Money Matters: A Guide to Teaching Finances to Children

By Daniel Schuler

In today's complex financial world, it has never been more important to teach children about responsible money management. According to a recent survey, over 30% of young adults report that they had not learned to live within a budget, the importance of saving or how to use credit cards wisely, before they entered the workforce. It is imperative that parents and teachers instruct young people on the dos and don'ts of personal finances. This guide, produced by Business Credit Cards is designed to help educate younger generations towards a smarter, more financially informed future.

Part I: An Introduction to Teaching Financial Independence

Introduction

Financial literacy, while it may be an area where parents fear to tread, is a crucial part of education. However, *only four states require high school students take a financial management class*. The responsibility for teaching young adults to live within their means, avoid debt and accumulate savings nearly always falls to parents. In a study conducted by the National Foundation for Credit Counseling in 2010, 41% of adult respondents claimed to have learned money management skills at home. The good news is that kids in America today want to learn how to effectively manage their finances.

While nearly half of today's students do not understand the rules of financial responsibility, 53% of high school seniors polled in a Capitol One study reported that they would prefer to learn these skills, and the majority of them would rather learn them at home. Unfortunately, only 27% of these students reported that their parents share information about responsible money management. If you choose to answer this call for information, **you can teach financial management concepts to children as young as preschoolers**. Toddlers can be taught to recognize currency and to save in a piggy bank. Elementary school students can be given an allowance and shown how to allocate money toward savings, charity and disposable income. High school students can learn to monitor expenditures and meet a budget via access to a checking account or debit card. Parental guidance like this enlightens children about the value of a dollar, and that awareness can lead to effective financial management as adults.

Advice about proper credit management is especially helpful when your children approach young adulthood. Debt is a common pitfall; educating children about the way the credit system functions and its potential negative consequences is critical for parents. Identity theft is also a bigger problem than it used to be; one study recently determined that one child in every classroom has had their identity stolen, and nearly 12% of children with "credit problems" were under age 12. Vigilance and instruction by parents can go far towards preventing this.

Part II: Government-Sponsored Investment Programs

A college savings program that is undertaken with your children's involvement can serve to both fund their education and teach them about investments. Several government-sponsored investment vehicles can accomplish this, including 529 Plans, Coverdell Educational Savings Accounts (ESAs) and U.S. Savings Bonds.

529 Plans

Popular among parents, a 529 Plan offers a long-term strategy towards saving money for college. These plans work in two ways; families may either pre-purchase class credits and room and board at any state institution, or they may invest funds in a holding account that is designated for future college expenses. Each plan has its pros and cons, but both offer parents an opportunity to involve a child in important decision-making about the future. In a pre-paid tuition plan, money is deposited regularly into an account that is maintained by the state. This provides an opportunity to teach children about budgeting and saving towards a future goal. This type of 529 Plan is advantageous because the per-credit cost is locked in and inflation does not factor into these future costs; this can open an opportunity for discussion about economics. Pre-paid tuition plans are not without limitations, however. This state-backed option requires that students use the funds at an in-state school, and carries a 10% withdrawal penalty for expenses unrelated to college.

Another 529 option is to invest savings in a fund that is managed by a broker and invested on the student's behalf, much the same as with a mutual fund. Since account-holders do have some say in how the money is invested, parents may take this chance to teach their children about the exchange market and returns on investments. While associated broker's fees make this option more expensive, students are allowed to use the funds at any school.

Coverdell ESAs and Savings Bonds

A unique opportunity to teach older children about the taxes appears when investing in Coverdell ESAs or U.S. savings bonds. A governmental incentive to save money, ESAs allow for tax-free savings of up to $2,000 per year. Funds accrued in these accounts can be used for expenses related to any public or private education from elementary school through college. Younger children who benefit from a Coverdell ESA can be shown the immediate result of wise investing. The Education Savings Bond program similarly can be used to demonstrate the value of saving; bonds that are gifted to a child accrue value tax-free and may be redeemed for tuition expenses without penalty.

Part III: Actionable Ways to Teach Children Finances

Teaching financial responsibility to your children need not be a chore for anyone involved. Incorporating lessons about finances into age-appropriate games, careful administration of an allowance and seizing teaching moments as you lead your own life all serve to instill financial prudence.

Games

Monopoly anyone? With predictable earned income, exposure to unexpected expenses and many opportunities to become overextended, this family classic continues to teach kids eight and older valuable financial lessons while being fun for the whole family.

Young football fans may enjoy Visa's online *Financial Football*, where players must correctly answer quiz questions before advancing players down the field toward a touchdown.

Wells Fargo's Savings Quest allows players to choose a character's job, create a realistic budget, and perform assigned tasks to earn a paycheck; savings goals are monitored over time and displayed in easy-to-understand visuals.

Many families also go off the electronic grid and play the grocery game, where children are provided with a small amount of money and a shopping list, and must carefully allocate their money to purchase all of the items.

Allowances

As parents, providing an allowance shifts the burden of spending from you to the child, because he or she takes responsibility for that money. Some families allocate allowances based on an amount that is increased as the child grows older, and some families prefer to instill the concept that money must be earned and base allowances on household chores. It can be especially helpful to help children budget their allowances. Many parents adopt the 80-10-10 rule, where 10% is saved, 10% is donated and 80% is reserved for discretionary spending. Saved money can be deposited into an interest-bearing savings account and foment a useful conversation about how interest works.

