

The ABC's of Financial Literacy



Your teen just started an after-school job. Will he use his paychecks to save for the future, or will he spend them as soon as they come in?

Teaching your child to successfully handle money while he's young can keep him from making financial mistakes later in life. Plus, finding out about the basics now means he can learn with less at stake. Help your high schooler get on the road to financial success with these ideas.

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Begin with a budget

Your child will be more financially fit if she uses a budget to track income and expenses. Suggest these strategies to help her now and to give her practice for when she lives on her own.



Find a system. Encourage your teen to make and use a budget in a format she's comfortable with. She might list income and expenses in a notebook or computer file (she can find examples online by searching "teen budget worksheets"). Or she could create a spreadsheet. Whatever she chooses, she'll need to

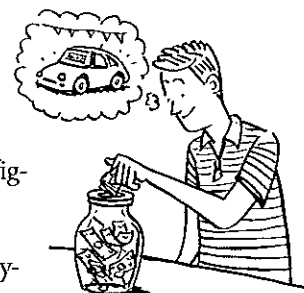
account for money coming in (allowance, paycheck) and money going out (gas, entertainment, savings). Subtracting expenses from income will show how much she could spend.

Brainstorm ways to cut back. Is she spending more than she earns, or does she not have enough left for savings? Suggest that your teenager keep a spending log for a month to see where her money goes. Then, she can think of ideas for reducing her expenses. She might switch to a less expensive cell-phone plan or not eat out as often, for example. She also could come up with ways to add income, like working extra hours.

Pay yourself first

Saving money will help create a habit that can give your child greater financial security as an adult. It will also provide a cushion he can use now to cover unexpected expenses or take advantage of bargains. Share these tips.

Have him write down financial goals. Knowing what he's saving for can make it easier to follow through. Encourage your teen to write down longer-term goals (college, used car) and shorter-term goals (concert tickets, new phone). Then, suggest that he figure out how much he needs to save and for how long (for a \$60 concert ticket, he might take out \$15 per paycheck over four pay periods).



Make saving mandatory. Have him put away a certain percentage (say, 10%) of his income right off the top, whether he gets money from a job, an allowance, or gifts. This will help him get used to saving first and living on what's left. You might tell him to consider saving as a fixed expense, just like a car payment or rent.

Spend smartly

Your teenager may have more money than she did when she was younger, especially if she works part-time or does extra jobs like babysitting. These strategies can help her learn to spend earnings wisely.

Encourage her to plan ahead. She might make a shopping list before going to the mall or a store. Or she could set a spending limit for herself and take only that much cash with her. If she's tempted to buy something not on her list or over

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her limit, she should ask herself if it's really necessary or if it's something she could live without. *Tip:* Suggest that she go home and think about the item. After a day or two, she may realize she doesn't need it or that a less costly one will do.

Let her learn from mistakes. If she overspends on clothes, for example, and then can't afford to go to the movies with her friends, try not to bail her out. She'll learn best if she experiences the consequences of her actions. Plus, if you give her money once, she may continue purchasing items she can't afford and expect you to help her out again.

Bank on it

Opening accounts now will help your child get comfortable with banking. Suggest a checking account, as well as a savings account, so he gets practice in writing checks, making online payments, and tracking balances. Here's how.



Establish accounts.

Encourage your child to shop around at various banks. He should ask how much he'll need to deposit and whether there are minimum balances or

fees (maintenance or ATM charges, for example). You'll need to go with him to open accounts if he's under 18, but a banker can review how accounts work and help him set them up. *Note:* He'll have to take along ID (birth certificate, Social Security card, or driver's license).

Make him the monitor. Let your child know it's his job to keep tabs on his accounts, and encourage him to check them often. (*Hint:* If you're listed on his accounts, you'll be able to see them, too.) If you have Internet access at home or he has it on his phone, he can manage his accounts online. That way, he can quickly see which transactions have cleared and stay on top of how much money he has in his account. To safeguard against identity theft, he should keep account numbers and passwords private.

Control credit

With proof of income or a cosigner, your child can apply for a credit card when she's 18. Before then, you can help her get experience using "plastic" so she learns to handle credit responsibly. Consider these options.

Debit cards. Your teenager can use a card that looks like a credit card but takes money directly out of her bank account. The benefit? She's limited to spending what she has on hand. Since any use of plastic comes with a risk of identity theft, suggest that



she tie the debit card only to her checking account. She could keep a small amount there and put the rest in savings (and move money into her checking account as needed).

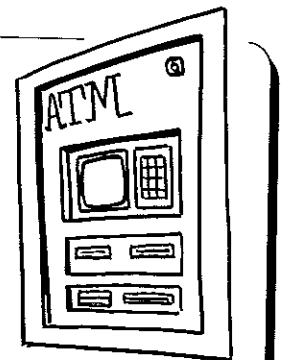
Credit cards. If you make your teen an authorized user on your credit card, she will get a card in her name, and the charges will show up on your account. You might want to request a lower limit for her card—remember, you will ultimately be liable for her spending. Also, consider being specific about what she can use the card for (school clothes, gas, or emergencies, for instance). Be sure she understands that she should only charge what she can pay back within a month. Otherwise, she'll wind up paying interest on the purchase price.

Prepaid cards. Another option is to put money into a prepaid card like Visa Buxx. Your teen will only be able to spend the amount you put on the card, you can track her usage, and there won't be any effect on her credit or yours. *Note:* There's an enrollment fee of \$5 to \$10, and perhaps other charges, depending on the bank that issues the card.

More ways to learn

Encourage your teenager to build financial literacy with resources like these.

- Take a personal-finance course at school.
- Join an after-school investment club where members pretend to play the stock market.
- Read the newspaper's business section.
- Borrow money-related magazines and books from the library.
- Follow financial education websites aimed at young people, such as jumpstart.org or mymoney.gov/category/topic1/youth.html.



High School Years