RAISING FINANCIALLY AWARE KIDS

By Sara Allison, MBA & Jonathan Knapp, MBA, CFP®

Help your children appreciate the value of a dollar

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Version 2.0

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Preface

As parents, grandparents, teachers, and friends, we worry about our children's future. What will the world look like for them? What uncertainties lie ahead? How will they handle the joys of success and the inevitabilities of challenge? Are we preparing them to navigate the dreams and decisions of adulthood? We do our best to help them eat right, be polite, do well in school, make good friends, and set a solid foundation for all that awaits.

An area that is often overlooked on this journey is personal finance. Decisions around money come quickly. From playing ring toss at a school carnival and putting coins in a piggy bank to downloading games in high school and cashing a paycheck, our children experience spending and saving throughout their school years. Children face the conflict between "needs" and "wants" often. Consciously or unconsciously, they recognize differences in clothing, toys, and even households. We have an opportunity to help them identify priorities and choose accordingly.

This book is designed to help adults coach kids about financial choices. The guidance and practices here can build over years, from preschool through college. And, since habits typically take about three weeks to form, over time kids will formulate a strong financial decision-making process. Our kids will develop thoughtful approaches to earning, saving, spending, and giving. And we all have the opportunity help raise financially aware kids.

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GETTING STARTED

When is the right time to talk to kids about money? You may be thinking that your kids are too young to start talking about money; it will be something you will take care of later. Nearly all of us have witnessed a child having a meltdown in a store because their parents won't buy them something. As the noise level grows, the parent often gives in and purchases the item to avoid embarrassment. We don't want to teach kids about money in this way, and yet by our actions, we most definitely are.

It's never too early to start teaching your kids about money. After all, marketers target young children from an early age to buy the latest toys or novelties, and older kids want to wear the hot fashions or do all the activities with their friends. Teens begin to take on the responsibilities of earning and spending their own money, and by the time they get to college, they are making decisions that will shape their earning potential for the rest of their lives.

When kids graduate from high school, they are expected to have the knowledge and the ability to take care of themselves, but where and when did they learn these skills? Who influenced their values with regard to spending and saving money? For most, they've learned their values from the media and from their peers, which, more often than not, fail to adequately prepare them for the realities of the financial world.

According to Dr. Connie Hebert, “People start too late. A toddler on your hip at the post office can watch you give the clerk money for stamps. A 5-year-old can hand the money to the clerk. A 10-year-old can calculate how much you’ll need to pay for 20 stamps.”

The good news is that you are reading this book because you already recognize the importance of raising kids who are financially aware and capable of making sound decisions when it comes to money. You will have the opportunity to provide influence and guidance, raising kids who have a healthy relationship with money and who can confidently make decisions that lead to better outcomes.

For many parents, this seems like a daunting task; after all, many families struggle with the economics of maintaining the household, paying for college, and saving for retirement. But you don’t need a PhD in finance to help your kids understand money — you have all the qualifications you need already. Your kids look to you for guidance and advice, and your experience, combined with the information and exercises in this book, can help your kids develop healthy financial values and behaviors. And if you pick up a few good habits along the way, too, that will just be our little secret!

Throughout this process, you will have the opportunity to share and develop family values when it comes to money, work, education,

84% OF ALL COLLEGE UNDERGRADUATES INDICATED THEY NEEDED MORE EDUCATION ON FINANCIAL MANAGEMENT TOPICS. IN FACT, 64% WOULD HAVE LIKED TO RECEIVE THE INFORMATION IN HIGH SCHOOL AND 40% WOULD HAVE LIKED TO RECEIVE IT AS A COLLEGE FRESHMAN.

Sallie Mae, “How Undergraduate Students Use Credit Cards,” April 2009

ACCORDING TO THE 2015 JUNIOR ACHIEVEMENT TEENS AND PERSONAL FINANCE SURVEY, 84% OF TEENS REPORT LOOKING TO THEIR PARENTS FOR INFORMATION ON HOW TO MANAGE MONEY, BUT 34% OF PARENTS SAY THEIR FAMILY'S APPROACH TO FINANCIAL MATTERS IS TO NOT DISCUSS FINANCES WITH THEIR CHILDREN AND "LET KIDS BE KIDS."

community involvement, and more. Instead of becoming a taboo topic, discussions about money and finance can lead to meaningful conversations that shape your children's understanding of the world while developing skills and discipline that can also carry over to other areas of their lives.

How to Use This Book

Throughout this book, we will explore exercises and activities to help your kids become financially aware and take ownership of their young financial lives. Regardless of their ages, there is a way for you to illustrate and reinforce these concepts during regular daily activities — every time you spend or make a decision about money is another opportunity for your kids to learn something!

This book is arranged in the order of simplest ideas (for younger kids) to more complex concepts (for older kids). You will see "action items" for you to actively use with your kids according to their age. These are activities, lessons, or recommendations on how to teach your kids to be financially aware. You will see there is an icon next to the action item to tell you which ages are best for utilizing the information.

- P Preschool age
- E Elementary school age
- M Middle school age
- H High school age
- ★ Things to talk about with your kids

Regardless of how you decide to integrate the concepts of this book into raising your kids' financial awareness, it's important that you maintain openness and transparency with your kids when talking about money. Rather than having money be a taboo and unpleasant topic for conversation, it should be a way to bring families together to share. The need to manage money never goes away, and neither does the need to have a trusted family member to lean on for support and guidance.

You have already made the important first step of recognizing the importance of raising financially aware kids, so let's get started!

CHAPTER 1

HOW WE THINK ABOUT MONEY

The secret to understanding personal finance is not really rooted in math or economics, but rather in psychology. An individual's emotional response to money will often dictate how they choose to spend or save their money. Emotions are powerful forces that can overwhelm our rational judgment; if we believe purchasing something is the only way we can be happy, the desire to satisfy that emotion can trump the rational part of our brain that tells us we don't need it and can't afford it.

As a parent, you have the power to start the conversation with kids to help develop healthy attitudes and responsible behaviors toward money. As kids increase their awareness of the financial world, they will learn how to channel their emotions regarding money into positive behaviors rather than into destructive patterns. Understanding money and finance is arguably one of the most important skills a person can develop in this world, and yet for most kids it's not something that is discussed by their families or taught in schools. This book will teach you how to put your kids on a path to success.

IN THIS CHAPTER YOU WILL LEARN:

- Five things your kids need to know about money
- How personal values about money shape your kids
- How to communicate for success

FIVE THINGS YOUR KIDS NEED TO KNOW ABOUT MONEY

Financial awareness breaks down into five big concepts, which we will expound upon in greater detail in subsequent chapters. Regardless of the age of your kids — and how sophisticated with money you think they may be — it's important to cover all of these concepts through your various conversations; these are the five core ideas that underpin everything we will discuss in this book and everything your kids will encounter in the real world:

1. WHAT IS MONEY?

Though money is everywhere today, it didn't always exist in its present form. The earliest method of obtaining goods and services was through the barter method. If I have apples and need some firewood, and you have firewood and want some apples, we must agree on some amount of apples and wood that we both feel is a fair exchange to make a trade. What happens if I need firewood, but you don't want apples? I have to find someone with something you want — say, tomatoes, trade with them first, and then trade the tomatoes for the firewood.

Money simplifies this process. By having an agreed-upon standard — like a pound of tomatoes is worth $5 (or five pieces of gold or some other form of currency), a cord of firewood is worth $10, a bushel of apples is worth $8, etc. — it's easy for me to trade my apples for dollars and my dollars for firewood, tomatoes, or whatever else I may need.

Over the years, the need for security and convenience has changed the way we use money to make purchases, from carrying around sacks of gold coins to using an app on our smartphones. But one fundamental thing has not changed: money itself has no value; the value of money is the ability to exchange it for the goods and services we want.

This fundamental truth about money should be the starting point for any conversation you have with your kids about money.

✪ Help your kids understand that money is for exchanging.

Money has no value if another person cannot trade it for something they need or want. Explain the bartering system to your kids and how we are really making trades every time we purchase something.

Ⓟ Ⓔ Play “store” with your kids.

A great way to help kids understand the exchange of money for goods and services is to play “store.” Depending on what you have at home, set up a “cash register” — this could be an egg carton for collecting coins, a box for

collecting Monopoly money, or of course, a toy cash register. Have your child choose some items from their toys or items from around the house that they want to "purchase" at the store. It's particularly fun if they have a shopping cart they can push around. Then have them buy the items from you at the store. Make sure they know how much they are paying for said item. You can even use price tags if you'd like. Younger kids can pay with just one coin or a one-dollar bill, and older kids can have more complex amounts to put together (such as $5.73). The kids can also take turns being the cashier, and you can purchase the items from them.

P E Play "restaurant" with your kids.

Another fun way to learn about monetary exchanges is to play "restaurant." Many kids have pretend food items, and others might even be pretty good in the kitchen. Have your kids make a menu of items from which to order, along with a corresponding cost for each item. Allow them to take your order and bring you your food. Then pay them for the meal.

P E Read money-themed books with them.

Here are some great books recommended by *KidsFamilyFinance*:

1. *Amelia Bedelia Means Business* by Herman Parish
2. *The Berenstain Bears' Trouble with Money* by Stan & Jan Berenstain
3. *The Berenstain Bears' Dollars and Sense* by Stan & Jan Berenstain
4. *Those Shoes* by Maribeth Boelts

5. *Alexander, Who Used to Be Rich Last Sunday* by Judith Viorst
6. *Little Critter: Just Saving My Money* by Mercer Mayer
7. *Lemonade in Winter: A Book About Two Kids Counting Money* by Emily Jenkins
8. *One Cent, Two Cents, Old Cent, New Cent: All About Money* (Cat in the Hat's Learning Library) by Bonnie Worth
9. *Curious George Saves His Pennies* by Margret & H.A. Rey
10. *Give, Save, Spend with the Three Little Pigs* by Clint Greenleaf

2. WHAT DO THINGS COST?

If understanding that money must be exchanged for goods and services is the first step, then understanding the cost is step two. As you know all too well, everything comes with a cost — from school clothes to electricity. But most kids are blissfully unaware of the near-constant outflow of money happening around them when they're at the grocery store, when they go to summer camp, or when they get their soccer uniform.

P E M H How much?

Making kids aware of the costs around them from an early age can aid in starting the conversation around money. As it becomes time to purchase items for your kids, make them aware of how much those items cost. If you are grocery shopping with young

kids, have them identify the prices of items on the shelf. As they get older, they can help keep track of the bill as you are filling up the cart. Making them aware of costs is important in helping them grasp the concept of money.

E Let your kids pay.

When you are paying at a restaurant or buying groceries or gas, give your kids the money to pay the bill. It is best if they pay with cash so they see the exchange of money for goods and services. This will give them an idea of how much it costs to do everyday activities and encourage them in becoming part of the process. It will also help them in learning to count money.

E M H Do some comparison-shopping.

Show your kids the pricing label on the grocery store shelf, then help them identify which brand is the best value and/or why you chose the item you did. As they get older, have them help you make the decision. When your kids are in the market for a specific item, show them how to comparison-shop online to find the best deal.

Once kids comprehend the costs of the world around them, they can begin to make decisions about economic value, which is the next important lesson.

3. WHAT IS SOMETHING WORTH?

There is a big difference between cost and value. A pair of gloves may cost $10, but their value in protecting your hands from frostbite when you are outside all day in freezing temperatures is almost immeasurable. As kids begin to understand the concept of cost, they are almost immediately faced with decisions about worth.

What is this doing for me?

Use the table to talk to your kids about familiar items and why they are valuable. Talk about why they would or would not want to use them.

Item	Benefit/Worth/Value
Winter coat	Keeps you warm
Dog	A friendly companion
Sports equipment	Fun exercise
Bike	A way to get from here to there
Car	Freedom to go where you choose
LEGOS	Fun activity
iPad	Entertainment
Hairbrush	Untangles your hair
Toothbrush	Keeps your teeth clean
Computer	Allows you to work, shop, or watch TV and movies
Vacation	Allows you time to relax and have fun with the family

P E M H **Hunt for bargains.**

Taking your kids to garage sales or flea markets can teach them to find value in something that someone else no longer wants. It shows them how to shop for deals and that previously unwanted items could still be useful to someone else. If they find something they want to purchase, make sure to compare the price to a newer version of that item when you get home so they can see how much money they saved.

4. WHAT IS AN OPPORTUNITY COST?

It's also important for kids to learn about the concept finance professionals refer to as "opportunity cost." Opportunity cost pertains to all the alternative options we give up every time we make a decision. For example, if your kids go to the movies with their friends, they can't go to a birthday party happening at the same time. Part of the cost of going to the movies is not going to the birthday party. Older kids may experience this lesson with their own dollars. For example, if they give up a night of babysitting (and earning $25) and instead spend $50 to go to a concert with friends, the true cost of the concert is $75: the $50 they spent + the opportunity to earn $25.

✪ Use "either/or" language.

If kids realize they can either spend their hard-earned allowance money on something cheap now or wait until next week to purchase that cool, more expensive new toy, then they will begin to learn that we have choices to make — and that saying yes to one thing often means saying no to another. This isn't limited to money. Consider getting ready for school: choosing to wear jeans instead of shorts, choosing to eat cereal instead of fruit, or choosing to pack a lunch instead of buying one. Look for occasions to point out the opportunity costs found in everyday decisions.

You study late at night for a final

The next day you are very sleepy

Your opportunity cost is a good night's sleep

Appreciating opportunity cost is an important prelude to teaching kids about saving money. The opportunity cost of saving is always spending, and kids must become comfortable with the idea of giving up immediate gratification in exchange for future rewards before they will embrace it. And embracing the idea of saving money is an important milestone on your kids' path toward financial awareness.

5. WHAT ARE THE TOOLS FOR SUCCESS?

The final element in helping kids become financially aware is learning what tools exist to help them. For young kids just starting out, this could be as simple as a piggybank, but for older kids this might be their first savings or checking account — or even a Roth IRA if they are ready to explore the world of investing. You wouldn't try to build a house without the proper tools, and your kids shouldn't try to build an understanding of the financial world without knowing about the tools that are out there.

PERSONAL VALUES

What were your experiences with money growing up?

Our past personal experiences shape the ways we take action in the future. You can draw on your own childhood to help make decisions about how you want to raise your kids with respect to money. Use your own story to your advantage when talking to your kids about how you grew up. Let them ask questions about your childhood, your parents, and your siblings. Share with them the stories that make you who you are today.

✪ Talk to your kids about your financial situation when you were growing up.

Tell them about your living situation, your activities, and what needs were (or weren't) fulfilled. Then explain how those experiences shape the way you view money today.

Talking points can include these self-directed questions:

- What did your parents do for a living?
- What was your residence like?
- When did you get your first car, and did you help pay for it?
- Did your parents have the means to provide you with what you needed?
- Did you get an allowance, and if so, how much was it?
- Did you feel like there was an endless supply of money?
- What money lessons did you learn from your parents?
- Were you a saver or a spender when you were young?
- What were your monetary goals, and how have they changed over time?
- What was your first job, and what did it pay?
- What are some things you noticed about how your siblings dealt with money?

What monetary benefits would you like to give your kids?
Now that you have examined your childhood, consider more seriously how you would like your kids to relate to money as they are growing up. How much do you want to provide for your kids? Do you want to pay for their college education, and how will you help them understand the value of that investment? Do you want them to go on school trips overseas or take dance lessons, play soccer, or take part in other extracurricular activities? What will their first car be like, and will you purchase it for them? What financial responsibilities do you want to give your kids as they grow up? Do you want to provide them with the designer clothes that are popular at school?

There are no right or wrong answers to these questions. You will decide what is best for your family, and when you do, you'll be well equipped to plan for the lifestyle you want to give your kids while establishing the money-related expectations and values you want them to have.

What are your kids' values with regard to money?

Kids, by nature, do not have any inherent values when it comes to money. They develop attitudes about spending and saving by observing the world around them, and those observations start at home. As a parent, you are

UPBRINGING WITH REGARD TO FUTURE WEALTH

Multiple studies have examined people's financial success according to their economic background. Results have shown that kids raised with a wealthier upbringing are more likely to become wealthy themselves. Kim Weeden, a Cornell sociologist, found that this could be because wealthier families tend to focus on future-oriented purchases and saving, whereas lower-income families are more concerned with covering the basic needs for survival. They also suspected that the kids raised in wealthier homes were better able to save their money because parents covered their extra expenses. They were also less likely to have debt from college expenses, so they were better equipped to build wealth as they worked professionally. As they begin to have families of their own, the cycle continues: Those who are less affluent tend to have children who grow up to be less affluent, and those who are wealthier tend to have kids who grow up to be wealthier.

constantly influencing the values of your kids through your daily actions and conversations. When there is a charity drive, does your family participate? Do you spend money on hosting parties or on buying things for your home? Do you make disparaging comments about other people's vehicles, clothing, or homes in front of your kids?

Children pick up on all of these verbal and nonverbal cues as they develop their own beliefs about money and how it should be spent. If kids associate happiness and self-worth with the spending and accumulation of money, they are likely to be faced with a lifetime of disappointment and a lack of personal fulfillment.

As odd as it may seem in a book about money, focusing on the nonfinancial aspects of earning and spending money is a great way to combat this. For example, if your kids earn a large amount of money — be it from a summer job or from a lemonade stand — don't focus your praise on the amount they earned but rather on how hard they worked. This reinforces the idea that the work is more important than the reward.

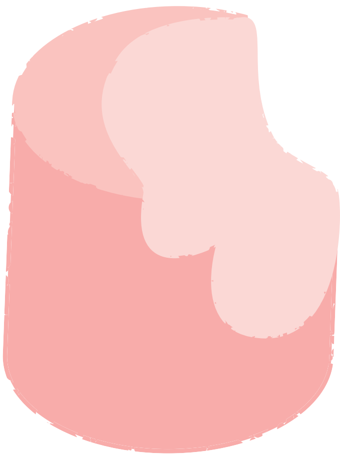
Also, look for nonmonetary ways to reward your child for their good behavior or accomplishments. Maybe it's an extra book at bedtime, an extra hour at the park, having a sleepover with a friend, etc. Again, it challenges the notion that purchasing something is always linked with happiness or a reward.

✪ Ask your kids about their values.

Ask your kids what types of activities, toys, or things they enjoy. Explain that, whatever it is, they will need to exchange money to get it or to do it, and they will need to exchange work (chores or something of value) to receive the money. If the conversation starts with values, money and finance are not abstract concepts: They are a means to achieve what you value.

Put them to the marshmallow test.

Ask your preschooler to sit at the kitchen table. Place a jumbo-size marshmallow in front of them and tell them they can eat it now if they want, or, if they wait 15 minutes, you will give them a second marshmallow, so then they will have two. Set the timer for 15 minutes and leave them alone. They are not allowed to play with toys during that time. They must sit at the table. Try to keep an eye on them from the other room if you can. If the child eats the first marshmallow, the test is over, and that's all they get. Otherwise, wait until the 15 minutes has passed, and if they haven't touched the first marshmallow, your child receives the second marshmallow as a reward. If your kids don't like marshmallows, then use something else they like, such as a cookie or mini cupcake.



What it means:

Psychologist Dr. Walter Mischel developed this experiment. He found that the children who waited for the extra marshmallow often utilized ways to distract themselves from the first marshmallow. Some turned their chairs around, pushed the marshmallow away, or even sang little songs.

Mischel followed the subjects from his original study for 50 years, and he found that those preschoolers able to wait for the second marshmallow "exhibited a lower BMI, lower rates of addiction, a lower divorce rate, and higher SAT scores. Children who displayed self-control

were already wired to conquer stress in pursuit of goals and were more able to sustain effort and deal with frustration." Those who ate the first marshmallow had fewer self-control skills, but Mischel believes those skills are teachable.

This test can also be applied to saving vs. spending money. It could indicate whether your kids will be willing to save their money for a future use or more likely to spend it as soon as they can. Regardless, understanding your kids' level of impulse control helps you determine how much help and encouragement they will need to develop discipline with regard to money.

