, and you can transfer more money to the card's balance whenever necessary. Although there may be some fees associated with the card, no debt or interest charges accrue; children can only spend what's loaded onto the card.

One thing you might especially like about prepaid spending cards is that they allow children to gradually get the hang of using credit responsibly. Because you can access the account information online or over the phone, you can monitor the spending habits of your children. If need be, you can then sit down with them and discuss their spending behavior and money management skills.

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