Model Good Financial Behavior

To have financially disciplined, responsible children, parents must model that behavior. Involve children when you pay bills, for example, and show them any money management software or tools that you use. Good spending habits can also be discussed and demonstrated whenever opportunity arises. Some examples include:

- **Restaurant:** "Let's skip the appetizer and save a bit since we just bought tickets for the big game."

- **Grocery store:** "I'm not going to buy the chocolate-covered espresso beans since I want to get Dad that nice watch for his birthday."

- **Mall: "**I know that sweater is pretty and fancy, but these sweaters are on sale and they'll match all of your jeans."

Part IV: Understanding Credit & Credit Cards for Young Adults

When the Obama administration's Credit Card Accountability, Responsibility, and Disclosure Act took effect in 2010, the days of college freshmen blindly accepting credit cards during orientation week were over. Under the Act, any cardholder under age 21 must prove an independent source of income in order to receive credit. While parents may have breathed a sigh of relief as worries about ruined credit scores vanished, building credit is still important, and using a credit card responsibly can be a valuable experience for any young adult. Much of today's technology requires a credit card on file, whether for smartphone apps, use of an electronic e-reader or otherwise, and this can be a golden opportunity to teach your child about credit.

To properly educate your child about the use of credit, ensure that he or she has a solid understanding of the credit system, and particularly the ramifications of bad credit. A grasp of the credit scoring system and awareness of the effect on loan interest rates, insurance and the ability to secure a mortgage are essential. If you are confident that your child takes credit seriously, you need not wait until they are 21 to introduce credit card usage.

Some families choose a pre-paid credit card. Parents load the card with funds and set a limit on how much a child may spend. Prudent parents can hold their child responsible for monthly payments and any penalties that result from overspending. Some families coach their children through the bill-paying process and some have students pay parents directly.

Once your offspring has proven the ability to handle a monthly payment and stick to a budget, you may choose to co-sign a card with your child. The proper handling of an account like this will build a child's credit rating because it is in his or her name, but it is important to remember that any credit-related misdeeds will negatively impact your credit score as well. If used wisely, a co-owned account can set your progeny up for a good credit card and competitive interest rate when it is time to hold a card independently.

Craig Evans Carnick, a financial planner who leads workshops on financial knowledge for his clients' children, advocates a hybrid approach:

- Make the child an authorized user on an existing credit card
- Designate that the card be used *only* for emergencies
- Have the child make a personal budget
- Open a checking account that parents can access
- Develop contingency plans for overspending, such as an agreement on loan terms

Part V: Trusted Financial Resources for Parents, Teachers and Young People

Smart money management cannot be overemphasized, and it is your duty as a parent to pass this knowledge on to your children. Aside from avoiding debt and the penalty fees that arise from irresponsible choices, your child's future security and ability to be financially capable in their private and business life, depends on a healthy understanding of how to handle money. There are a variety of external resources available to assist parents, teachers and young people.

Current Financial Affairs

- Business and financial market news, stock futures, quotes and personal investment recommendations can all be found at *Bloomberg's* popular website.
- *CNNMoney* covers breaking financial news and offers in-depth analysis of current trends.
- Current news coverage of world and domestic financial affairs, mutual fund watches, stock picks and financial know-how quizzes are only some of the features found at **Kiplinger**'s renowned site.

Government Financial Programs

Parents can investigate their options for education planning at Treasury Direct.

- *MyMoney.gov* offers financial information tailored to parents, youth, women, employers and teachers, among others.
- *TreasuryDirect Kids*, aimed at elementary school students, provides interactive instruction on everything from saving and investing to how Wall Street and the Federal Reserve System work.

Educational Television

- At *bizKids*, kids speak to other kids about money and business in easy-to-understand language in a weekly television series.
- PBS *Newshour's* Paul Solman breaks down important economic and financial news with *Making Sense*.
- *Nightly Business Report* (NBR) provides a daily recap of pertinent business, economic and financial news.

Tools for Children and Teens

- At *Gazillionaire*, children become tycoons by building their business empire from scratch.

- Promoting economic and business instruction since 1919, *Junior Achievemen*t can help kids learn the basics of responsible money management.
- *PBSKids'* Mad Money teaches kids about saving for the future.
- Teens can learn the ABCs of credit at the *Center for Student Credit Card Education*.
- Financial literacy and planning designed for teenagers may be found at *It All Adds Up*.
- The Federal Deposit Insurance Corporation (FDIC) presents *Start Smart: Money Management for Teens* to teach young adults how to responsibly spend and save.

Parents and Teachers

- Teach kids the basics of money management at the Mint, developed specifically for parents and educators.
- Parents can help children aged 6-12 learn about being responsible money management via games at *Planet Orange*.
- Parents can take their kids to a virtual mall and teach them valuable lessons about discretionary spending with *You Are Here*.
- *Money Smart* is a curriculum designed by the FDIC to instruct youth aged 12 through 20 to learn about basic money management.
- *Fool Proof Teacher* provides free online, self-grading financial literacy programs.
- Teachers can find free family finance curricula including lesson plans at *Family Economics & Financial Education*.