COMMUNICATION

TALKING TO YOUR KIDS

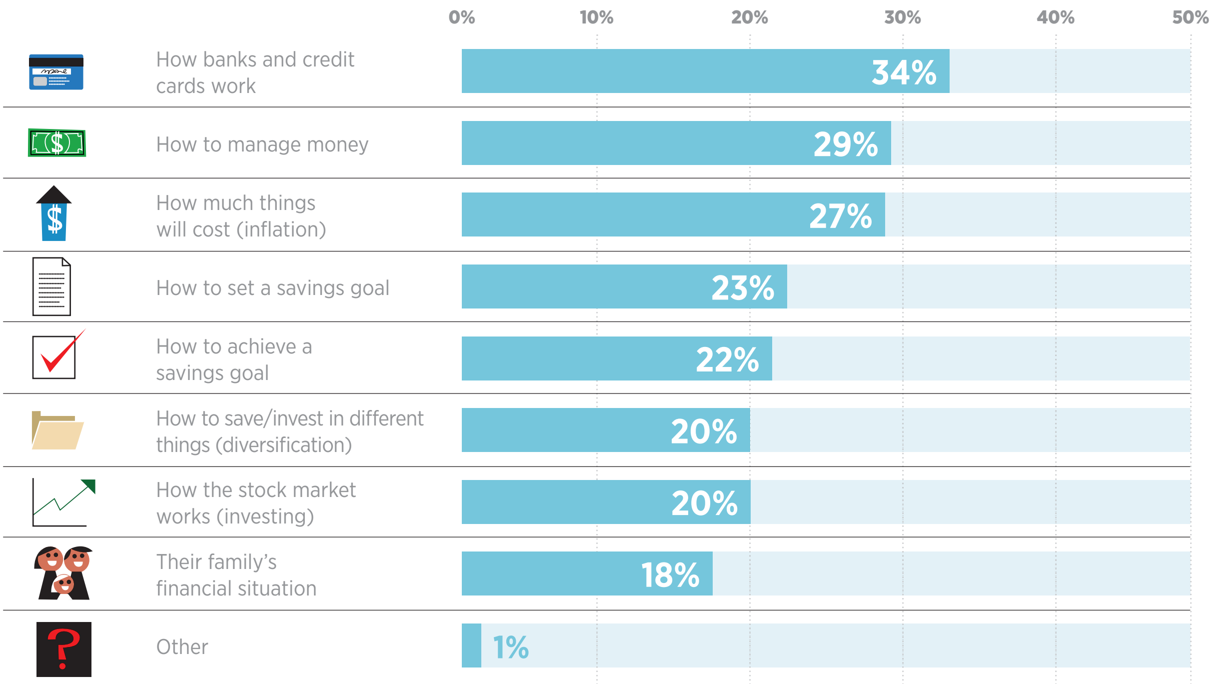
Throughout this book, you will notice an emphasis on talking to your kids. While this may seem like something you already do, we want you to think more about how you talk to your kids, how often you talk to them — what you say and if they hear you. We will give you tips on how to have some of these conversations with your kids and how to explain key concepts in terms they will understand.

✪ Talk to your kids about money.

Every chance you get, elaborate on what you're buying and why. Here's an example: "I'm buying the generic brand of beans because they are basically the same thing as the name brand, but they are cheaper, and we can save money by using these instead."

ACCORDING TO A 2011 CAPITAL ONE SURVEY OF HIGH SCHOOL SENIORS, 87% REPORTED THAT THEIR PARENTS WERE THEIR PRIMARY RESOURCE FOR INFORMATION ABOUT MONEY MANAGEMENT AND PERSONAL FINANCE ISSUES, BUT ONLY 22% SAID THAT THEY TALKED TO THEIR PARENTS ABOUT MONEY MANAGEMENT FREQUENTLY.

In the Know: Children are full of questions. Here are some of the top financial topics they wish their parents would discuss with them more often.



If you are using debit or credit, tell them about that decision and why. Another example: "We took out a loan for the car because there was a 0% interest rate special, so we could continue to earn interest on our investments instead of using the money to pay cash for the car." Ask them what they would do in different situations you encounter involving money and then explain what decision you would make and why.

BEING A ROLE MODEL

Another concept that's just as important as talk is action. Although it may not seem like it at times (particularly when it comes to cleaning their room), your kids do listen to you. They hear how you talk about money and, more important, they see how you spend it. If you tell your child that you can't afford to buy them what they want, but then they see you purchase something you want for yourself, how will they interpret that action? This isn't to say that you should buy kids everything they want; rather, it serves as a reminder to be aware that young eyes and ears take in everything you do.

Make sure you are a positive financial role model for your kids and show them the behavior you want to see from them someday. Help them understand why you make certain decisions, examining what things cost, what they are worth, needs versus wants, how and why you save and invest, the expense of debt, the importance of earning money, and how to give back.

Being open and honest about deciding how to spend the family's money helps your kids make sense of what they see and hear you doing.

FINAL THOUGHTS

- Money will affect your kids. It's never too early to start teaching them about money.
- Kids need to know that money is for exchanging. They need to understand the relationship between what things cost versus what they are worth as well as the opportunity cost for their decisions, and they need to have access to tools for success.
- Your own personal values surrounding money will shape your children's future. Make sure you are representing the thoughts and decisions you value.
- Listen to your kids when they talk about their values surrounding money, and help them achieve their goals.
- Praise your kids for the hard work they did rather than for the money they earned.
- Talk to your kids about money and be a positive role model for them.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CHAPTER 2

LEARN TO EARN

IN THIS CHAPTER, YOU WILL LEARN:

- How to teach your kids about income
- About allowance considerations
- How to encourage your kids to earn money
- About jobs for both older and younger kids
- About tax implications

No matter how good your intentions are with saving or spending money, you need to have money to work with first. For most people, that starts with earning money, and it's no different with kids. Whether it's earned from an allowance, from work around the home or in the neighborhood, or from a paycheck they receive for a part-time job after school, there are ways for kids of all ages and skill levels to earn money.

INCOME

It is likely that your little kids understand that you have money to buy things, but they probably don't fully grasp that we earn and receive money by working for it. Like most of finance, the earning and receiving of money are invisible to your kids. While you are at work, they are at school. When you get paid, the money likely gets deposited directly into your checking account. Yet somewhere in between, you put forth the efforts that ultimately earn the money that supports your family. The first step in educating children about income is connecting the idea of pay with work.

If your kids are old enough to understand what a job is, explain to them what you do for a living and how that helps the family. Talk about how you are paid — be it hourly for your work or a salary — and the type of training or education you needed to get your job and become good at it. For instance, you might say, "I am a doctor. I help people get better when they get sick. Patients tell me the symptoms they have, and I figure out what is wrong and how to help them feel better. I am paid money for the number of hours I work, and our family uses that money to purchase the things we need to live, like our house, our food, and our clothing."

✪ Explain what income is.

Explain that most adults have a job that pays them money for the work they do, and this pay is what they use to buy things. Some people earn an hourly wage; some people earn a set amount of money, no matter how many hours are worked, called a salary. Sometimes people choose a job based on a specific skill they have or something that is of interest to them. Some people may choose to get some extra schooling so they're more qualified for a specific job. Other people learn through experience.

P E What do they do and how do they do it?

Talk to your kids about the professionals around them in their daily lives — like their teachers, doctors, or even people working in the shops you visit. Ask your kids about what qualities these individuals have — or need to have — that make them good at their jobs. What types of work do they do with their bodies — like stocking shelves, handing out tests, or taking a patient's temperature — and what types of work do they do with their brains — like math, counting, or using their education? Which elements of these jobs do your kids like (or think they would like to do) and which things do they not like? Help your kids learn more about the professions that interest them and what it takes to work in that field.

P E M H Shadow buddies.

If you are able, allow your kids to shadow you for a day in your work environment. Introduce them to other employees and have them learn about how your business or company works. Show them the type of work that you do to earn money for the family. If your kids "help" you that day, offer them some form of compensation (money or a special treat) in exchange for their work.

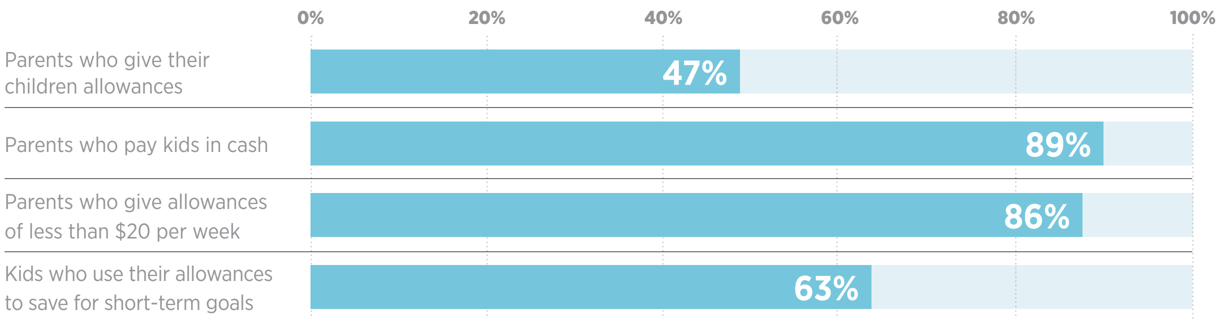
P E M H Earning my keep.

Provide opportunities for kids to earn money for their work around the house, either through an allowance (more on that later) or by taking on extra responsibilities or special projects.

ALLOWANCE CONSIDERATIONS

One of the first ways kids experience earning money is through an allowance. Giving your kids an allowance is also an excellent opportunity for them to learn money management skills, particularly for younger children who have no other way to earn money and are therefore unable to practice spending or saving otherwise. Offering an allowance can help kids learn valuable skills at a rate of pay that hopefully won't break the bank. It also provides a safer way to experience the occasional failure along the way; after all, it's certainly better for kids to make a mistake with a $6 allowance rather than a $50,000 salary. As kids grow older, you can introduce greater expectations for financial responsibility and personal budgeting. Each little step contributes greatly to developing financial awareness in your kids.

Allowance: Yes, kids still get allowances, with almost half of parents opening their wallets to give to their children.



1. DO YOU WANT TO GIVE AN ALLOWANCE?

Not every family chooses to pay kids an allowance, and that's a perfectly acceptable choice; however, for many parents, the decision is often based on their own upbringing. If you don't wish to pay your kids an allowance is it because you didn't receive an allowance, or is it because you feel it's the best way to develop financial awareness in your kids? Some parents are opposed to an allowance because they fear it will create a sense of entitlement (i.e., kids expect to receive money automatically without having to earn it). For others, they don't want to associate getting paid with activities that should otherwise be a personal responsibility (e.g., keeping a clean room).

For parents who do use an allowance, it becomes a way to reward kids and keep them motivated to get involved in other activities around the house. It also provides a means for kids to develop their own pathway for earning money that can then be used for discretionary items, potentially reducing the amount of requests for frivolous purchases.

Whatever your stance on an allowance, it's important to remain consistent and look for ways to take responsibility for earning and managing even small sums of money. If you don't implement an allowance, you might instead create routine opportunities for kids to earn money on their own (more about that later).

ACCORDING TO *TIME*, KIDS WHO RECEIVE AN ALLOWANCE TEND TO BE MORE FINANCIALLY SAVVY THAN THOSE WHO DON'T. THEY SCORE HIGHER IN A PRICING KNOWLEDGE TEST, AND THEY ARE MORE LIKELY TO USE CREDIT RESPONSIBLY.

2. AT WHAT AGE DO YOU START?

The best age to start an allowance is when kids are both motivated to have money and able to understand monetary values (like pennies, nickels, dimes, etc.). Most experts recommend waiting until your kids are around age 6 or 7. Starting an allowance program around the time they are learning about money in school can help reinforce the concepts they are being taught as well. Kids who exhibit an understanding and appreciation of money at an earlier age can start earlier, at your discretion. Regardless of when you begin, make sure kids are responsible with the money they are given and have a safe place to keep their funds (like a piggy bank).

3. DO YOU WANT TO TIE THE ALLOWANCE TO SOMETHING ELSE?

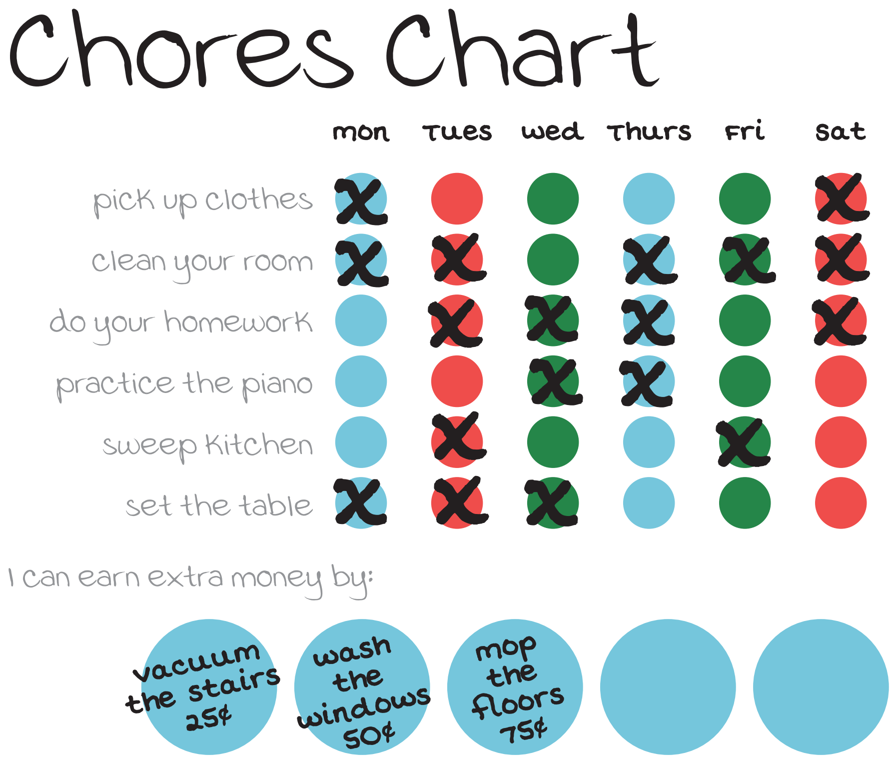
Some parents prefer to treat an allowance as compensation that kids earn for exhibiting certain behaviors or taking on responsibilities around the house, such as completing their chores. This helps reinforce the idea that money is something received in exchange for work, which can be particularly effective with younger kids.

P E **I'll take mowing the lawn for $5.00, Alex.**

If you are going to pay your kids to do chores, consider using a chore chart. These can be used to reinforce other concepts, such as the value of coins as illustrated in the sample chart, opposite. This also helps kids get in the habit of doing things around the house when they are very young. You can find a number of premade charts on etsy.com.


our chores
Emma
Hunter
dry undies
get dressed
brush teeth
brush teeth
make bed
make bed
clean room
clean room
finish meals
feed dog
pick up toys
pick up toys

Rather than compensate kids with an allowance on a task-by-task basis, some parents prefer to give one amount for the completion of all chores, similar to what is illustrated below:



Source: The Guilded Pear

A downside with tying an allowance to the completion of chores is that kids effectively become "employees" who may quit their "jobs" if they don't value their allowance. It also makes you responsible for tracking job quality assurance and reducing the pay if the job was not done well, so organization is extremely important. Make sure to lay down the ground rules in advance for how pay is determined for the work being done.

On the other hand, some parents wish to instill an appreciation in their kids that, as adults, they won't get paid for doing chores around the house, and paying for them now is teaching them to value the money, not the responsibility of maintaining a home. According to *Time*, "Research shows that kids who do unpaid chores are happier and have a higher sense of self-worth. But when we pay them to play a role in the family, we unwittingly kill their intrinsic motivation by providing a flashy external motivator: money."

Other parents like to use an allowance to reward good behavior or high grades. Whatever your philosophy on allowances, it is important to find what motivates your kids and to be consistent in your approach.

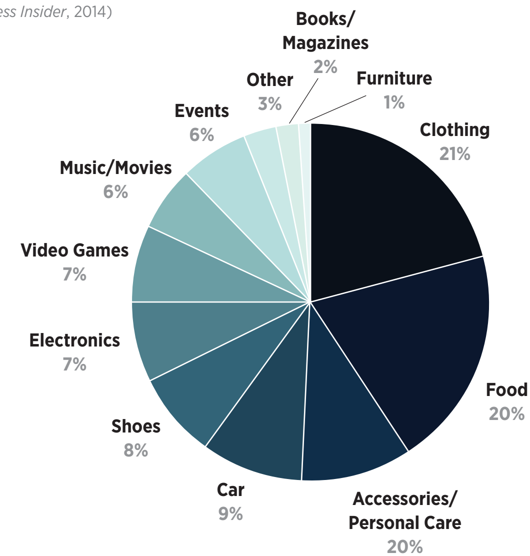
4. WHAT DO THEY USE THE ALLOWANCE FOR?

When thinking about establishing an allowance, give special consideration to how you'd like your kids to spend their money, particularly as they get older and their spending habits change. Do you want this to be "fun money" your kids can use on a video game, on Starbucks, or on a night out, or maybe on a special piece of clothing, etc.? Do you want them to save a portion? Will they be responsible for certain expenses, such as clothes, shoes, gas, school supplies, phone bill, etc.? If a certain portion of their allowance will be earmarked for specific expenses, you will need to incorporate that into your calculations when determining how much discretionary money you think they should have.

One advantage in making kids responsible for paying their own expenses is that it gives them additional practice managing resources. It can also encourage them to be more frugal if they get to keep the surplus; for example, if they find the clothes they want on sale, and they can use the money they save to go out with their friends, it rewards kids for being savvy shoppers.

How teens spend their money

(source: *Business Insider*, 2014)



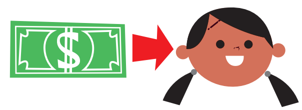
Discuss how they will use their allowance.
If you have certain expectations for how your kids are allowed to spend their allowance, make sure to communicate those from the start (i.e., let them know what portion of their allowance is to be allocated toward lunch money, clothing, savings, etc.). If you are using cash, give kids the specific dollar amounts for each category you expect them to budget (rather than one large bill) and have them keep the funds in the necessary jars/buckets/checking accounts. If you are using a debit card or other electronic means, you will need to work with your kids to make sure they are keeping track of their expenditures and receipts to accurately know where they are in their monthly budget.

If your kids go to a school with an à la carte lunch service, providing a lunch allowance can be a great

THE GOING RATE VARIES

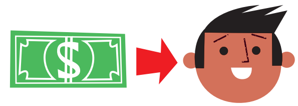
You may not know what your neighborhood's going rate is, but chances are your child does. You may be surprised when you learn how much others are doling out:

$6/week



The average amount for a child under 12

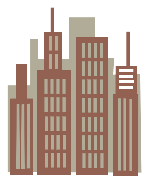
$15/week



The average amount for a child age 13-17

Where you live matters.
Rural dwellers think a lower amount is more appropriate than their suburban and urban counterparts do.

Rural
$3.30/week
age 4–9
$14.00/week
age 14–17



Urban
$4.30/week
age 4–9
$18.30/week
age 14–17

Suburban
$4.30/week
age 4–9
$15.70/week
age 14–17

way to start kids down the path of responsibly allocating their resources. They can begin to experience what it's like to make decisions with money and, more importantly, know what the resulting consequences are. Should they spend all their money on one or two expensive items or should they spend their money on many cheaper items? Should they spend less today because their favorite food will be available tomorrow and they may want a second serving? As trivial as these decisions may sound to an adult, kids can develop an extremely valuable decision-making process as a result. We will discuss other ways kids can exercise discretionary control of their allowance in Chapter 6.

5. HOW MUCH SHOULD KIDS RECEIVE IN ALLOWANCE?

Whatever expenses your kids will be responsible for is the starting point for determining an allowance. There should be an additional amount for discretionary spending as well. After all, the point of an allowance is to give kids money they can control; if all of their expenses are predetermined, there is little practical purpose to the whole exercise.

For discretionary spending, some experts recommend $1 per year of age, but that is not a hard and fast rule. It is generally acceptable to offer more money as your kids get older. After all, a 3-year-old will get just as much excitement from receiving a quarter as a $20 bill; there's no point in giving larger sums of money until there is an appreciation (and a need) for it. Ultimately, you should balance what is comfortable for your budget with a meaningful amount that will allow your kids to experience the joy and satisfaction of saving and spending their money.

P E Piles make smiles.

Until your kids have a firm understanding of counting and how our monetary system works, more is always more. Younger kids will value four quarters more than they will a dollar bill, so use that to your advantage. Break up their allowance into small denominations, particularly into loose change. Kids will get tremendous satisfaction in growing a big pile of money (literally). Accumulate their allowance in a large, transparent container so that they can watch it grow. Counting and sorting the change is a great way to practice math and money skills, too!

6. WHEN DO THEY RECEIVE THE MONEY?

An allowance is typically paid weekly or as the qualifying chores or activities are completed. Timeliness is important; this is basically your kids' paycheck. Paying them on time every week is a great nonverbal reminder that paying for obligations when they are due is important. For younger kids, cash (or coins) is the way to go. For older kids with bank accounts and debit cards, some parents prefer to set up a recurring transfer into their kids' accounts, after which kids will receive an email or text notification that the funds have been deposited.

One, two, three, four ... here you go, have some more! Receiving allowance money should be an important event, and it's a great teaching moment for younger kids. Take the time to reinforce why they are receiving their money (e.g., they emptied the dishwasher three days that week, they practiced the piano, etc.) and discuss how they intend to use the money (e.g., saving for something special, giving to church, etc.). If their piggy bank is starting to get full, it can be a great opportunity to count up their money or make a deposit into a savings account.

HOW YOUR KIDS CAN EARN MONEY

At some point, your kids' desire for money will outpace your ability (or willingness) to provide it in the form of an allowance. This is a great time to begin to explore ways for kids to earn extra money.

Teaching your kids to earn helps them in a multitude of ways. First of all, they will better understand the relationships between working, earning, and spending — key factors in becoming financially aware. They will build confidence with each job well done. They will learn to think outside the box about ways they can make money and help other people. They will discover their strengths and they will figure out what they enjoy and do not enjoy. They will also learn new skills, which they will apply in future opportunities. They will also learn the value of a dollar and how much work goes into the lifestyle they hope to live.

Learning to earn doesn't have to mean getting a full-time job or working every day after school. It can start off as a way to raise extra money for a special purchase, to buy Christmas presents for family or friends, or to support a charitable goal. It can be as simple as collecting bottles to receive the deposit or completing odd jobs around the neighborhood. Perhaps they want to do a one-day event like running a lemonade stand, garage sale, or car wash. As kids get older, they can take on more regular responsibilities — like dog walking, babysitting, or lawn mowing — until they are in a position to seek regular employment. Wherever you start, make sure it is a responsibility your kids can reasonably manage with their schedule, maturity level, and skills.

How Your Kids Can Earn Money — Ideas for Younger Kids

- Allowance
- Special chores around the house
- Lemonade stands or bake sales
- Sell their toys or belongings they no longer use
- Put together a performance and sell tickets

P E M H **Earning around the house.**

One way to teach your kids about earning is to offer them a special way to acquire money or something else that is valuable to them. There are many things to do around the house: cleaning and organizing drawers, dusting, washing the wheels on the car, vacuuming the car, watering the plants, weeding the garden, raking leaves, shoveling snow, etc. You can "pay" your kids either with money or with extra privileges, like extra screen time, a later bedtime, or having a friend over for a sleepover.

There are many smartphone apps available to track chore options and manage pay for your kids, such as ChoreMonster, FamilyChores, ChoreBuster, and MyJobChart. Reviewing the list of chores on these apps is a great way to find suggestions for extra work around the house you may not have considered.

For kids too young for a smartphone, consider making notecards with the name of the chore, what the activity pays, and instructions for completing the chore and place them in an envelope. If you have an estimate for how much time it will take to complete the chore, include that on the card as well. For instance:

Water Indoor Plants
Pays: $0.75 for all
Instructions:

1. Fill the watering pitcher with water.
2. Water the plant until the soil is wet to the touch.
3. Wipe any spills.

Details: There are three plants in the master bedroom, two in the hall, one in the kitchen, and two in the family room. All must be done to receive payment. This needs to be done twice a week.

Kids can choose a chore at random from the envelope or be allowed to select one that fits their schedule and interest.

Alternatively, let your kids propose the scope and cost of a particular


LEMONADE

service. For example, perhaps you want your recipes handwritten in a special book. Your kids could offer to transcribe them for you, and together you would negotiate the rate of pay and guidelines for satisfactory completion. This is a great way to teach kids how to be on the lookout for ways to earn extra money and negotiate a fair deal so they can experience the pride of a job well done.

P E **Lemonade and cookies.**

Many of us remember having our own lemonade stands or bake sales when we were kids. Nostalgia aside, these are great ways for kids to get experience with real business and financial skills. These activities can help kids improve their communication skills, use creativity to market their sale, and earn and handle money, all the while serving others. As they are able, have your kids make (or participate in the making) of all the items for the sale: from the marketing materials to the edible items. Make them aware of the costs associated with having the sale so they can learn about profit and loss. Don't forget the power of social media! Help your kids to use sites like Facebook, Twitter, or Nextdoor to message friends and family. This way, you can promote their event and encourage friendly faces to drive by and partake in the fun.

P E **Job investigation.**

Help your younger kids learn more about the careers and professions that interest them. You may have family members or friends who work in these fields that can talk to your kids or connect them with others doing the work they find inspiring. Ask these professionals to tell your kids what they like about their jobs and why they would recommend them. You may need to get creative for some professions. If they are interested in becoming a firefighter, see if you can take them on a tour of the local fire station. Even if your kid wants to be an astronaut, you can find a video or book at your local library that can foster their interests. The point is to encourage your kids to think about how their interests can lead to meaningful work in the future, even if it is something that they are only temporarily interested in. You are teaching them that you will support them and that working is important.

E M H LEGO® kits for sale!

Your kids will most likely be thrilled that they can earn money for the things they no longer need. Help kids put together a list (or make a pile) of what they no longer want and then help them find a place to sell the items. A family garage sale is a great way to get kids involved in the process (and help clear out some of your excess items as well), or you can look to online or local retailers that purchase or sell used goods: eBay, Craigslist, Swap.com, GameStop, or a consignment shop (like Plato's Closet, the Kidizen app, or ThredUp app).

How Your Kids Can Earn Money — Ideas for Older Kids — Working for Themselves

- Doing special chores around the house
- Babysitting
- Dog walking

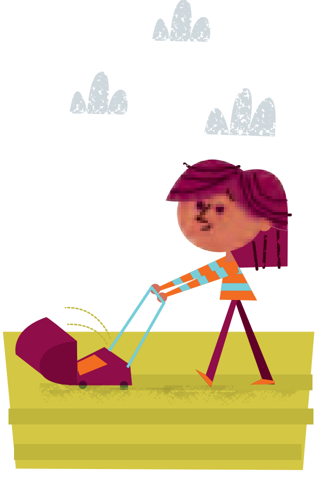
- Shoveling snow, raking leaves, or other seasonal home care
- House sitting/pet sitting
- Mowing lawns and weeding
- Making YouTube how-to videos
- Blogging on a topic that interests them
- Tutoring
- Selling possessions they no longer want

M H You're the boss, applesauce.

Entrepreneurship is a valuable skill to develop in kids, even if they don't end up self-employed in the future. It's a great way to instill creativity, responsibility, and self-discipline in their work. From a scheduling standpoint, it can be good for kids who have hectic extracurricular schedules because they might have more power over when they are available to work.

Many kids start a lawn mowing or babysitting service as their first entrepreneurial venture. Help your kids to research and establish appropriate pay rates before they agree to do any work. You can also let your friends, neighbors, and coworkers know that your kids are available for hire. Social media sites like Facebook and Nextdoor are useful for parents and kids in marketing their services.

If your kids are going to babysit, they should take training classes from organizations like the Red Cross to learn emergency and first aid measures. Likewise, if your kids are going to use special equipment or machinery for lawn care or other work, they should be properly trained in how to safely



use the machinery as well as any appropriate safety equipment (such as wearing closed-toe shoes, using ear and eye protection, etc.). You should also speak with your insurance agent to make sure that any liability created by your kids' work activities is covered by your policies, particularly if they will be doing their work in your home or using the family vehicle. Not only will these steps help to protect your kids, but their clients will have greater peace of mind as well.

Help your kids understand the guidelines as far as scheduling the work and exhibiting professional behavior, such arriving on time, having the necessary tools, wearing appropriate clothing, and respecting their clients' personal property. For instance, make sure they have a good system for keeping track of their upcoming work in their calendar of choice and following through on their responsibilities.

If they are doing yard work, make sure they have the tools they need and that they know how to properly use them. If they are babysitting, they need to know to clean up any play areas after they are finished for the day. Kids might also consider offering additional services, like emptying the dishwasher, folding laundry, or cooking for the family.

In the case of house sitting, kids need to know to be careful with the homeowner's things and not use the opportunity to have a get-together with friends without permission. Kids should consider having a list of references (possibly from family members or neighbors) in order to make new clients more comfortable with hiring them. As a parent, you should also be involved with meeting and vetting any people wishing to hire your kids if they are not a friend or personally known to you.

Ideas for Older Kids — Working for Someone Else

Grocery store — cashier, bagger, shelf stocker

Movie theater — ticket seller, usher, concessions

Office — intern, runner, receptionist, office assistant

Hardware store — cashier

Pools and beaches — lifeguard

Country clubs — caddie, lifeguard, concessions

Restaurant — busser, cashier, host, server

Retail store — cashier, salesperson

Summer camp — counselor, lifeguard

Car wash — exterior and interior cleaning

H Summer help needed.

Having a regular job (even for the summer) is a great preview of what it's really like in the "real world." Learning to work with others, answering to a supervisor, and developing customer service and sales skills are important lessons that will provide value far beyond just receiving their first hard-earned paychecks. Not only are these great skills and experiences to put on their résumé, but kids will also get a chance to discover what type of work they enjoy. They will also learn where their skills may lie, be they in organization, communication, maintaining a cashier's drawer, or helping other people.

It's important to consider how much time your kids can spend at work without it affecting their school work, how they will get to their job, and how they will balance their other responsibilities, like chores, social life, and

ACCORDING TO MARKETINGVOX AND RAND, THE AVERAGE ANNUAL WAGE IS JUST OVER $4,900 FOR TEENS 15–17 YEARS OLD. AGES 12–14 ARE MAKING ABOUT $2,700.

extracurricular activities. This is their first lesson in finding an optimal work-life balance.

When can kids get part-time work?

There are restrictions on how much kids can work and how they are paid based on age:

14–15-year-olds:

- Cannot work more than 3 hours on a school day, including Friday
- Cannot work more than 18 hours per week during the school year
- Cannot work more than 8 hours a day or 40 hours a week during the summer
- Cannot work before 7 a.m. or after 7 p.m. on any day, except over the summer, when they can work until 9 p.m.
- Companies may pay them as little as $4.25 per hour for the first 90 days of their employment, and if they change jobs, that 90 days starts over.
- Most of the time they can be paid at least the federal minimum wage, which is currently $7.25 per hour, but this depends on the work they do and where they work.

16–17-year-olds

- Can work unlimited hours
- The same wage laws apply as for 14–15-year-olds.

I give how much to Uncle Sam?

Go over your kids' paychecks with them so they understand where the money goes. They will likely be surprised to see how much money they lose in taxes. Explain the difference between gross pay (the total amount earned) and net pay (the amount they get to keep after taxes) and explain what each tax is used for (see below).

Taxes

Kids will typically see the following taxes taken out of a paycheck, though these may vary based on the amount they earn as well as on local laws:

Federal income tax: Usually indicated by "Fed" or a similar indication on their pay stub, this represents the portion of their pay going toward federal income tax, which are tax revenues going to the federal government to pay for national expenses (such as defense measures and other government programs).

Social Security/Medicare: These may be listed separately on the pay stub, or they may be called other things (like OASDI, for "Old Age, Survivor and Disability Insurance" instead of Social Security, even though it refers to the same thing). Sometimes these are combined into one entry called FICA, which stands for "Federal Insurance Contribution Act" and includes dollars for both Medicare and Social Security. Regardless, these dollars go to pay the expenses of retirees currently receiving Medicare and Social Security benefits. When your kids reach retirement age, their contributions today will help make them eligible to receive benefits when they stop working.

State income tax: Usually referenced by the state name or postal abbreviation, these dollars go to the state government to pay for local expenses (such as roads, education, and other state-sponsored programs).

Local tax: Depending upon where your kids work or live, a portion of their pay may go to city or county taxes as well.

Other deductions: There may be other deductions on their paycheck for employee meals, uniforms, or benefit programs they are participating in. Any such deduction will be listed on their paycheck.

It's important that kids confirm the accuracy of their paycheck as far as the number of hours worked and deductions to ensure all items were accurately reported. Any mistakes should be immediately addressed with their supervisor or human resources director.

WORKING FOR EXPERIENCE

As discussed, the benefits of work extend beyond dollars and cents, and the experience kids gain can in many ways be more valuable than the dollars received. Sometimes kids may have the opportunity to participate in unpaid internships or volunteer opportunities, which, while not adding dollars to your kids' bottom line, add valuable skills, experiences, and professional references to their résumé.

H Interns for hire.

Encourage your kids to pursue internships in areas that interest them. Kids often have a desire to work in a field where they might lack the education, qualification, or experience to be hired. But their desire alone might be enough to land an internship in that profession. For example, if your teen expresses an interest in graphic design, encourage them to seek out an internship with a local firm where they can learn on the job. If they have an interest in medicine, there may be volunteer opportunities at a local hospital. Young entrepreneurs might be able to work closely with a small-business owner. Encourage them to seek out such experience. You can also use your network to help them find an opportunity that will help them learn more and build their skills in an area of interest.

M H Résumés 101.

As soon as kids start working, they need to think of themselves as young professionals. Creating a résumé that details their experiences and skills is important, even if they have only done small jobs in the neighborhood, like babysitting or mowing lawns.

When helping kids put together a résumé, encourage them to think beyond the names and dates of the work they did and to focus on the skills they learned and demonstrated. For example, someone who babysat for several families likely handled marketing and scheduling and earned a certificate from a first aid course. Someone who ran a lawn care service probably had to bid on jobs, handle cash, and make purchasing decisions for supplies and equipment. Kids should also hold on to any fliers, proposals, artwork, or other finished products to show potential future employers as samples of their work. They should also keep track of the names and contact information of satisfied clients to provide as references in the future.

Kids frequently have the motivation and ability to earn money. Providing opportunities for them to explore their options not only provides them with an extra source of funds while they are young, but it can also set them on a path for future success as an adult. By encouraging your kids to explore the workforce and search for creative ways to make money, you may very well be providing the inspiration and foundation for their professional careers as adults.

FINAL THOUGHTS

- Anything you can do to help your kids understand that money comes from earning it is a step in the right direction.
- Talk to your kids about their career interests and help them investigate.
- Giving your kids an allowance can help teach them valuable lessons about money.
- If you give your kids an allowance, set up clear expectations for how the money should be used and/or earned and give them their allowance on a regular schedule.
- Encourage your kids to get some sort of job. A side job (such as babysitting or lawn mowing) is a good option if kids have a lot of extracurricular activities. A part-time seasonal position is also a great way to learn about the workplace.
- Don't forget to encourage your kids to gain experience by means of an internship or special project and help them keep track of their expertise on their résumé.

CHAPTER 3

SAVING TACTICS

IN THIS CHAPTER, YOU WILL LEARN ABOUT:

Getting kids excited about spending money is seldom a problem; however, getting kids to value saving money is. In fairness to children (and adults) everywhere, though, it's not their fault. It's a product of the way we are wired. Unfortunately, most financial problems adults face are the result of poor savings habits. They either live beyond their means, or there are not enough resources to take care of emergency expenses or to fund retirement. The only way to combat these is to develop an instinctual habit for saving money, and that can be instilled at a very early age.

SPENDING VS. SAVING

As sophisticated as we think we are today, our brains have the same instincts as our cavemen ancestors. Back when prehistoric animals roamed the earth, survival was the only thing we were concerned about. When today isn't guaranteed, you don't stop to plan for tomorrow or next week. If you found food, you ate it. If you found water, you drank it. You never put off to tomorrow what would keep you alive today.

And while our environment has become decidedly less hostile over thousands of years, we still have the instinct to spend today and worry about the future tomorrow — if we worry about it at all. It obviously takes considerable thought and effort to counteract these impulses, and we'll show you some ways to help your kids do just that.

It's not just the impulse to spend that we have to overcome, however. We also have to get over the fact that it feels *good* to spend money. We like the feeling of gratification when we are able to get what we want, or do what we want, when we want to do it. It releases endorphins, those little chemicals in our brains that make us feel happiness, and when those chemicals wear off, we want to get them back by spending again.

For most people, saving their money doesn't release those endorphins. Saving money means not spending today and delaying gratification to sometime in the future. Sometimes, if we are saving for something substantial — like a car or some other major purchase — the future reward may be worth all of the waiting along the way. But what about the other important things adults save for: emergency funds in case you lose your job or have a major expense, new tires for the car, contributions to retirement, etc.? While the mature adult recognizes the importance of creating a safety net to protect finances or to deal with the routine expenses that pop up in everyday life, children lack the life experience to make the commitment to this type of savings without guidance.

We've often heard parents say, "My child is great at saving money. I make them put a portion of their money in savings every time they get paid." Unfortunately, these parents do not get the irony in that statement: Your kids are not great

ACCORDING TO *FORBES*, 63% OF AMERICANS DON'T HAVE ENOUGH SAVINGS TO COVER A $500 EMERGENCY.

savers — you are great at saving *their* money. But the problem with this is what happens when you aren't there to tell them what to do with their money. Or worse yet, what if your kids grow up to have years of pent-up resentment because they weren't able to spend their money the way they wanted, and when they are finally in control, they spend it all? For this reason, it's important to *encourage* your kids to save on their own and provide incentives for doing so, but *making* them save money isn't always the best idea.

Raising kids who *want* to save is not as crazy as it may sound. Kids are capable of learning to appreciate the value of saving to achieve larger goals — be it saving for a special purpose or just having their own money for their expenses, like a fun night out with friends. By providing kids with a savings goal, and helping them track their progress through to success, they'll learn that it is just as much fun to watch their dollars accumulate as it is to spend them.

THREE RULES OF SAVINGS

MAKE IT YOUR MISSION TO TEACH YOUR KIDS THESE THREE RULES OF SAVINGS. HAVE THEM RECITE THIS BACK TO YOU: "EVERY TIME, 10–20%, AND JUST DO IT!"

1. EVERY TIME.

It's often referred to as the "habit" of saving, and that's exactly what you want to develop in your children: an almost unconscious instinct to save a portion of every dollar they receive. The idea is to always "pay yourself first" so that you can have the money you want, when you want it. It also helps them develop a large enough pool of funds to be able to handle large expenses when they come up.

The kids don't need to have a job to start saving money: They can use part of their allowance (if they have one) or birthday and holiday money they might receive as gifts. We knew someone who took part of her lunch money and put it into savings. Now that is discipline! Needless to say, she is very financially secure these days.

As your children get older and start working to earn their money, they often begin taking on the financial responsibility for certain nonessential costs, like music, games, or trendy clothing. Sometimes older teens are responsible for more significant expenses, like their cell phone bill or car insurance. Regardless, developing targeted savings goals — such as a new cell phone or concert tickets — can help reinforce the habit of saving. Kids who have put at least a portion of their own funds toward these types of major purchases also tend to be more responsible with these items; they are much more likely to take care of that new cell phone if it was their hard work that paid for it.

If your kids receive an actual paycheck for their work, they may be able to arrange to have a portion automatically deposited in their bank accounts each pay period. If not, or if their income is more informal — like cash from babysitting or lawn mowing — they will need to come up with their own system for saving their funds.

2. 10–20%.

There really isn't a limit to how much a child can or should save. It definitely doesn't hurt to encourage a child to save as much as they want out of what they earn as long as it's something they can leave in their savings for a long time. Putting money into savings and taking it out the next day really doesn't count.

That being said, as adults, they will likely need to expect to save 10 to 20% of their income to provide both a cushion for short-term cash needs (like an emergency fund) as well as investing for long-term goals, like retirement.

If your family is religiously or charitably inclined, an additional portion of their money may need to be earmarked for philanthropic purposes. Consequently, it makes sense to *try to set a threshold of around 20% of earnings as a target for their savings habit*. For young savers first getting the hang of things, starting below that amount and working up to it is reasonable. But once children get excited about saving their money, you can encourage them to increase their percentage. It's definitely important to help them set a reasonable target that they can sustain. If their goal becomes too aggressive, they might get disillusioned if they fall short.

ACCORDING TO A SURVEY DONE BY THE AMERICAN INSTITUTE OF CPAS, MOST KIDS DO NOT SAVE ANY MONEY. IN FACT, ONLY 1% OF PARENTS REPORTED THAT THEIR KIDS WERE SAVING MONEY.

3. JUST DO IT.

As the Chinese proverb goes, "the journey of a thousand miles starts with a single step." Regardless of how successful your kids grow up to be, it's

unlikely that they will ever be able to get everything they want or need in life without having to save for it. Be it buying their first car or retiring from their last job, kids have a lifetime of saving decisions to look forward to. It's tempting to put off saving until next week, or until your child gets their first "real" job, or whatever excuses you want to use. Even if it's just a quarter in a piggy bank each week, it's the first step of your children's thousand-mile journey of developing a savings habit. Help them remember to "just do it."

RULES FOR GETTING YOUR KIDS TO SAVE

1. MAKE SAVING MONEY FUN.

It's critical that kids associate positive thoughts and behaviors with saving, and there is no better way to accomplish this than by making saving fun. By showing them how their money can grow and multiply, they will eventually look forward to saving money.

P E **Choose clear containers for saving and decorate them.**

Help your kids choose clear containers such as bins or jars. Label a container with "Saving" and one with "Spending." Some people also like to add a third, "Giving," and we'll talk more about that in the "Giving Back" chapter. Encourage the kids to decorate them with paint, stickers, ribbons, and everything that makes them excited about using their containers.

P E **Save in the container.**

Encourage your kids to take at least 10 to 20% of the money they earn or receive via allowance and put it in their savings container. For those just starting out, it helps to have a goal, which can even go right on the container, like “My Toy Fund.”

2. HAVE THEM SAVE FOR SOMETHING THAT IS EXCITING TO THEM.

Let’s face it, kids are not going to get excited about saving their money if they don’t have a specific idea of how that money will be used. Just saying, “This is for saving,” is not enough. By creating and working toward a specific goal as children are starting out, you can help foster the discipline needed to achieve the more sophisticated savings goals they will have when they are older.

E M H **Choose a small goal for which to save.**

Start with something that your children really want; perhaps it’s an item they wanted for their birthday or a holiday present they didn’t get. Or maybe it’s the hot new item/toy that all the kids are talking about. The only real requirement is that it’s something they want badly enough that they will value the sacrifice required to save for it. It also needs to be something that’s within their means to acquire in a reasonable amount of time (so they don’t lose interest). Be sure to make it a big “moment” when adding their money to the savings jar and praise them for their hard work and discipline.

E M H Make a wish list and prioritize.

Encourage your kids to make a list of the things they wish they could purchase. Every time they come to you with "I want ... " have them write it on their list. Then have them prioritize which items and experiences are most important to them. It's important to respect their decisions and let them take ownership of what they value. Encourage them to use the wish list to shape how they want to spend and save their money.

3. SHOW THEM THE MONEY.

The next step is for them to see what they have accomplished and also what they have the potential to accomplish.

P E M H Save for something as a family.

Many families have a jar where they put all of their spare change at the end of every day. They keep adding to the jar until it is full, and then they cash it in for something special for the family to share. Perhaps it goes toward a special night out, a new family activity, or even a vacation together. Your kids will value saving when they see that you save, too, and that the whole family benefits from it.

P E Remember those smaller denominations?

While you as an adult know it's "all about the Benjamins," for children, one green piece of paper is not really different from another. However, a big pile of change and small bills might look impressive to young eyes. You can help them count their money both in the number of coins they have and in the dollar figure that those coins represent. Seeing the growth of their savings efforts will make your kids feel more accomplished.

E M H Make a savings goal chart.

Once they have chosen an item for which to save, break up the dollar amount into increments or calculate how much time it will take them to earn it with their allowance. Then create a goal chart with boxes for the dollar amounts or the number of weeks it will take and have them place a sticker on the chart every time they save that amount. They might also want to add a picture of the item they want on the chart to help keep them motivated and excited about saving their money. It may sound crazy, but even high school kids can get into working on a savings goal chart.

E M H Eventually deposit their money into a savings account.

The clear containers are a great way for kids to see what they have saved, but once it reaches a certain point, that money needs to go into a savings account. You can choose what that "certain amount" is: It can be based on how full the container is, on a specific dollar amount, or on the goal they set. Whatever the case, choose an amount with your kids and stick with it. Then make sure to go through their savings statements with them so they can see how their money grows.

4. SWEETEN THE DEAL.

Nothing gets kids more excited than when they think they are going to get a reward in return for good behavior. You can use this tactic to help them save. Anything you can do to "sweeten the deal" and make saving more fun will help your kids associate positive thoughts with saving. Note: This technique is completely optional.

P E M H **Consider offering an additional incentive.**

Find a way to incentivize your kids to save. Perhaps your kids want to save for a new gaming system. You could offer to purchase a new game for them to go with that system once they reach their goal. Another idea would be to offer little prizes along the way for saving certain specified amounts. You know what motivates your kids; maybe it's stickers, more screen time, a special meal, or an award. Use that knowledge to help them become thrilled about saving.

M H **Consider paying interest on their savings.**

Paying interest on their savings has two benefits: 1) it teaches them how they can earn extra money on their savings, and 2) it helps them get closer to reaching their goal. It is a good idea to keep the interest rate rather low, given what they would receive at the bank.

M H **Consider matching their contributions.**

Similar to a company's matching program with a 401(k) account, you could offer to match an amount your kids save. One idea would be to literally match

IN THIS COUNTRY, IT IS ESTIMATED THAT PEOPLE SPEND NEARLY 97 CENTS OF EVERY DOLLAR THEY EARN, SO ONLY AROUND 3% OF THEIR MONEY MAKES IT INTO SAVINGS.

dollar-for-dollar, say in the instance of helping pay for college or for a new car. Or match the extra money they put in savings beyond that 10 to 20% number. Of course, if you choose, you can put a cap on this amount, just as they do with 401(k) programs.

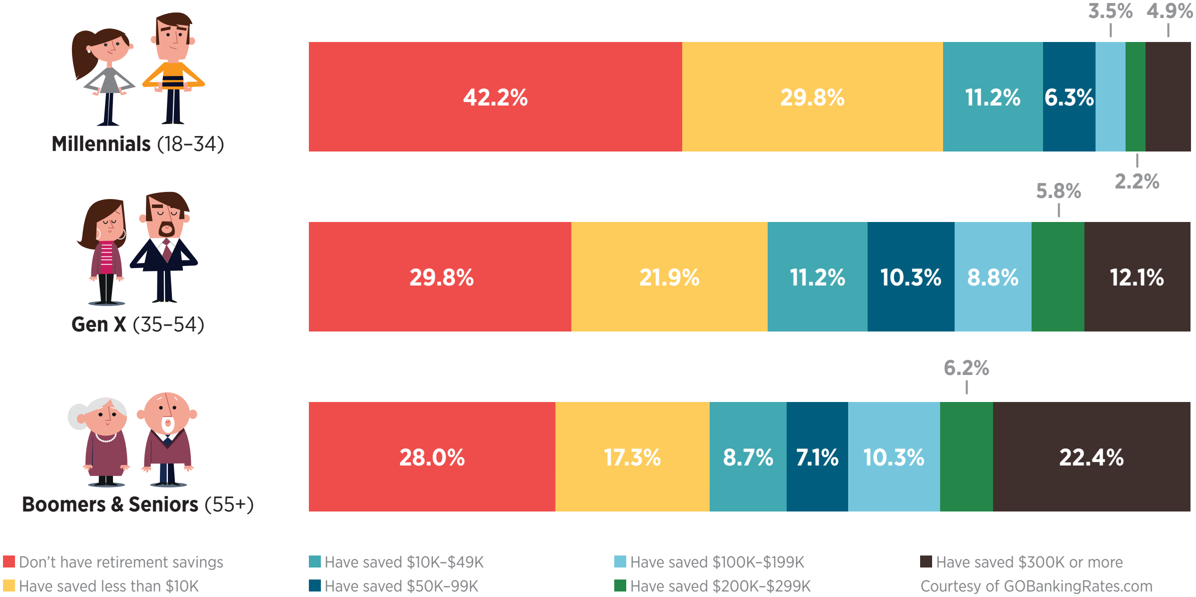
This strategy works best for larger goals that your kids have the willingness to save for but would otherwise lack the ability to achieve with their own earnings. You also want to keep the matching amounts comparatively small so that kids still bear the greater responsibility of saving their money, rather than depending upon your contributions alone.

ADVANCED UNDERSTANDING OF SAVINGS

Now that your kids are getting older and getting in the habit of saving, it's important to introduce elements of what they can expect in "real life" savings situations.

We can all agree that 3% of their money is not nearly enough to prepare kids for the financial challenges they will face in adult life. What kinds of challenges can kids expect and what kind of savings will they need? Well, for starters:

How Much Millennials, Gen X, and Boomers Have Saved for Retirement



Courtesy of GOBankingRates.com

1. RETIREMENT (AKA NEST EGG).

Yes, we know. What teenager cares about retirement? Here's how you get them excited about retirement: You tell them that retirement lets them quit their job and do *whatever they want all day, every day*. You help them understand that it takes money to do this, and the sooner they start saving for it, the faster that money will multiply and allow them to do whatever they want.

Believe it or not, kids can make meaningful strides toward their retirement goals even at an early age. If your child has earned income, they can contribute to a Roth IRA (more about that in a later chapter) even before they turn 18. Putting this money to work immediately can make a monumental impact on their future financial independence.

Let's assume from age 10 to 18 your kid earned $2,000 every year from their work, e.g., mowing lawns, babysitting, part-time work, etc. What would happen if they invested those funds into a Roth IRA every year (earning 8%) and never invested another cent into the account after they turned 18?

Roth IRA Account Balance at Various Ages

18	30	40	50	65
$24,975	**$67,923**	**$146,640**	**$316,586**	**$1,004,264**

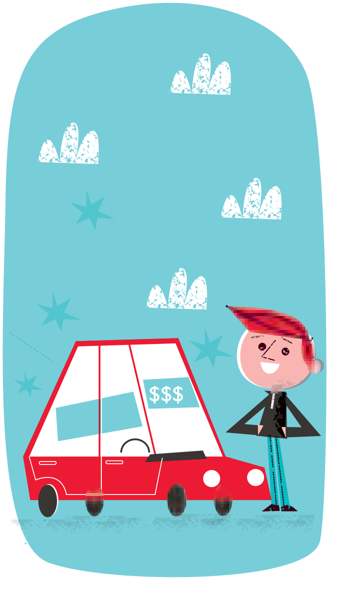
Not only is that a tremendous return on a small investment, but it's an empowering source of money over their lives; it could be an emergency fund in college, a down payment on their first home at 30, college savings for their own children at 40 or 50, or a more comfortable retirement at 65.

Introduce your kids to retirement savings.
It's important your kids know that, at some point, they will need retirement savings. Help them to understand that the earlier they start saving for it, the better off they will be.

Introduce your kids to investing.
Your kids need to be familiar with the idea of investing. Explain to them the power of multiplying their money with their investments. We'll give you specific strategies on how to do this in the investing chapter.

2. UNEXPECTED EXPENSES (AKA EMERGENCY FUND).

We all have expenses that pop up as adults. The car that won't start, the insurance deductible that becomes due after an accident, the trip to the E.R. for your broken arm, or that broken air-conditioner in 100-degree heat. Right now, your kids' expenses are probably more like going to the school dance, paying for their car insurance, and starting to save for college expenses. *The key idea here is for them to begin saving for future expenses, not just for their fun "goal" items.*



H Encourage the habit of saving.
As kids become accustomed to regular savings, encourage their saving efforts — even if they're not saving for a specific goal. It's important that they start to understand that you don't only save in order to spend, but rather to grow your financial reserves, too. Consider rewarding kids for maintaining a specific balance or allowing them to use those funds for discretionary items.

3. FINANCIAL GOALS.

By now, your kids probably understand the concept of saving for something they want to buy someday. As your kids age, these goals may morph into more expensive items, such as a car or a spring break trip. This is okay as long as they understand that their general savings is important, too.

DO NOT SAVE WHAT IS LEFT AFTER SPENDING, BUT SPEND WHAT IS LEFT AFTER SAVING.

Warren Buffett

SAVING STRATEGIES

While it's still true that you have to spend less in order to save, there are some strategies that will help your kids become better savers. Here are a few:

1. BE EXACT.

Encourage your kids to select a specific, measurable savings goal. It's not enough to say, "I will save more money." By setting an exact goal, they will be able to figure out what it will take to achieve the goal and measure their progress along the way.

2. UTILIZE THE IDEA OF SAVING WITHIN A DAILY ROUTINE.

It can be difficult to break the cycle of spending (particularly with those after-school study sessions at the coffee shop), but show them how they can make changes in their daily routines to save more money. For instance, they could order a regular coffee instead of that Frappuccino at Starbucks and they will save several dollars. If they do that five days a week, they would have approximately $50 extra at the end of the month.

3. BE REALISTIC.

It doesn't help for your kids to set incredibly lofty goals and get frustrated trying to achieve them and to ultimately give up. Help your kids choose financial goals they can actually achieve and those they can achieve in a reasonable period of time. Otherwise, the idea of saving will be associated with feeling like a failure, and that is the last thing you want.

4. PRIORITIZE.

Your kids need to understand that we cannot have it all. We have to prioritize the items that are most important to us, and those priorities might change at some point. Work with your kids to make that priority list and use it to guide their actions. Talk to them about your own priority list and how you choose what is deserving of your money.

5. FIND THE SALES.

Sometimes we become acutely attuned to how much something costs rather than considering its value. Maybe your kids really want a designer piece of clothing, shoes, or handbag. Show them the value of waiting until it goes on sale before purchasing it. These days, the major retailers have 30 to 40% off sales on brand-new, in-season items. Encourage your kids to track when that happens and make their purchases on those days. Then show them how that extra money remains in their pocket.

6. THINK CHEAPER.

Challenge your kids to find low-cost or free alternatives to some of the items on their wish list. For example, do they need to buy everything they want or can they borrow it? Many public libraries offer a wide selection of current movies and video games kids can use for free.

E M H **Plan a "free" night.**

Have your children plan a low-cost or free night of entertainment for the family. Set a small budget that the kids can use to plan the evening. Maybe it starts with cooking at home with items already in the pantry or freezer, includes a trip to a local museum or festival, or perhaps involves a board game with the family. Not only does this encourage an appreciation that you don't always have to spend a lot of money on entertainment, but kids can also gain a better understanding of what's going on their community.

7. BUILD CONFIDENCE.

Praise your kids for saving money and help them build confidence by showing them they can achieve their savings goals.

8. TALK ABOUT YOUR OWN SAVINGS HABITS AND MODEL GOOD BEHAVIOR.

This may be the most important point of all. Kids not only learn and make value judgments based on the words they hear from their parents, but also from the

behaviors they see from their parents. One of the struggles of teaching the value of saving money is that while the spending portion of money is visible almost every day, the savings portion is almost never seen. This can be particularly challenging if your children watch you make impulse purchases without the understanding that you had accumulated the money in your bank account from your work or savings in advance.

✪ Be transparent about your savings values and habits.
Talk with your kids about how you make financial decisions with regard to the family and how much you save each month for expenses, retirement, college, etc. When you're making a purchase, or planning for a large expense (like a family vacation), talk with your kids about how you saved (or are saving) your money to be able to buy (or do) these things. The more your kids see and hear that you're saving just like they are, the more they will appreciate the importance of saving.

FINAL THOUGHTS

- Teach your kids the three rules of savings: every time, 10–20%, and just do it!
- Make saving fun through reasonable goal setting and tracking.
- Praise kids for saving and make sure they see the results of their savings (either via their savings container, through items they are able to purchase, or in a savings account).
- Help your kids understand that as they grow older they will need to save for things like an emergency fund and retirement while keeping their financial goals in mind.
- Be transparent with your kids about your savings values, habits, and goals.

CHAPTER 4

BANK ACCOUNTS

IN THIS CHAPTER YOU WILL LEARN:

- How to introduce your kids to the bank
- What to consider when opening a bank account with kids
- How to get your kids involved in the process of opening an account
- How to teach your kids about checks, deposits, debit cards, and check registers and how to reconcile their account
- How to explain what happens when things go wrong with their checking account

At some point, your kids will outgrow their piggy bank. Maybe they are earning large enough sums of money that keeping all that cash around the house doesn't seem like a good idea. Maybe they are ready to start taking advantage of the benefits a bank has to offer, such as savings accounts that pay interest, debit cards, and ATMs. Maybe they have a job that will give them a payroll check or offer direct deposit. Whatever the reason, kids will eventually need bank accounts, and they will look to you for guidance.

THE BANK

Long before they need the services of a bank, kids can get acquainted with what banks do, where they are located in relation to home, and whom they can turn to for help. The next time you need to go to the bank, take your kids and give them an opportunity to learn about what goes on there.

P E Tour the bank.

Kids will be amazed when they step inside a bank, and there are many things you can show them while you're there. Ask a personal banker to show your kids the big vault and the safe-deposit boxes. Have the banker explain the security measures and show the kids the security cameras. Have your kids interact with a teller and have the teller count your money back to you or turn your change into dollar bills.

P E Follow a dollar bill online.

To show your kids how money travels, take a dollar bill and on it write, "Follow Me: wheresgeorge.com," using a pen or permanent marker. Then go to the same website and register the bill. You'll also be able to set up email notifications about when information comes in regarding the locations of the bill you've labeled. Once you've done all of this, spend the dollar somewhere so it can be put into circulation. Then watch your email for location updates and share them with your kids so they can see how money travels through the system.

WHY USE A BANK?

Banks offer a wide range of services and conveniences to their clients. But the biggest advantage is that when your kids wish to purchase something, rather than lugging a piggy bank around with them, they can use a checkbook or a plastic card that gives them access to their money. Banks also pay interest on some accounts, and the compounding effect of interest can help kids grow their money even while they are sleeping! We will talk more about the power of compound interest in the next chapter.


Bank

BANK ACCOUNTS

When should my kids open an account?

Once your kids have more money than they should keep around the house in a piggy bank (perhaps $100 or so), it's worthwhile to consider opening a savings account for those funds. Not only is this a safer way to keep large sums of money protected against loss or theft, but kids also get the opportunity to earn interest on their money, which they won't get from a piggy bank.

One downside to putting the funds into savings is losing the visibility of the actual dollars. It's important that your kids understand the concept of the savings account, and you should go down to the bank together to make deposits once the accumulated amounts at home reach a certain level (say, every $50 after opening the account). You should also review the account statements together, showing kids the amounts they've deposited and the interest they've earned on their funds.

SAVINGS ACCOUNTS

There are a few important things to keep in mind when opening a savings account or any bank account, for that matter:

1. BANK OR CREDIT UNION

Banks are businesses and they have shareholders — either public or private — who share in the profits. Banks make profits by lending money at a higher rate than they pay on their deposits, along with collecting fees and other sources of revenue.

A credit union is owned by the account holders, which are known as members. With a credit union, the profits are distributed back to the members in the form of additional interest on their deposits or lower rates when borrowing.

The number of credit unions has grown dramatically in recent years, and there may be one in your area that you are qualified to join. Some credit unions require that you work in a certain field or have a certain profession — like schoolteacher, police officer, or firefighter — but others simply require that you live in a certain city or county.

E M H Research local credit unions.
You can help your kids research the different options for credit unions in your city. Determine what the membership requirements are and compare the service offerings to those of a traditional bank.

2. LOCATION

It's generally a good idea to open your kids' accounts at the same institution where you do your banking. This makes it easier for you to monitor the accounts and make transfers. That being said, there can be advantages to establishing accounts at a different bank as well. If your kids are older, it's worth considering the ease of access to their funds if they go to college in a different city. Large national banks may have a network of ATMs — automatic teller machines — available near campus that offer fee-free withdrawals that a smaller, local bank likely won't have. While your kids are still at home, look for a bank with convenient locations near school and work. This makes it easier for kids to make deposits and withdrawals as needed. Some banks also have better account features or programs designed specifically for kids, so keep your options open.

3. FEES

Your kids are likely to have a different type of bank account than you do, which means they are also likely to have a different fee structure. Many banks offer a starter account or "young savers" account that is tailored to kids with smaller balances; however, it's important to ask about the fees associated with the account, such as low-balance fees, monthly service charges, and charges for certain services (like online bill pay, ATMs, or counter service). Some banks may limit the number of fee-free transactions. For example, kids may get three transfers between accounts per month and then face a per-transfer fee after that. As your kids get older, the way they use the account is likely to change, so it's important to periodically revisit the various account options available to ensure your kids have the right type of account to meet their needs.

4. INTEREST RATE

It's best to look for the highest interest rate you can find on a savings account, and many online banks offer competitive student savings accounts with higher interest. That being said, the rates are not going to make your kids rich. It's more likely that convenience fees will have a greater effect on the balance in your kids' accounts, so be sure to look into both.

Research fees and interest rates.

Help your kids research the varying fees and interest rates for bank accounts. As you are evaluating account options, talk with your kids about the cost and features of each bank to see where you might get the best deal. Have your kids try to calculate what a typical year would look like: How much would they pay in monthly fees or transaction fees based on how they would likely use the account? How much do they think they will earn in interest to offset the costs? Getting them involved in “shopping” for a bank will make the process more exciting while getting them to take responsibility for their account.

How is a credit union different from a bank?

VS.

Credit Union

Not-for-profit cooperatives offer a full range of financial products and services to their members.

Earnings are returned to members through services like free ATMs, better rates, and lower fees.

Insured through NCUA up to $250,000.

Owners and members live and work in their local community.

Credit Unions are democratically governed, and elections are based on a one-member, one-vote philosophy

Bank

For-profit corporations offer a full range of financial products and services.

Earnings go to outside stockholders in the form of dividends.

Insured by FDIC up to $250,000.

Banks are goverened by paid shareholders. Voting rights depend on the number of shares owned.

5. OWNERSHIP

Once kids reach the age of majority in their state (typically 18), they can open bank accounts on their own; however, until that age, you must be involved in their account in some way. There are typically two ways this is done: either a custodial account or a joint account.

With a custodial account, the parent acts as the custodian of the funds, or the person legally in charge of managing the account, until the beneficiary reaches the age of majority. You basically control all aspects of a custodial account, and kids typically do not get access to any special features. This is generally a good titling choice for a savings account, particularly since it can prevent the kid from going on a spending spree with the money in there.

With a joint account, both the parent's and kid's names are on the account. The parent is still the responsible party, but the kid has full access to debit cards, online banking, etc. This is a better option for checking accounts or other transactional accounts.

Some banks may offer a third option to a minor: an individual account with limited features (sometimes referred to as "sole ownership") specifically for teens. You would need to determine how much visibility and control you would have as a parent for this type of account.

6. ADDITIONAL BENEFITS

Many banks offer additional features or incentives to young clients. For example, some banks offer the ability to make deposits from a smartphone, which can appeal to mobile-savvy teens. There are also incentive deposit-matching features, higher introductory rates on savings accounts, and special clubs to help motivate kids to save. Talk with your kids about the features and offers that appeal to them to determine which bank is the best fit for their money.

CHECKING ACCOUNT BASICS

A savings account will last for some time for most kids, but eventually, they will need a transactional account, like a checking account, to meet their financial needs. Savings accounts aren't intended for transactional purposes — like using a debit card or writing checks to make purchases — so adding a checking account will become prudent when kids are ready for this responsibility. Some banks will allow kids to open a checking account at the age of 13, but it's more important to consider the responsibility level of your teenager. Are they capable of maintaining a check register and managing the money without your assistance? As mentioned previously, you will be the co-owner of the account, so you will be able to monitor the account as well as set up limits and restrictions; however, you also need to have confidence in your kid's ability to use the account properly.

CHOOSING THE ACCOUNT

Choosing a checking account largely follows the same decision-making process outlined when kids opened their first account. It makes the most sense to open a second account at the same bank to facilitate the ease of transfers, having one

location for online banking, one card for ATM use, etc. You will still want to keep certain things in mind when evaluating your options:

M H Help your kids choose their checking account.
Include the following in your list of questions when shopping for a checking account (in addition to those already covered for savings accounts):

1. Check-writing charges — How many checks can be written each month, and is there a charge if you write more?
2. Online banking — How intuitive is the online experience? What can — or cannot — be done online?
3. Debit card — Does the bank offer a debit card, and are there special features, such as rewards or cash back, for using it?
4. Counter fees — Is there a fee to go inside the bank and work with a bank teller for deposits and other transactions?
5. Other fees — These include maintenance fees, annual fees, low-balance fees, negative-balance fees, overdraft charges, returned-check fees, and others. Ask the bank to provide you with a list for all the potential charges on the account.

MAKING A DEPOSIT

Once kids open their bank accounts, they need money in there. When they are younger, you can handle making deposits and withdrawals. But as they get older and start to take on more responsibility, teach them how to make a deposit.

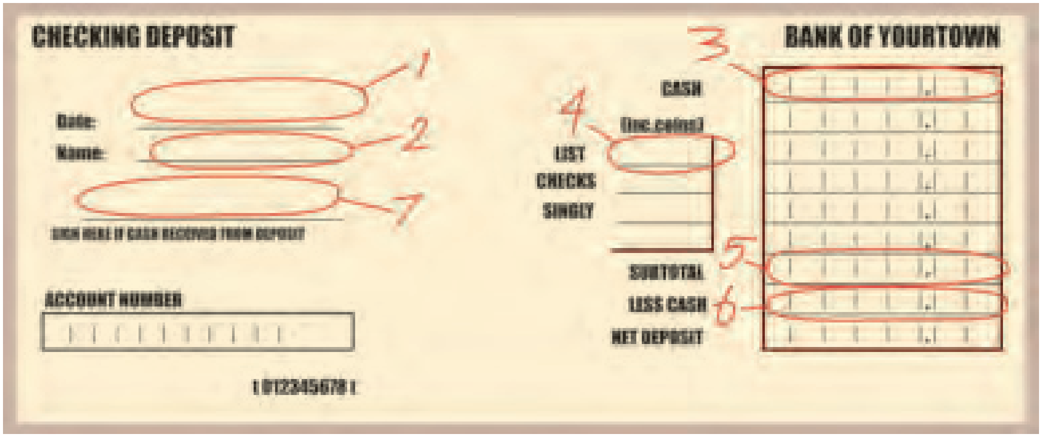

DEPOSIT SLIP:
NAME:
DATE:
ACCOUNT NUMBER:

One thing kids may not realize is how a check needs to be made payable to *themselves*. The name on the check needs to match the name on their account. If they go by "Liz" but the name on their account is "Elizabeth," the check needs to be made out to "Elizabeth." Likewise, kids need to endorse the back of the check with a signature that matches the name on their account.

Review all the ways to make a bank deposit.
Most banks offer a variety of ways to make a deposit. ATMs tend to be the most convenient way since they offer 24-hour service. However, kids may not want to use this for larger or more complicated transactions (or when they have a question for the bank staff). Personal service can be found inside the bank or through a drive-up window (often with extended hours beyond the counter service times). Some banks offer the ability to make the deposit through a smartphone app. Help your kids make a deposit through each of the options provided by your bank at least once so they are confident using each method on their own. Just because your kids have been in the car while you've made a deposit doesn't mean they know how to do it themselves.

Teach your kids how to use a deposit slip.
When kids open either a checking or savings account, they are typically given preprinted deposit slips they can use to put funds into their account. They can also fill out a deposit slip at the bank.

In addition to the account number, there are seven additional items kids must include when making a deposit.



1. The date the deposit is being made.
2. Their name (printed).
3. The total amount of cash being deposited, including coins.
4. The number(s) on the check(s) that are being deposited and their corresponding amounts to the right. Make sure kids know to list checks individually and that there is usually a place for more on the back if they run out of room on the front.
5. The subtotal, which is the sum of the cash and checks before any money is refunded back.
6. “Less cash” is only used if they want cash back; if so, the amount refunded goes here.
7. Signature is only required if they are receiving cash back.

Explain to your kids that their money might not be available right away.

Deposited funds are not always immediately available for use. Explain to your kids that banks use a business day concept to determine when the deposit is recorded. Many banks move to the next business day around 2 p.m., which affects which day the funds will be available for use. This is particularly true of deposits made on Friday or over a weekend. A deposit made on a Friday afternoon may not be available until Tuesday if it was counted on Monday's business. This may be a confusing concept for kids to grasp, so encourage them to ask the bank teller when the money will be available. Cash deposits are always available immediately, and usually electronic transfers from another account are, too.

M H Teach your kids the parts of a check and how to write one.

Although debit cards have become the norm, kids will still find occasions where they need to write an old-fashioned check. Page 100 shows a sample check that outlines everything a kid needs to know. All nine features must be present for the check to be valid.

1. The date you write the check. This should be the actual date it's written, not some date in the future — also called "post-dating." Most places won't take a post-dated check, so it's not a good habit for kids to develop.

2. Name and address. Kids may be given the option of having their phone number, social security number, or driver's license number preprinted on the check as well. Privacy experts generally discourage this, so encourage kids to leave these personal details off their printed checks.

3. The "payee" or recipient of the money. The person's full name (not nickname) or the full business name goes here.

4. Signature. A check must be signed to be valid. The signature needs to match the name printed in #2.

5. Numeral amount of payment, including both dollars and cents.

6. Written amount of the payment to help with unclear handwriting. Usually cents are written as a fraction, e.g., “10/100” or “no/100.” Encourage kids to develop the habit of drawing a line after the cents through the empty space to the word “dollars” to prevent anyone from making changes to the check after it has been written.

7. Check number. Checks are numbered sequentially. The number at the bottom and top right of the check should always match.

8. Bank identification. This is found in two places. The first is above the printed date on this particular check, and it’s an identifying number for the bank. The second is located below the written payment amount, and that’s the name and address of the bank.

9. Bank routing and account numbers. The first set of numbers is the bank’s unique routing number. When the check is deposited at a different bank, the routing number is used to find your kid’s bank and get the money from the account. The second set of numbers is your kid’s account number at the bank.

HOW DOES THE CHECK WORK?

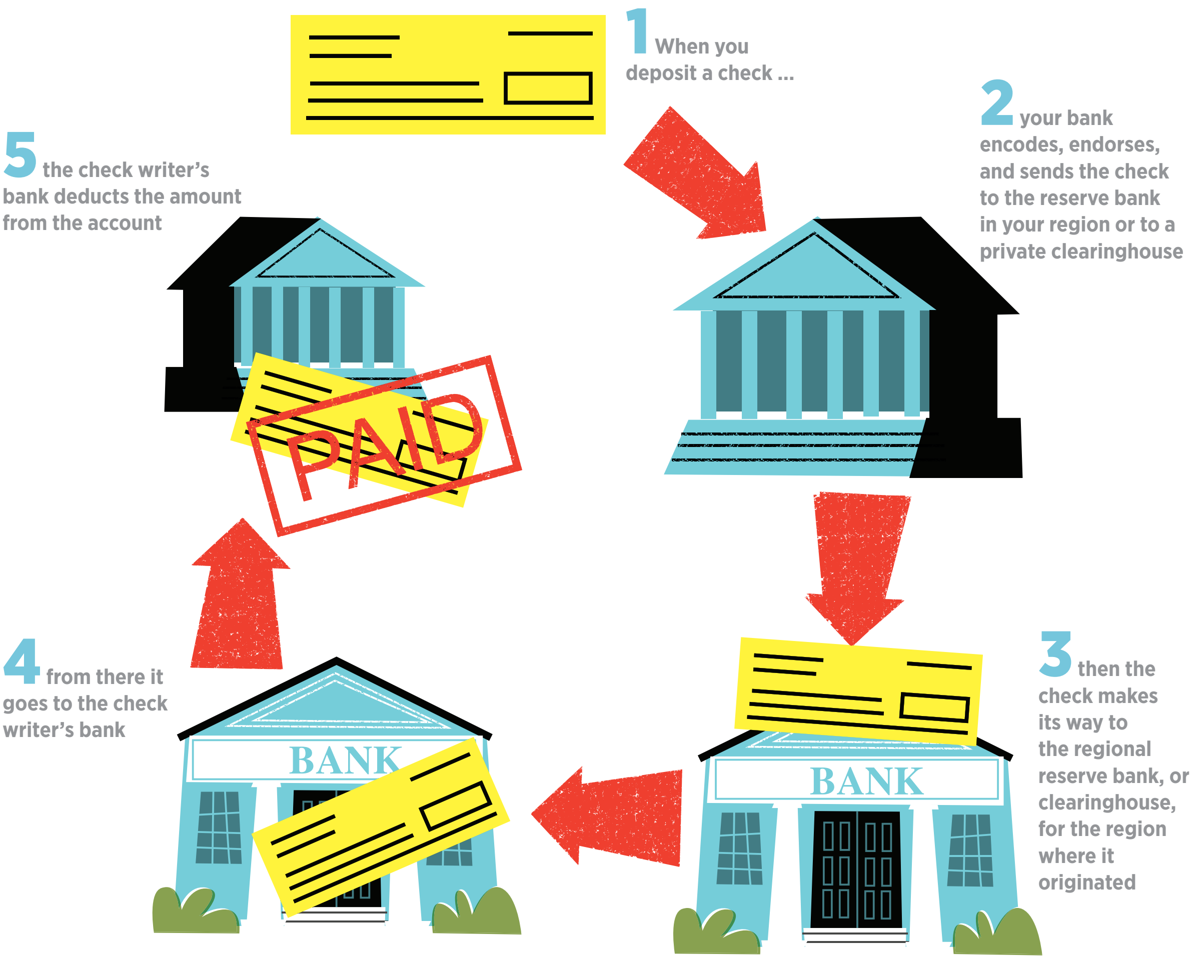
For kids accustomed to spending cash, the idea of a check may be a foreign concept. It's important for kids to understand that a check is a promise that one bank will pay another bank on behalf of the person writing the check. While this process has been made more trustworthy by electronic processing systems, it still depends upon the honesty of the person writing the check to honor their commitment to pay the written amount. A check is probably the simplest form of financial trust — or credit — in the world.

✪ Explain how checks work.

Use the demonstration to show your kids how checks are processed. Help them understand that it is a promise to pay a certain amount, and they need to make sure they have enough money in their account to cover the check. Also explain that sometimes people don't deposit checks right away, so they need to leave that money in their checking account even if the check hasn't been deposited by the other person.

✪ Explain what it means to "bounce" a check.

Many kids mistakenly believe that as long as they have checks, they can keep writing them and the bank will pay everything. This obviously isn't the case. Explain to your kids that if they write checks for more than what they have in their bank account, bad things can happen both to the person writing the check and to the person attempting to deposit it. This is called bouncing a check and it can create lots of expensive fees for your kids to pay. If your


1 When you deposit a check ...
2 your bank encodes, endorses, and sends the check to the reserve bank in your region or to a private clearinghouse
3 then the check makes its way to the regional reserve bank, or clearinghouse, for the region where it originated
4 from there it goes to the check writer's bank
5 the check writer's bank deducts the amount from the account
PAID
BANK
BANK

kids intentionally write checks for amounts they know they can't cover — particularly in large amounts — that is a crime called "check fraud," which is punishable by fines and even jail time.

THE CHECK REGISTER

Every checkbook provided by the bank includes a register for recording all of the deposits and expenditures from the account. There are many ways to use a register, but the two-line entry system is probably the easiest and most intuitive method for kids to keep track of the money in and out of their account.

Even though banking apps and online access make it easy for kids to check their balances in real time, wherever they go, it's still important for them to use their check register. The reason is that the online values are not always accurate: If your kids mailed a payment or wrote a check that hasn't been deposited yet, it won't show up online.

Some debit card transactions post a smaller amount when the card is authorized initially — such as fuel purchases or restaurant meals — and the full charges are added later. In both cases, it will look like there is more money in the account available to spend than there actually is. Kids who do not maintain an accurate register are more likely to overdraw their account than those who keep track of their spending. More importantly, it helps instill the responsibility for accuracy and precision in financial matters, which only becomes more critical as their finances become more complicated later in life.


Debit Card
Automatic Deposit
Automatic Payment
Online Bill Pay

Ⓜ Ⓗ Show your kids how to use the check register. Make sure they follow these five rules:

1. As soon as they make a purchase, they need to write down the check number, date, payee, and amount paid.
2. Don't forget those debit card purchases and ATM withdrawals. They need to go in there, too!
3. Remember to write down all deposits into the account as soon as they make a deposit.
4. Do not wait to enter purchases or deposits into the check register. Kids will likely forget and then they can accidentally overdraw their account.
5. If they don't have their check register with them when making a purchase with their debit card, make sure kids get in the habit of keeping all their receipts and writing down their purchases as soon as they get home.

Teach your kids how to enter the information into their register. You can show your kids your own check register or use the sample provided here.

Check #	Date	Description	Amount	Deposit	Balance
	7/10/17	Balance Forward	346.80		$346.80
					23.14
0100	7/15/17	Barb's Flower Barn	23.14		$323.66
					56.33
0101	7/16/17	Dempsey's Sporting Goods	56.33		$267.33
					135.15
0102	7/18/17	Stop-n-Shop	135.15		$132.18
					100.12
0103	7/19/17	Verizon Wireless	100.12		$32.06
					376.19
	7/20/17	Paycheck			$408.25
				376.19	189.36
	7/21/17	Auto Bill Pay-Car Insurance	189.36		$218.89

E Help your kids learn with a pretend checkbook and check register. Learning Resources makes a "Pretend and Play Checkbook with Calculator;" it is available on Amazon.com for around $15. You can also find printable checks and check registers online. This is ideal for ages 5 and up, and it helps kids practice using the checkbook and register. When your kids are playing "store," this is a great opportunity for them to learn and understand more about how checks work.

BALANCING THE CHECKBOOK

Even if your kids keep accurate records of their spending and deposits, they are likely to have figures in their register that don't match those of the bank. This is because banks frequently subtract fees: check-writing fees, overdraft fees, low-balance fees, service fees, new check fees, etc. Sometimes it's an unknown deposit, such as earned interest or a savings incentive plan match. In either case, there are likely to be transactions in the account your kids did not include in their register, which can add up to a bounced check if they aren't careful.

M H Make sure it registers.

Each month, your kids should receive a mailed or emailed statement that shows all of the deposits to and withdrawals from the account as well as any fees. Review this statement with your kids, along with their check register, to help them make any adjustments to their balance or correct any mistakes (like math errors or transactions they forgot to record in their register). This also helps you confirm that kids are using their account properly and that they are keeping accurate records.

DEBIT CARDS

At one time, ATM and debit cards were bonus items that banks gave to their checking account holders. Now debit cards are one of the primary ways people pay for things out of their accounts.

M H Teach your kids about debit cards.

There are five things kids need to know before they whip out the plastic for their first purchase:


4751
VALID
FROM

1. What is a debit card?

A debit card is issued by a bank to debit — withdraw money from — a bank account. Even though it has a credit card company logo — like VISA or MasterCard — on the front, kids need to understand that it's not a credit card; banks simply use these companies' terminal networks to process the transactions.

2. How is a debit card used?

In addition to purchases, debit cards can be used in ATMs to make deposits or withdrawals from their accounts. When they're used for a purchase, kids will need to choose if they want the transaction processed as "credit" or "debit."

3. Processing the transaction as "debit."

When kids initiate a "debit" transaction, they will be asked to enter their PIN — personal identification number — for the card in order to make the purchase, which will cause the money to be immediately withdrawn from their account, similar to using cash to make a purchase. This method isn't the most secure way to make a payment (people could steal the PIN and gain access to the account), and there is often a processing fee associated with making payments this way.

4. Processing the transaction as "credit."

When kids choose to make a "credit" transaction, the card is processed like a credit card. The business first authorizes the card (the account is checked electronically to see if there is enough money to cover the purchase) to approve or decline the purchase. Assuming the purchase goes through, kids will be

asked to sign a receipt, like a credit card transaction. While the funds are still withdrawn directly from their account, it may take a day or two for the charges to go through, similar to writing a check. The amount of money available for the kids to spend using the card will be reduced by whatever payment was made. It's important for kids to understand that this delay in processing may make it appear that more money is available in their account for future purchases than there really is, so they should record all debit card purchases in their check register.

5. Online account management.

Debit card transactions will show up on account statements both online and in any mailed or email copies. Encourage kids to check their online account frequently to verify the accuracy of their records.

Walk your kids through their first few debit card purchases. Kids will need some practice to feel comfortable and confident using their cards. Make sure you are there to guide them through their first few in-store and online purchases and/or ATM transactions.

ABUSING PRIVILEGES WITH CHECKING ACCOUNTS

We all make mistakes sometimes, and they can certainly happen with a checking account. Kids may forget to write down a transaction in their register, fail to get their paycheck deposited on time, or make some other mistake where they've spent more money than they have in their account.

Explain what it means to "overdraw" your account. Kids need to know that this can happen, and it happens by writing a check or authorizing a purchase beyond what is available in the checking account. Banks will sometimes process the payment and charge fees, or they may deny the charges and still charge fees (sometimes including a returned check fee). If the payment is not processed, your kids will need to provide another form of payment to the original merchant or payee. Banks sometimes charge additional fees for every day or week the account balance remains negative. Explain to your kids that these fees can add up, as illustrated on page 114:

Date	Check Number	Description	Amount	Balance
12/1				$40.00
12/2	1001	Oil change	$45.00	-$5.00
12/2		Overdraft fee	$30.00	-$35.00
12/2		Negative balance fee	$10.00	-$45.00
12/2	1002	Burrito Palace	$10.00	-$55.00
12/2		Overdraft fee	$30.00	-$85.00
12/2	1003	Pizza King	$15.00	-$100.00
12/2		Overdraft fee	$30.00	-$130.00
12/2	1004	Marquee Movies	$15.00	-$145.00
12/2		Overdraft fee	$30.00	-$175.00

When kids establish their own bank accounts, it allows them to take a major step forward in their financial independence. They will experience some of the same decisions and responsibilities as adults with regard to managing and spending their money, and with your help, they can do so with confidence.

FINAL THOUGHTS

- Introduce your kids to the bank at an early age, even if they don't have accounts there.
- When looking for an account, consider both a bank and a credit union.
- Also consider location, fees, interest rates, ownership of the account, and any additional benefits available.
- Make your kids take an active role in selecting their bank accounts. Teach them the questions to ask and have them do the work.
- You'll need to show your kids how to make a deposit, write a check, fill out a deposit slip, use a debit card, and use a check register, showing them the ins and outs of how accounts work.
- Use the exercises in this chapter to help you explain these concepts to your kids.

CHAPTER 5

INVESTING FOR THE FUTURE

IN THIS CHAPTER YOU WILL LEARN:

- Where to start when teaching your kids about investments
- How to explain stocks, bonds, mutual funds, and ETFs
- Basic investment concepts: compound interest and risk and reward
- Types of investment risk
- Which investment accounts kids can open

As kids get older, the more sophisticated areas of finance often pique their interests. Investing is one area that not only gets kids excited about finance and money, but it can also be a great way to engage in activities and start a dialogue with teens about finance. Just like using traditional savings accounts, starting an investment account early in life can pay dividends as your kids get older.

Why talk to kids about investing?

It may seem premature to bring up the idea of investing with kids when getting them to save just a little bit of their money can seem like a daunting task. But raising kids who are savvy about investing money helps put them on the path to future financial independence and success.

The challenge with teaching kids about investing is the potential complexity of the topic; the industry is fraught with unfamiliar terminology, confusing rules, and an overwhelming number of products and options. The upshot is that, unlike a bank savings account, kids have the opportunity to see small sums of money potentially grow into incredibly large amounts over time through the miracle of compound interest. Watching their investments grow can provide a level of excitement and generate a level of interest that a piggy bank or savings account can't compete with.

When should you start talking with kids about investing?
The appropriate age to introduce investing to kids will vary by their level of interest and intellectual maturity. Some kids can become interested in following investments as early as grade school or middle school. It helps if they have good basic math skills (to calculate and understand investment returns) and can understand the basic investment concepts covered in this chapter.

WHERE TO START

When the concept of investing is discussed, it's typically in terms of "saving for the future." However, there is a big difference between saving and investing: When kids save money — be it in a piggy bank or with a savings account — it's basically their own money going in and their own money coming out. If the money has been sitting in a bank account, there might be a small amount of interest added to the balance, but for the most part, whatever dollar amount the kids put into the account is what they will have available to take out in the future.

Investments are different. An investment is an asset, which is typically something kids *purchase* today with the expectation that it can be *sold* in the future for a higher price. Consequently, there is really no limit to how much an investment can grow: Small purchases today can become worth hundreds of thousands of dollars or more in the future. There are many things that are considered to be investment assets, so it's possible to get kids of all ages interested in investments. Stocks, mutual funds, and real estate are all assets — but so are collections of stamps, comic books, and baseball cards.

That being said, investments typically have a longer time horizon before they show their benefits. Kids looking to see results after a few days, months, or possibly years might become disillusioned and discouraged.

ASSETS

Collectibles

Collectibles can be a good place to begin venturing into investments with younger children. They likely have accumulated toys, dolls, and other potentially valuable items throughout their early years, or they might have an interest in starting a collection.

It's important to note that if kids decide to start a collection, they must treat it as an investment and protect its value —

An investment plan is like planting a tree; once the seed goes in the ground, you have to water and care for it year after year. After a certain amount of time, the sapling has what it needs to grow on its own, and eventually, it can become an impressive, towering tree.

Kids who are interested in investing need to pick investments they believe in and add to their accounts over time. Eventually, their dollars can yield impressive returns.

perhaps by keeping the item in its original packaging, protected in a plastic case, etc. If this is a toy or other item kids would otherwise play with and enjoy, it would be prudent to purchase one for play and one for the collection.

At the same time, focusing on the noninvestment side of the collection can keep kids interested. For example, if they collect baseball cards or coins, learning more about the players or about the countries where the coins are from will help keep kids motivated to care for and grow their collection more than just watching the items gather dust on a shelf.

E M **Have your kids look up what their collectibles are worth.**
Go on eBay or other auction sites with kids to look up the value of the collectibles they have accumulated. What characteristics make an item worth more or less? Are there items they would like to buy for or sell from their collection?

As fun as collecting can be, the likelihood of kids being able to sell their stuffed animals to fund their dreams is doubtful at best. At some point, your kids are going to want to enter the investment markets to purchase assets, like stocks, which have a higher probability of giving them the financial outcome they want.

STOCKS

As your kids begin to follow the news or begin to grow interested in investing, they will likely discover the stock market. Stocks and the stock market can be exciting for kids to learn about and follow, even if they don't have the money

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(+12.64)
185,475.60
(-2.08)
52,394.62
(+7.30)
1,002.66
(+28.93)
16,696.99
9,700.89
(-17.19)
(+26.77)
(-1.89)

to invest right away. And for kids who do have money they are ready to put into the market, stocks are a great starting point for their long-term portfolio.

There are four key things to teach your kids about stocks:

1. Stocks represent companies.

When kids purchase shares of stock, they are buying a partial ownership in a company. Companies sell shares of stock initially to investors as a way to make money, and afterwards, investors trade with each other, buying and selling shares of the companies they own. If most investors think a company will do well in the future, they will buy more shares, causing the price of the shares to rise. If most investors think a company will do poorly in the future, they will sell more shares, causing the price of the shares to fall.

2. Stocks are traded in markets.

Stocks that are available for purchase by the general public are sold through exchanges like the New York Stock Exchange (NYSE). Kids will discover that almost all of the products they love — from their favorite pair of shoes to their favorite chain restaurant — are likely to be made by companies with publicly traded stocks on one of the major exchanges. These are traded under *ticker* symbols, which are used to identify each company. Ticker symbols for popular companies include these:

Activision/Blizzard	**ATVI**	Mattel	**MAT**
Apple	**AAPL**	McDonald's	**MCD**
AT&T	**T**	Microsoft	**MSFT**
Chipotle	**CMG**	Netflix	**NFLX**
Coca-Cola	**KO**	Nike	**NKE**
Disney	**DIS**	Pepsi	**PEP**
Electronic Arts	**EA**	Target	**TGT**
Facebook	**FB**	Twitter	**TWTR**
The Gap	**GPS**	Under Armour	**UA**
General Mills	**GIS**	Urban Outfitters	**URBN**
Google	**GOOGL**	Verizon	**VZ**
Hasbro Inc.	**HAS**	Yahoo!	**YHOO**

M H **Find the ticker symbols on the stock market for the companies kids like.** The ticker symbols for most companies can be found by simply searching for them on the web or on a finance site, like Yahoo! Finance or Morningstar. Ticker symbols can also be found under an investor relations link on the home page for most companies. Kids can create a "portfolio" of their favorite stocks and track their performance (most smartphones already include an app for this). Kids will see that the value of their stocks goes up and down frequently. Using the same finance website, look at the graphs for the performance of the stock for one, three, and five years or more to see that most stocks increase in value over time.

You and your kids can play a stock market game online. WallStreetSurvivor.com has a free online stock game where kids are given virtual currency to invest in the stock market. Cash prizes can be won, and kids can connect with traders and learn strategies. Kids can also create a league of players and compete in teams.

3. **The price of stocks only matters when they are bought or sold.** It's important for kids to understand that the value of an investment only matters when it is bought or sold. If the shares increase in value, they can be sold for a profit, but if they go down in value, money would be lost if the shares are sold. No actual money is made or lost until the sale happens. This is an important distinction to make; if kids are following the performance of their favorite stock, it may move around quite a bit or hardly at all, depending upon the company — stocks are frequently negative in the morning hours of trading and positive by the end of the day.

4. **You don't necessarily have to sell your stocks to make money.** Some companies pay dividends, which are quarterly distributions of profits back to their shareholders in the form of cash or additional shares of stock. This provides a way for kids to make money off of their stock investments without selling their shares. Kids might like to think of dividends as a quarterly "allowance" the company pays their shareholders.

Stocks are a very popular investment because, over long periods of time, they have typically outpaced inflation by a wide margin, creating the opportunity to grow asset values dramatically.

Average Return on Stocks, Bonds, and Stable Value Investments from 1926–2010

12.1%	U.S. Small Company Stocks
10.1%	International Stocks
9.9%	U.S. Large Company Stocks
8.3%	Balanced Stocks/Bonds
5.5%	Bonds
3.6%	Money Market
3.0%	Inflation

MUTUAL FUNDS AND ETFs

In theory, owning individual stocks is a good idea because kids get to own the companies they know and love; however, just because they know them and love them, it doesn't mean they can *afford* them. Some popular companies, like Google, can trade for over $750 per share. Warren Buffett's Berkshire Hathaway A-shares have sold for nearly $238,000 per share! For young investors without much money to work with, buying individual stocks is not always an option.

MUTUAL FUNDS

Shares of a mutual fund can be bought and sold just like a stock, but rather than representing one company, the funds of all investors are pooled together to buy a group of stocks. This gives investors access to a much more robust portfolio than they would likely be able to create on their own.

For kids interested in investing through mutual funds, there are few things for them to know:

1. The team works for you.

Mutual funds are run by a professional manager and staff. These individuals pick the stocks they believe will perform the best based on certain criteria (such as high earnings or growth potential). Kids do not have to decide which companies to buy; the manager does this for them. This can be comforting to kids who are excited about investing but aren't confident about what to do with their money.

2. There are many funds to choose from.

There are many types of mutual funds: funds that invest in large companies and funds that invest in small companies; funds that invest in U.S. companies

GO WITH A PRO

An advantage to buying mutual funds is that the investor is able to "hire" a staff of professionals to pick stocks for their investment portfolio. All of the decisions about what to buy or sell (and when to buy or sell it) are handled by a team of professionals using their experience, connections, and sophisticated analysis tools well beyond what the average investor can access.

and funds that invest in foreign companies; funds that invest in technology companies and funds that invest in biotech companies, etc. Kids can pretty much pick anything they like. There is a fund out there to meet their needs.

3. More affordable doesn't mean cheap.

Kids need to understand that there are expenses associated with mutual funds. Funds cost money to run — such as the salaries of the fund manager and staff, and the cost of computers, equipment, office space, etc. — and those costs are subtracted from the returns generated by the investments. Some mutual funds have minimum investment amounts ranging from $500 to $3,000 per transaction. There can also be sales charges — things like 12b-1 fees and contingent deferred sales charges — which are fees paid when the fund is initially purchased or sold. Some funds also generate taxable income to the shareholder as the stocks inside the fund are sold (also known as turnover), even if the shareholder never received any money from the fund during the year. It's important to help kids determine the cost of the funds they are interested in and to help them look for "no load" mutual funds with low turnover.

4. Past performance is no guarantee of future success.

Your kids may not have much experience with investing, but they are probably experienced moviegoers. How many times have they seen a sequel to a film they liked that wasn't as good as the original? Often, the more sequels that are made, the worse the movies get. Sometimes though, a series is made where each subsequent film is even better than the last. Mutual funds work much the same way. Kids need to know that professionals are people, and people can make mistakes. Your kids may pick a fund to invest in that has done really well in the past, but it might not do as well going forward. Kids also need to understand that when they put their money into a mutual fund, they are really investing in the belief that the fund manager can generate profits for the fund owners.

BECAUSE THEY AMPLIFY THE PURCHASING POWER OF INVESTORS' MONEY, BUYING MUTUAL FUNDS AND ETFs ARE SOME OF THE MOST POPULAR WAYS TO INVEST IN THE STOCK AND BOND MARKETS.

M H **Mutual fun.**

Help kids search for mutual funds that they might like to invest in. Web searches for "top performing mutual funds" can be a place to start, as are rankings by publications like *U.S. News and World Report* and *Kiplinger's Personal Finance* or websites like The Street and Morningstar. Together, read any literature provided by the fund company about the fund manager, the historical and anticipated performance, and any fees. Talk with your kids about whether or not they feel they should invest their money in a particular fund.

EXCHANGE TRADED FUNDS (ETFs)

In recent years, exchange traded funds (or ETFs) have become a popular alternative to mutual funds. ETFs are a "passive" investment, meaning that no one is making decisions about what to buy and sell every day. Instead, the fund is set up to replicate the performance of some part of the market, like large companies in the United States, small companies overseas, etc. Since changes to the fund only happen when companies join or leave these markets, the cost for running these funds can be a fraction of what a mutual fund might charge.

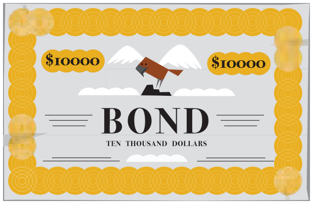
Let's say your kids had $750 they wanted to use to buy shares of some of their favorite companies. For their $750, they might be able to buy one share of Google. Or they could buy several shares of an ETF that replicates the performance of all of the companies in the S&P 500 (a selection of the 500 largest companies in the U.S.). Not only would kids get the benefits of owning Google with this fund, but they'd also get the benefits of owning Apple, 3M, American Airlines, McDonald's, Disney, Netflix, and Wal-Mart plus 492 other companies!

M H ETF for two.

Have your kids perform a similar search for ETFs as they did for mutual funds. Is there a comparable ETF to the mutual fund they like? What are the advantages and disadvantages to buying the ETF instead of the mutual fund? Together, compare the costs of both products as well.

BONDS

Bonds do not typically play a major role in an investment portfolio for younger investors because kids can usually afford to take on more risk in their investments. Since kids may not need to draw on their funds for decades, they are usually focused on investing their money for growth while depending upon the financial support of the family (or their earned income as they get older) to meet their daily needs. Conversely, as they get closer to retirement, more of their portfolio is likely to shift toward bonds to allow them to depend upon their investments to meet their daily needs.



There are three things kids should know about bonds today:

1. **Bonds are an important part of the world economy.**

Bonds are issued by governments, states, counties, cities, school districts, churches, etc., and they are equally important to investors because the interest payments represent a contractual obligation to the borrower. This is because bonds are technically a loan to the bond issuer that must be repaid to the investor.

2. **Bonds are typically how companies and other organizations raise large sums of money from the investing public.**

Bonds work like any other loan, where a certain amount is borrowed through the bond market with a specified interest rate and maturity. Like stock issues, the loan amount is sliced into small pieces — anywhere from $1,000 to $10,000 increments — and sold to investors. The investors then serve as the bank to the company; they are paid interest (typically twice per year) for the length of the loan, at which point the original loan amount is returned.

3. **Bonds tend to gain value when stocks lose value.**

Because high-quality bonds are perceived to be less risky by investors, they tend to increase in value when riskier assets (like stocks) are declining (investors sell their riskier stocks to buy safer bonds). Bonds also decrease in value when stocks are advancing (investors sell their lower-performing bonds to buy higher-performing stocks). We'll discuss some of the risks associated with investing later in this chapter.

OTHER INVESTMENTS

We've covered some of the most popular investment vehicles, but that barely scratches the surface. There are also real estate, commodities, foreign currencies, options and futures contracts, precious metals, and much more beyond the scope of this book. Regardless of the type of investment, its utility to an investor is still governed by a few basic concepts: compound interest and risk versus reward.

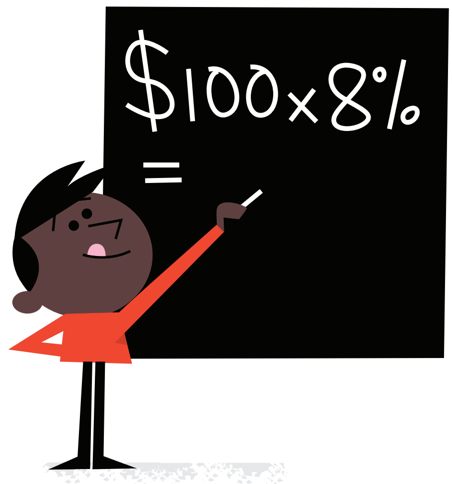
BASIC INVESTMENT CONCEPTS

Before kids start putting money into an investment account, they need to understand some basic concepts about how money grows and some of investing's inherent risks.

COMPOUND INTEREST

What makes the world of investing work is the power of compounding interest, particularly because the rates of return for investments have historically been much higher than inflation and higher than what can be earned in a savings account. While the math of compound interest can be challenging for young minds, the concept is intuitive.

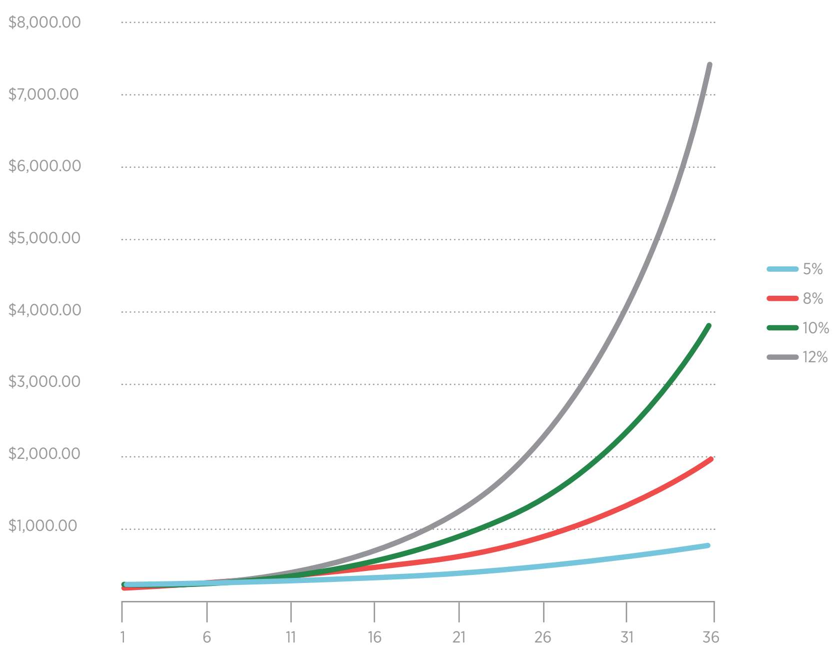
If $100 is invested in an account that's expected to earn 8% each year, the expected balance would be $108 after the first year ($100 x 8% = $8 + $100 = $108). The next year, the balance would not increase to $116, but rather to $116.64. Where did the extra 64 cents come from? It came from the 8% that was earned on not just the original $100 but also the $8 of growth last year ($108 x 8% = $8.64 + $108 = $116.64). That's the power of compound interest, also known as interest-on-interest compounding. Because interest is earned on not only the principal (what was originally invested) but also the earned interest, the balance grows more quickly.



An extra 64 cents may not seem like much to get excited about, but the power of compound interest becomes dramatic over time. After 10 years, the $100 investment can grow to a value of $215.89, but after 40 years, it would grow to over $2,000! This is the most important element of compound interest: The longer the money is invested, the more substantial the potential returns.

WHATEVER THE GOAL MAY BE, THE BIGGER THE NEED, THE MORE LIKELY IT IS THAT YOUR KIDS WILL NEED TO INVEST THEIR MONEY TO GET THERE.

Growth of $100 over 40 Years



Investing helps kids achieve goals that would be almost impossible to reach with savings alone. For example, if they needed to save $1,000,000 for retirement, it would take over 83 years of monthly deposits of $1,000 into a shoebox to reach that figure — investing those dollars at 8% would get them to the same place in less than 26 years!

What will it take?

Help kids estimate how much money they can grow through investing. Following are two tables: one for a one-time investment and one for recurring investments made on a yearly, monthly, weekly, or daily basis (marked Y, M, W, and D) using 5% to 8% expected rates of return. To use the table to estimate how much an investment will be worth in a certain number of years (10, 20, 30, etc.), multiply the invested dollars by the corresponding value in the table.

Table 1: One-Time Investment

	5%	6%	7%	8%
10	1.63	1.79	1.97	2.16
20	2.65	3.21	3.87	4.66
30	4.32	5.74	7.61	10.06
40	7.04	10.29	14.97	21.72
50	11.47	18.42	29.46	46.90
60	18.68	32.99	57.95	101.26

Table 2: Recurring Investment

	5%				6%			
	Y	M	W	D	Y	M	W	D
10	12.58	155.28	674.26	4,735.25	13.18	163.88	711.96	5,00.68
20	33.07	411.03	1,785.66	12,542.97	36.79	462.04	2,00.78	14,112.05
30	66.44	832.26	3,617.60	25,412.97	79.06	1,004.52	4,370.92	30,713.25
40	120.80	1,526.02	6,637.24	46,632.72	154.76	1,991.49	8,673.54	60,961.10
50	209.35	2,668.65	11,614.58	81,616.98	290.34	3,787.19	16,510.72	116,073.56
60	353.58	4,550.58	19,818.87	139,294.30	533.13	7,054.28	30,786.05	216,490.07

	7%				8%			
	Y	M	W	D	Y	M	W	D
10	13.82	173.08	752.37	5,285.29	14.49	182.95	795.71	5,590.64
20	41.00	520.93	2,266.74	15,927.85	45.76	589.02	2,565.52	18,031.75
30	94.46	1,219.97	5,314.88	37,357.88	113.28	1,490.36	6,501.86	45,717.52
40	199.64	2,624.81	11,450.19	80,509.78	259.06	3,491.01	15,256.98	107,327.93
50	406.53	5,448.07	23,177.36	167,401.21	573.77	7,931.73	34,729.88	244,432.40
60	813.52	11,121.86	48,655.84	342,367.30	1,253.21	17,788.53	78,040.98	549,537.27

For example, if your kids made a one-time investment of $100 into an account expected to earn 7% per year, the investment would be valued at $761 in 30 years (from Table 1: 7.61 x $100). If they invested $100 per month into that same account, they could expect to have $531,488 (from Table 2: 5,314.88 x 100) in the same amount of time.

You can also help kids determine how long it will take them to reach a particular goal by dividing the desired future amount by the factor in Table 2. For example, how much do kids need to invest per week at 8% to have $500,000 in 20 years? The answer is $194.89 per week ($500,000 ÷ 2,565.52 = $194.89). If you want to estimate how quickly investments will grow at a rate of return not shown in the table, investors often use the "rule of 72," which states that 72 divided by the interest rate will give a rough approximation of how long it will take for an investment to double in value. For example, an investment expected to earn 9% per year will double in value every eight years (72 ÷ 9 = 8).

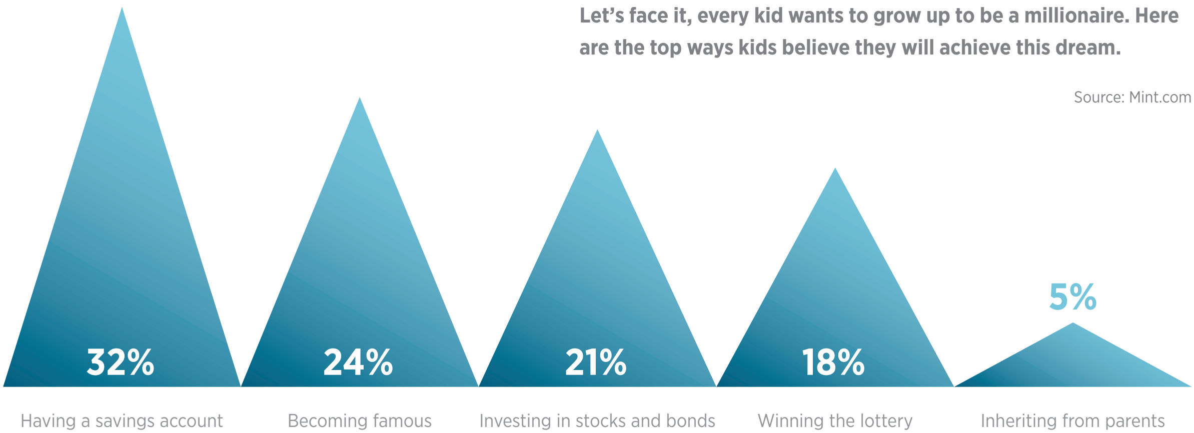
M H Make an investment plan.

Once kids have identified an investment goal that they feel is achievable, help them brainstorm ways to fund their investment account through extra work around the house, with a part-time job, or by reducing their regular expenditures. Help them start an investment plan to get those dollars working toward their goal!

WHAT DO KIDS THINK IT TAKES TO BECOME A MILLIONAIRE?

Let's face it, every kid wants to grow up to be a millionaire. Here are the top ways kids believe they will achieve this dream.

Source: Mint.com



RISK VS. REWARD

The expectation in the world of investing is that risk is rewarded. If you put your money in a certificate of deposit at a major national bank, there isn't any real concern that the money won't come back to you, so you really don't mind that there's not much of a return. On the other hand, if you invest your money with an ambitious stranger who wants to start a company, where there's a greater likelihood of failure than success, you'll want to get much more back for your troubles than what the bank would pay you over the same period of time. The bigger the risk, the bigger the reward you expect in return.

There are risks associated with investing, many of which will be unfamiliar to your young potential investor.

✪ **Talk with your kids about some of the major risks associated with investing.** There are many risks investors face, but the following are some of the more important risks kids should be aware of before they decide to invest their money:

Volatility risk

Most commonly associated with stocks, volatility risk refers to how widely the value of an investment might swing from one moment to the next. Many investments are known to be volatile: small and midsize company stocks, technology stocks, and speculative investments (like options or futures contracts). Other investments tend not to move much at all, like investment-

grade bonds, consumer staples, and utilities. Compare the performance of the Russell 2000, an index composed of publicly traded small-company stocks (in blue) and the Barclay's intermediate-term bond index (in red):

THIS IS VOLATILITY RISK IN A NUTSHELL:

The more volatile an investment, the more likely it is to be up or down at any point in time. To help minimize volatility risk, encourage your kids to own a combination of risky and safe assets.

The small-company stocks ended up in a higher place over time than did the bonds, but it was a much bumpier road to get there (and it sure didn't look good between 2007 and 2013).

Diversification risk

This could also be called "the risk of putting all of your eggs in one basket." If your kids love Apple products and they invest all of their money in Apple stock, their entire financial future becomes dependent upon that one company. That's great if Apple stock goes through the roof, but it's terrible if it comes crashing down. To avoid this, encourage your kids to find multiple stocks or companies they would like to invest in. To maximize their diversification benefit, the investments should be spread across multiple unrelated industries (i.e., companies like Apple, Google, Microsoft, Facebook, Netflix, and Twitter are all likely to be hit hard if tech companies have a bad day).

ENCOURAGE KIDS TO LOOK AT ALL TYPES OF INVESTMENTS (STOCKS, BONDS, COLLECTIBLES, REAL ESTATE, ETC.) WHEN CONSIDERING WHERE TO PUT THEIR MONEY.

Market risk

Even if kids own a combination of safe and risky stocks across multiple industries, there are still days when it's just a bad time to own stocks. Between 2001 and 2009, U.S. large-company stocks experienced the so-called "lost decade," where between the start of the tech bubble and the end of the financial crisis, U.S. large-company stocks returned 0% to investors; however, investors who owned other things — like bonds, international real estate, international stocks, small-company stocks, etc. — did okay.

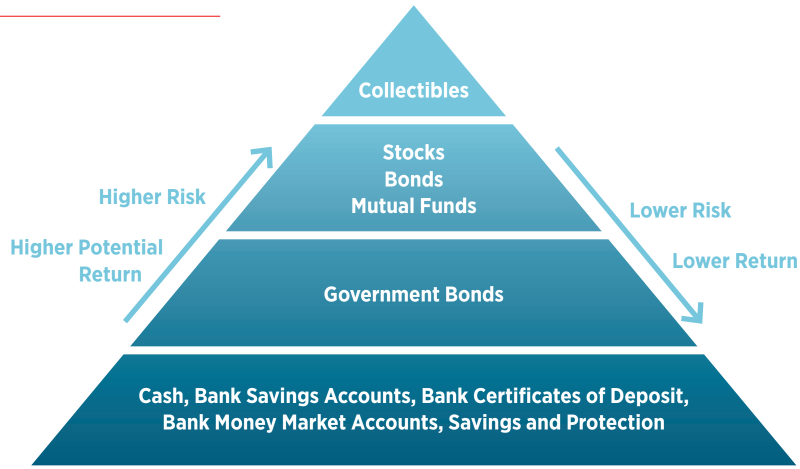
Liquidity risk

Liquidity refers to the ability of investors to turn their assets into cash quickly and at full value. A home is an example of an asset with poor liquidity — it takes time to get the property listed, find a buyer, go through the closing process, etc. If money is needed immediately, it would be practically impossible to sell the house for its full value in one day. To sell it quickly, the seller would likely need to take the first cash offer they got, probably at a substantial discount. Some investments, like stocks, have very high liquidity — as long as the market is open, most stocks can be sold almost immediately and at full value. Liquidity risk is also a factor if only a small amount of money needs to be raised. For example, if your kids owned a rare book worth $10,000, they couldn't just sell a few pages if they needed a few thousand dollars.

RISK AND INVESTMENTS

When kids are choosing where to invest their funds, encourage them to think about how and when they might need the money back in the form of cash.

Source: TheMint.org



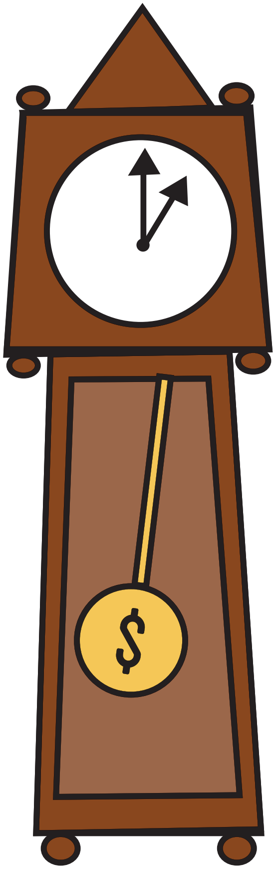
Permanent loss

Nothing is guaranteed in the world of investing. Just because a particular company, mutual fund, or investment has performed well in the past, there's nothing to prevent it from doing poorly in the future or, in a worst-case scenario, becoming worthless. Changing consumer tastes can make fad collectibles go from being highly coveted to completely unwanted overnight. Major companies — like Enron, Circuit City, Eastern Airlines, Bear Stearns, and MCI WorldCom — can go bankrupt. Some people are even taken in by con artists like Bernie Madoff and lose everything. It's important that your kids understand that investing gives them the opportunity to make money, but that means they must accept the risk that they might lose money instead.

✪ Too good to be true?

Risk versus reward is a concept that plays out in all parts of finance, and talking about these risks helps kids avoid being taken in by scams. Scammers lure victims in with the promise of easy money and they often use tricks on social media and email to seem like a trusted company. The Federal Trade Commission (consumer.ftc.gov) keeps track of various schemes and provides tips for how consumers can protect themselves. Talk about these scams with your kids. What risks were involved that were ignored by the victims? What are the red flags kids should look for to avoid being scammed?

There are certainly other potential risks involved in investing, so it's important that kids consider all of the ways an investment might do poorly before they commit their funds.



WEALTH = MONEY + INTEREST + TIME

We may have more of a great many things as we get older, but time is not one of them. The longer kids have money invested in the market, the more opportunity they have for their money to grow. But kids also have to allow their investments the time they need to grow; kids need to understand that patience is an important part of successful investing. Market returns are very predictable over long periods of time, but in the short term, anything can (and frequently does) happen. It's important not to let any short-term disappointments derail your young investor's long-term commitment to the process. For example, look at how the S&P 500 performed over the course of the year during 2012:

Changes in the S&P 500 (2012)

Start Date	End Date	Pct Change
1/3/2012	4/2/2012	+11.12%
4/3/2012	6/4/2012	-11.03%
6/5/2012	9/20/2012	+13.68%
9/21/2012	11/15/2012	-8.36%
11/16/2012	12/18/2012	+6.81%
12/19/2012	12/28/2012	-3.47%
1/3/2012	**12/31/2012**	**+11.68%**

The index gained over 11% in the first quarter of the year and then surrendered almost all of the growth over the next two months. It rebounded strongly in the next quarter (up nearly 14%) and gave away over half of those gains in the next two months; however, those who weren't scared off of the ride in the middle were rewarded for their patience with an 11.68% return for the year.

Establish a goal.

Talk to your kids about their investment goals before they buy a stock or a fund. What is their objective? Why do they feel that particular purchase will help them get closer to their goal? What is a reasonable amount of time to evaluate the effectiveness of their purchase? For example, if they feel that Facebook is going to be worth a lot of money 10 or 15 years from now, does it make sense for them to sell it if it happens to have a bad day or a bad week? We live in a society that favors immediate gratification, so remind kids when their investment isn't doing well why they were interested in investing in a particular company in the first place. If their opinion of the company hasn't changed, then there's probably no reason to sell it.

E M H Follow the bouncing market.

For kids who do not have money to invest, or before they make a decision about where to invest their real funds, follow the stock returns of the major markets (Dow, S&P 500, and Nasdaq) for a period of time (at least one quarter). You can use an app or a graph to track the results. If the markets go up or down significantly in one day, talk about what's happening in the news — is there something going on in the world or with a company that caused the change? (You will find the answer is sometimes yes and sometimes no.) After the end of the period, talk about how their investment would have done. Was it better or worse than you expected? How did this make you feel about your decision to invest? Would you want to buy more of this investment or sell it? Why?

E M H **Explain the difference between bull and bear markets.**
Tell your kids that a bear market happens when investment prices fall dramatically (20%+), usually during an economic recession, and a bull market is when investment prices rise, usually during an economic boom. These conditions tend to cycle (we experience a bear market about once every three to five years). If we are currently experiencing a bear market, remind your kids that continuing to invest money during this time is to their advantage because stocks are cheaper in a bear market (and more expensive during a bull market).

WHERE CAN YOUR KIDS INVEST?

It's one thing for your kids to want to put their money to work in the stock market and it's another to actually make the investment. Where should the money go when kids are ready to take the plunge? There are two popular vehicles that kids should consider using for purchasing investment assets: Roth IRAs and custodial accounts (UTMA/UGMA).

ROTH IRAS

If kids have earned income (wage income that they report on an income tax return), they can contribute those dollars to a Roth IRA up to a maximum of $5,500 (for 2018). Money from an allowance or birthday gift does not count as earned income. Kids who are under the age of 18 can still make contributions, but you will need to open and manage the account for them as a custodian until they gain control of the funds at age 18. Until that time, the funds must be managed and used to your kids' benefit.

There are several advantages to starting a Roth IRA for kids:

1. The contributions grow tax-free, and the earnings can be withdrawn tax-free after age 59.5.
2. Contributions can be withdrawn at any time tax- and penalty-free (e.g., for emergencies). Earnings can be withdrawn after five years tax- and penalty-free to pay for qualified college expenses.
3. A distribution of up to $10,000 can be taken tax- and penalty-free for a first-time home purchase.
4. The actual contribution dollars can come from you instead of your kids. For example, a kid who earned $1,000 mowing lawns (and reported the income on their tax return) could put the money in a savings account, and you could make a $1,000 contribution to their Roth IRA on their behalf.
5. You have until the tax filing deadline (April 15) to establish and fund a Roth IRA.

The downside to starting a Roth IRA for kids is that withdrawals of earnings prior to age 59.5 could be subject to both taxes and penalties, so any funds contributed to this type of account need to be in it for the long haul. However, kids can contribute to their Roth IRA accounts for the rest of their lives (or until their earned income exceeds the maximum to be eligible for contributions).

Once the money is in the account, it can be used to purchase almost anything: stocks, bonds, mutual funds, ETFs, and more. Someone who purchased shares of Apple in the early 1990s, when it was trading at around $2.00 per share, would find their shares worth nearly 55 times that amount today. If your kids found a similar investment for their $5,500 today, that one investment could be worth over $300,000 20 years later! And under current tax laws, if they wait until after age 59.5 to withdraw the money, they will never pay taxes on any of those gains. A Roth IRA is a tremendous savings tool!

CUSTODIAL ACCOUNTS (UTMA/UGMA)

A custodial account is a taxable investment account and it is more commonly known by the acronyms UTMA (for Uniform Transfer to Minors Act) or UGMA (for Uniform Gift to Minors Act). For our purposes here, we will treat both types of accounts as being the same, although there are slight differences between them.

These accounts have several advantages as well:

1. Contributions are treated as gifts to kids. This means that contributions can be made to the account once your kids have a social security number, even if they aren't earning money from a job yet.

2. Gifts can come from any relative. Parents, aunts, uncles, cousins, grandparents, etc., can all make gifts to the account. For gift tax purposes, most individuals limit their gifts to the annual exclusion amount ($15,000 for single individual; $30,000 per married couple for 2018).
3. Any dividends and realized capital gains within the account are taxed as unearned income to the kids only to the extent that they exceed $2,100 (for 2018).
4. Accounts can be opened and funded at any time of the year.

There are also several disadvantages:

1. If a kid's unearned income exceeds $2,100, that income is taxed using the same tables as a trust, not the individual tax tables. This means that any unearned income above $12,500 is taxed at the top rate of 37% (for 2018).
2. When it comes time for college, any money in UTMA/UGMA accounts counts as the kid's assets for financial aid, which counts against aid eligibility at a significantly higher rate than parental assets. Roth IRA assets (even those owned by kids) are not included in financial aid calculations.
3. Like any custodial account, once kids reach the age of majority (18 or 21, depending upon their state of residence and type of account), they gain full control of the funds. If your child wants to use all the money they (and anyone else) have put into the account over the years to buy a new Corvette, it is their full legal right to do so.

Regardless of the avenue you take — be it a Roth IRA or custodial account — these are great ways for kids to put their money to work in the markets. However, because both types of accounts have income tax considerations, it's important that you speak to a tax advisor prior to opening and funding an account.

Investing can be an exciting and rewarding activity for kids. Starting with a few simple stocks or funds can be an easy introduction to this world, and as your kids' interest and understanding grow, they can begin to broaden their horizons to include other types of assets and opportunities. There is no end to the information and resources available to the investing public, so encourage your kids to dive as deep as their interest level takes them!

FINAL THOUGHTS

- Help your kids begin an investment plan early in life to start them down the road to building wealth.
- Show kids how to track the stocks of their favorite companies online or on their smartphones.
- Help kids understand the risks of investing and the potential rewards they can receive for taking those risks.
- Encourage kids to be patient with their investments if things don't go as expected in the short term.
- Open accounts for your kids to invest their money or for you and other family members to add contributions.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CHAPTER 6

UNDERSTANDING EXPENSES

IN THIS CHAPTER, YOU WILL LEARN:

How to talk to your kids about needs and wants

Three ways to make your kids aware of expenses

How to give your kids budgeting responsibilities

How to help your kids make a budget and track their expenses

Strategies for budgeting and managing money

You don't have to look too hard to find stories of famous athletes, musicians, actors, and other celebrities who have lost their fortunes because they were reckless with their finances. By not learning and practicing financial responsibility, they spent everything they had or were taken advantage of by those they trusted to take care of their money. Celebrities or not, kids will have to focus on making good decisions about how to use the resources they have in order to achieve their financial goals.

NEEDS AND WANTS

Many people try to simplify spending decisions into *needs* and *wants. Needs* would be the essential items for living, such as food, water, clothing, and shelter. *Wants* are defined as the things people desire but that are not essential: cable television, high-speed internet, iPads, a luxury automobile, vacations, and so on.

The problem is that this point of view doesn't always reflect the way people spend money. Consider the automobile. Without owning a vehicle, unless you live in a major city with a well-established public transit system of subways, buses, or trains, you may have a hard time getting from one place to another in a reasonable amount of time. In fact, it might be almost impossible for you to get from home to work without one.

So is a car a *need* or a *want* for you? You don't need it to survive, but not having one may negatively impact your ability to earn a living.

What about food? Food is a need, and some people are content with eating fast food for every meal. Others are extremely health-conscious and they will only buy locally grown, organic produce even though it is more expensive. If you feel strongly enough about eating high-quality ingredients, you may choose to conserve money in other areas of your life so you can spend more money on food. Is this because you *need* to or because you *want* to?

Consequently, the wants-versus-needs viewpoint doesn't tell the whole story. Think about it this way: People have to make choices when it comes to spending their money on the goods and services they value. They also have to make choices about how they will earn the money to pay for the things they value. That's the true cost of living. And since different people value different things, everyone's cost of living is different.

P E M H What do you use?

Have your kids make a list of what they use in their daily lives. They should include things like their bed, clothes, desk, computer, school supplies, food, transportation, electricity, gas, water, and so on. Encourage them to think of as many things as they can and to be as specific as possible. Then talk to them about each of those items and ask them what they would do if they didn't have that item. What would life be like? What would they have to do in order to get those things? This will open their eyes to how much they consume on a daily basis and how it takes money to have all of those things.

✪ Talk to your kids about wants vs. needs.
It can still be a valuable exercise to bring your kids' attention to *why* they want to purchase something and the want or need it represents. Next time you or your kids are thinking about purchasing something, discuss whether the item is a want or a need. Get an opinion from your kids first and then have a discussion about it. Be mindful of the fact that there is a definite gray area for many items, and this exercise is more about getting to the *why* of the purchase than it is about getting to the "right" answer.

EXPENSES

Your kids are familiar with using money to get various things in life. They most likely deliver the check to the piano teacher, purchase their lunch at school, help with grocery shopping, see you pay the bill when eating out, and enjoy shopping for clothes and shoes.

There are many expenses in real life that aren't as visible to kids, and it's important to open their eyes to the many expenses in running a household.

THREE WAYS TO MAKE YOUR KIDS AWARE OF EXPENSES

1. MAKE YOUR KIDS AWARE OF WHAT THINGS COST.

Take the opportunity to let kids know what you are spending. Have them guess the cost of the dinner bill or of that new sweater they want. Have your older kids keep track of the cost of the groceries while shopping or assist as you are paying the monthly bills. You can even have your kids write out the check for the piano teacher before you sign it. The more ways you can show them the full cost of their lifestyle, the better prepared they will be to handle their own expenses when they are older.

E **What can you buy with $10?**

Have your kids make a list of all the ways they could spend $10 (or some other small amount of money). Which of these items would they consider to be a need or a want? What is the value of the item? Does it fill their belly? Does it keep them warm? Why would they want to buy it? This will help your kids understand what things cost and determine the true value of a purchase.

H **Pay the bills.**

Nothing makes your kids more aware of costs than paying bills. Have your older kids help you write the checks for the utility bills or the mortgage. Discuss how the payment amounts are determined. For example, if your electricity bill is higher in a summer month, explain that running the air-conditioner uses more electricity, which costs more money. For the mortgage, you can discuss how you promised to pay a certain amount of money for the house each month for the next 30 years (or whatever the terms of your mortgage are).

E M H Help with planning.

Involve your kids in your financial planning. Have them clip or use coupons, read grocery ads, plan your next vacation, or organize your holiday gift list. You can give them a certain amount of money to "spend," and they can try to find the best deal or choose the best activity for the money. If shopping for an item and they find a good deal, you could offer to split some of the proceeds of the money they helped you save.

2. MAKE YOUR KIDS AWARE THAT YOU EARN MONEY TO PAY FOR THE EXPENSES.

It isn't necessary to tell your kids exactly how much you earn, but they do need to understand that your family has a limited amount they can spend and that amount is tied to your income. If the income increases or decreases, that will also affect how much you are able to spend.

M H What does it take?

Prepare a list of common household expenses paid each month for your kids, from the major (the rent or the mortgage payment) to the mundane (tickets to the movies). Have kids calculate how much income would have to be earned to cover all the expenses. Don't forget about taxes and savings! Hint: To calculate the impact of savings and taxes, divide the number by 1 minus the tax or savings rate. For example, if total household expenses equal $5,000 per month, the annual spending need is $60,000. Assuming a combined 28% state and federal tax rate, that's a pre-tax earning need of $83,333 ($60,000 ÷ (1−.28) = $83,333). If 20% of gross pay is saved and invested, the total pre-tax, pre-savings earnings would need to be $104,166.67 ($83,333 ÷ (1−.20) = $104,166.67).

Ask your kids which expenses they would cut if they couldn't earn enough money to pay all of the bills. Which expenses couldn't be cut? How much money would they need to earn just to cover the essentials (food, clothing, shelter, etc.)?

3. MAKE YOUR KIDS AWARE OF YOUR BUDGET.

Younger kids may not need to make a budget for their own money, but it's important they understand that you don't have an unlimited amount of money to buy everything you want. Every family has a limited amount of resources to allocate toward everything they want or need.

E M How much do you have to spend?

Next time you go to a restaurant, tell your kids you have a budget to abide by and give them a set amount they can spend. For instance, tell them that their food and drink together cannot exceed a certain amount (say $10). This helps kids reinforce the need to think about what they are purchasing and how they will get the most enjoyment and benefit out of their budgeted funds.

Budget show-and-tell.

Consider sharing your budget with your teens so they can see the household expenses, learn how you make decisions about where the money goes, and understand how you keep track of your spending. They will likely be very surprised to learn the cost of food, utilities, HOA fees, wastewater service, and all the other costs for the family. Encourage them to think about how much they would have to work to pay for those expenses.

GIVING YOUR KIDS RESPONSIBILITIES

A good way to help your kids learn about budgeting is to make them responsible for some portion of their personal expenses. This should start as something simple, like their lunch money or clothing allowance. Giving kids the opportunity to control how the money is spent allows them to make decisions about what purchases are important to them and how they allocate limited resources.

E M H **Consider making your kids responsible for managing their lunch money.** Keeping track of lunch money can be an easy way for kids to get started in managing funds. In many school lunch programs, there's a wide array of menu items to choose from, providing an opportunity to make spending decisions and practice money management. Give them a set amount of money to buy lunches for the whole week and explain how to figure out the daily amount they can spend. It's important that you hold them to that figure and not provide extra funds if they mismanage what they've received; the point is to teach kids how to manage what they have — not reward them for their mistakes. If they do run out of money, it provides a great teaching moment to discuss where mistakes were made and how they can make better decisions in the future. For example, explain that if they want an extra dessert later in the week, they will need to spend less of their lunch money earlier in the week.

Consider giving your kids a clothing allowance.

Consider letting your kids exercise discretion over funds for purchases they care about, such as clothing. Not only does this allow them to make decisions about how they want to allocate their funds, but it can also rein in the expectation that you will make every impulse purchase for them. Giving kids the responsibility for these expenses helps them to not only understand the cost of things but also to look for bargains.

It's important that kids understand the scope of their financial responsibility before you turn them loose. Will they be responsible for every clothing expense, like coats, undergarments, shoes, etc.? Or will you provide for basic clothing needs while they are responsible for special or trendy items? You'll also want them to know that you retain veto power over any purchases you deem inappropriate.

The funds they use to pay for these expenses can be distributed in any manner you like, but using cash makes kids more aware of the actual dollars being spent. If their budget is too large for cash to be a practical solution, using a checkbook or debit card is another option. Whatever method you use, make sure that kids keep the funds separate from their other money — either in a piggy bank, a jar, or a separate bank account — and keep accurate records you can review together to ensure they are following their budget. Funds should be distributed on a schedule that closely aligns with their needs, e.g., monthly or weekly. The more frequently you distribute the money, the more quickly you can catch and correct any spending issues.

You can either set the budget for your kids or have them submit a clothing budget proposal with an itemized list of what needs to be purchased annually and what the total spending amount should be. This

can be a real eye-opener. Together, revisit the budget annually and discuss how closely their needs and expenses matched the original budget. Does the amount need to be changed? Do the funds need to be dispersed on a different schedule?

DESCRIPTION	COST	X	HOW MANY	X	HOW OFTEN	=	TOTAL PER YEAR
	$				1 (once)		ADD LINE
Jeans this is about half the cost of typical designer jeans	$100.00		2		1		$200.00
Shorts average cost of shorts	$20.00		3		1		$60.00
Skirts cost of cheaper skirts	$20.00		5		1		$100.00
Long-sleeved shirts average cost of long-sleeved shirts	$25.00		4		1		$100.00
Tank tops average cost of tank tops	$15.00		10		1		$150.00
Sweaters cost of well-made sweaters	$50.00		3		1		$150.00
Undies cost of undies from Victoria's Secret	$5.00		10		1		$50.00
T-shirts average cost of t-shirts	$20.00		5		1		$100.00
Summer dress cost of dresses from Forever 21	$20.00		4		1		$80.00
Nicer dresses cost of nicer dresses from cheaper store	$40.00		2		1		$80.00
Shoes average cost of sandals or heels from cheaper store	$40.00		3		1		$120.00
					Per Year		$1,190.00
					Per Month		$99.17
					Per Week		$22.88

Source: blog.famzoo.com

As kids demonstrate responsibility with their expenses, they can begin to take on more, particularly as they earn their own money. Perhaps they begin to share responsibility for costs associated with their car, like gas or insurance premiums. Perhaps you can make your kids responsible for the data costs on their cell phone or for "extras," like entertainment or other nonessentials. Regardless, the more responsibility they have, the more they will develop the capability of handling their finances.

MAKING A BUDGET

The best way for kids to keep track of their spending is through a budget. This doesn't need to be an elaborate document, but rather a simple place to keep track of expenses and how their money was spent each week or month.

Developing a simple budget reinforces the importance of both spending responsibly and maintaining accurate records, two habits that will serve kids well in the future as their financial situation becomes more involved. Also, if kids have difficultly covering their expenses and can't figure out why, keeping a budget will highlight the problems so they can fix them quickly.

To get kids started in creating a budget, there are five steps they need to consider:

PIPER JAFFRAY'S FALL 2014 "TAKING STOCK WITH TEENS" REPORT FOUND THAT CLOTHING ACCOUNTS FOR 21% OF A TEEN'S BUDGET. THE AVERAGE AMOUNT THAT UPPER-INCOME TEENS SPEND ON CLOTHES ADDS UP TO NEARLY $1,100 ANNUALLY. TEENS ARE ALLOCATING ANOTHER 20% OF THEIR BUDGET TO FOOD, WHICH IS UP FROM THE 15% THEY HAVE SPENT IN YEARS PAST. THEIR FAVORITE SPOTS ARE STARBUCKS, MCDONALD'S, TACO BELL, AND CHIPOTLE.

1. HAVE KIDS FIGURE OUT HOW THEY ARE CURRENTLY SPENDING THEIR MONEY.

If kids are currently spending money they are earning — or money they are receiving from you as allowance for their expenses — they should make a list of everything they're buying and how often they buy those things. If kids are preparing to take on the responsibility of managing certain expenses, they should go through the same process with what they expect to spend. Review the lists together to make sure kids are accounting for everything in their budget.

M H **Track it.**

Have your kids track how they spend their money for a full month. Every time they spend money, they need to write down where they were, what they purchased, and how much they spent. They can also go through their account online and make sure they got everything. This exercise is to make them aware of how they are spending their money and how much they are spending in different categories.

2. CALCULATE "REGULAR" INCOME.

You have to make money in order to spend money, so step two is for kids to calculate their regular income. For some, this could be as simple as adding up their allowance. For others, they may have seasonal work, part-time hourly work, gifts, or other irregular work (like babysitting). Some may have a combination of both. It's important that kids be conservative with their irregular sources of income and wary of relying on them for their budget. If they are depending on an upcoming babysitting job to be able to pay for their cell phone bill, what happens if the job gets canceled? Encourage kids to look closely at their average monthly income from these irregular sources when putting together their budget.

M H How much is coming in?

Have your teen go over their calendar from the last few months as well as their bank statements to estimate their average monthly income. If kids receive a paycheck where taxes are withheld from their pay, they should use the after-tax (net income) values. Have them make a list like the one below, knowing that their income could be variable. For example:

Monthly Income

Allowance:	$20 a week	$80 a month
Babysitting:	$35 three times a month	$105 a month
Part-time job:	$100 a week	$400 a month
		Total: $585 a month

3. ACCOUNT FOR SAVINGS.

Before kids can plan to spend, they need to plan to save. It's important that they reduce their available income by the percentage they've committed to save before they start allocating any funds to expenses.

Encourage kids to save at least 10 to 20% of their income. Using the numbers in the previous example, the sample child should be saving between $58.50 and $117 each month.

4. MAKE A LIST OF OBLIGATIONS.

A financial obligation is one that kids are either contractually or legally required to honor. Examples could be a cell phone bill, a car insurance payment, or a debt payment. Explain that these must come first in the budget because there can be serious repercussions if the payments are not made on time and in full.

Monthly Obligations

Gas: . . . .$25 three times a month. . . . . $75 a month

Car Insurance: . . . .$125 a month

Total: $200 a month

5. ACCOUNT FOR DISCRETIONARY SPENDING.

This is the step where kids start to have more input about how they want to use their money, now that all the mandatory stuff is out of the way. Kids will likely need to try many combinations until they can come up with a plan that allows them to do most of the things they want to do. Whatever combination they come up with, they should try to stick with it for at least a couple of months before making any changes; after all, a budget isn't a budget if it changes all the time.

Some expenses fall between obligations and discretionary spending. For example, the cost of gasoline is one that can be both. If your kids drive to work and school, then there is a certain amount of money they will be obligated to spend on transportation. If they choose to drive their friends to a party over the weekend, that is a discretionary expense. When kids are creating their budget, they should consider how much of each cost is considered obligatory or discretionary.

M H Make a list.

Help your kids turn their tracked monthly expenses into a written budget. Discuss which expenditures are obligatory versus discretionary and categorize each expense similarly to what is shown below:

Monthly Income — $585

Savings: .... $116 a month

Obligations (gas and car insurance): .... $200 a month

Total: $316 a month

Income — Obligations **$585 – $316 = $269 to spend**

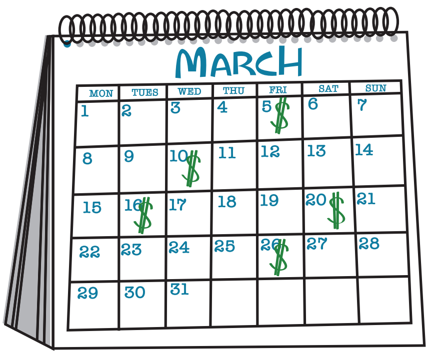
Discretionary Expenses

Clothes: .... $75 a month

Coffee: .... $5 four times a week .... $80 a month

Eating Out: .... $20 a week .... $80 a month

$269 – $235 = $34 left over



Kids will likely discover they cannot fit everything they want into their monthly budget and they may have to plan and save for larger purchases. For example, if your kids have $10 left over in their entertainment budget each month and they want a $50 game, they must plan to save those excess dollars for five months to purchase the game. Alternatively, they may be able to spend less in other categories that month to be able to afford the item sooner. Teach your kids to use their budget to plan for these expenses.

One of the most common frustrations with budgeting for kids (and adults) is that it can feel restrictive. In reality, a budget can be extremely liberating when used properly. For example, if your kids get $100 per month and $30 is budgeted for their cell phone bill, $20 goes into their savings plan and $50 is budgeted for entertainment, they know they can spend the full $50 on entertainment without impacting their ability to pay their bill or having to raid their savings. Without a budget, it's easy to overspend on the discretionary side and not have enough left to meet obligations or build up savings. As kids begin to appreciate the freedom associated with having their spending compartmentalized in their budget, they are less likely to run out of money and they will gain more control of their finances. The experience of running a budget when they are younger will make life much easier when finances grow more complicated as an adult.

STRATEGIES FOR MANAGING MONEY

1. SAVE FIRST.

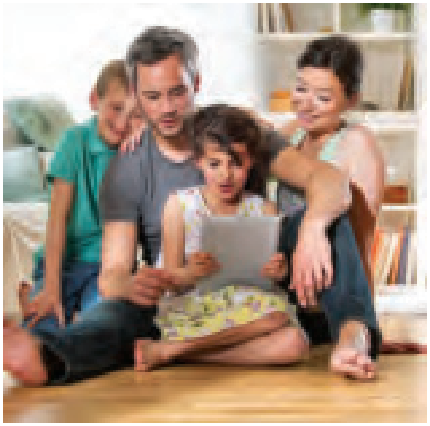
If kids get in the habit of saving before they spend, they will by definition live on less than they earn, which is the ideal place to be. If instead they spend before saving, they are more likely to exhaust their money before they can save each month. Without savings, kids run the risk of an unexpected expense creating financial hardship. As adults, the stakes get higher with car repairs, major medical expenses, or even losing a job — all significant risks to financial stability. The more money kids have in the bank, the better positioned they are to handle these setbacks.

2. KNOW THE FULL COST.

Your kids need to remember that the purchase price of something usually does not include the cost of maintenance, repair, accessories, batteries, etc. This is extremely important when considering a financial obligation or major purchase — like a car or a home — because the associated costs are often proportional to the initial price. For example, a large luxury car usually requires more expensive gas and repair parts than a small economy car. So if your kids think that they can afford to spend $300 a month on a car payment, they really have to

IF YOU ARE GOING TO HELP YOUR KIDS ACHIEVE FINANCIAL INDEPENDENCE, HELP THEM UNDERSTAND THE NEED TO CONTROL THEIR WANTS. RUNAWAY WANTS GET IN THE WAY OF FINANCIAL RESPONSIBILITY.

James Stowers



spend less than that to accommodate the total cost of ownership (tires, maintenance, insurance, and property taxes).

3. THINK IN PERCENTAGES.

As kids start to make more money, they will want to expand their budget. They may create new categories of expenses or they may want to spend more on the things they already enjoy. One way to make this simpler is to have them think of their budget in terms of percentages. For example, if entertainment is 20% of their budget and they are currently spending $20 on entertainment with $100 in income, then when their income increases to $120, they can spend 20% of $120, or $24 per month, on entertainment.

4. UTILIZE TECHNOLOGY.

There are a number of helpful budgeting apps, some of which can connect directly to your kids' bank accounts and automatically track the spending categories. P2K is a budgeting app specifically for kids, and it allows the parents to oversee budgeting, spending, savings, and a wish list. College-age kids should look at the Mint budgeting app, which is a free app that connects to most bank accounts and has an option to create a personalized budget. It also displays a credit score, which is useful for those starting to develop creditworthiness. For those who don't want to carry their budget around on their phone, there are many spreadsheet templates available for download that can help kids stay organized and manage their finances.

5. USE MULTIPLE ACCOUNTS TO STAY ORGANIZED.

Spending and saving should obviously be done through separate accounts, but it can sometimes be a good idea to divide spending into separate accounts as well. For example, obligations could be funded out of one account and discretionary expenses out of another. This can ensure kids don't accidentally overspend on a discretionary purchase and interfere with paying their obligations. The more accounts they have, the more there is to keep track of, so you will want to make sure your kids can handle the responsibility of one account before adding more to the mix.

THE 2014 "TEENS AND PERSONAL FINANCE" SURVEY FROM JUNIOR ACHIEVEMENT AND ALLSTATE INSURANCE SHOWED THAT 77% OF TEEN BOYS AND 63% OF TEEN GIRLS AGED 16 TO 18 ARE NOT KEEPING TRACK OF WHERE THEIR MONEY GOES ON A REGULAR BASIS.

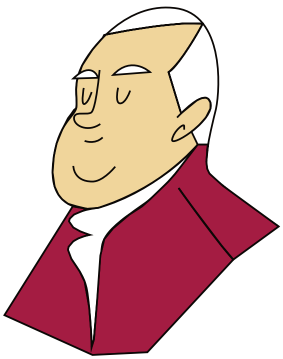
6. BE REALISTIC.

When the numbers in your kids' budget don't work the way they want them to, they will want to cut back in other areas to make room for more spending. This is fine as long as they are reasonable. For example, if you've determined that your kids are spending $100 each month on food, it's probably not reasonable to cut that figure back to $40 or $50, at least not right away. Kids should try to make incremental reductions over successive months until they find a level that works for their budget and their lifestyle.

Learning to manage money and understand real-life expenses can be challenging for kids. As they grow, they are leaving a time when they weren't responsible for anything and entering a time when they will be responsible for everything. Allowing kids to preview the responsibility of handling expenses, managing money, and creating a budget helps them to develop this skill gradually. It also lets kids experience failure while the mistakes are still manageable, and you can be there to help.

I AM INDEED RICH, SINCE MY INCOME IS SUPERIOR TO MY EXPENSE, AND MY EXPENSE IS EQUAL TO MY WISHES.

Edward Gibbon



FINAL THOUGHTS

- Speak with your kids about what you value as a family and how that affects the way you spend money.
- Introduce kids to the expenses around them every day and let them participate in the process of managing household costs.
- Allow kids to take responsibility for personal expenses — like school lunches or clothing — to the extent they are able.
- Talk with your kids as they experience challenges and help them come up with ideas and make choices in adjusting their spending to meet their goals.
- Help kids create a budget to track their progress with managing their money and hold them to it.
- Encourage kids to take control of their finances and compartmentalize their spending.

CHAPTER 7

BUILDING CREDIT

IN THIS CHAPTER, YOU WILL LEARN:

- How to teach your kids what credit is and how it is used
- What your kids need to know about credit scores and credit reports
- How to help your kids establish credit
- What your kids need to know about having good credit
- What your kids need to know to protect their credit and identity

Developing and managing a credit score is one of the most valuable pieces of financial education your kids can receive. After all, your kids' credit will affect the ability for them to borrow money, finance purchases, obtain insurance, and even get a job.

WHAT IS CREDIT?

Before you can teach kids about how to build their credit, you must first provide a framework for what credit actually is.

✪ Explain the meaning of credit to your kids.

Credit is financial trust. If a lender or a store offers you credit, the belief is that you can be trusted to repay it in a timely fashion. Having good credit means you are demonstrating responsibility with your financial obligations.

Before the emergence of widespread electronic communication, credit decisions were based on a personal relationship with a merchant. As technology and merchants became more sophisticated, a more standardized way of making credit decisions emerged.

A CREDIT REPORT IS LIKE A REPORT CARD FOR HOW RESPONSIBLE KIDS ARE WITH THEIR FINANCIAL OBLIGATIONS. IT IS ONE OF THE TOOLS LENDERS USE TO DETERMINE IF THEY SHOULD LOAN MONEY TO POTENTIAL BORROWERS.

CREDIT REPORTS

Teens have likely heard of a credit report or credit score before, but they've probably never seen one. Their credit report is like a report card for their finances; it "grades" borrowers on how responsible they are with their financial obligations. Each report covers the previous seven years and contains information from the three major credit bureaus: TransUnion®, Equifax®, and Experian®.

WHAT IS ON THE CREDIT REPORT?

Every time you initiate a new borrowing arrangement, like a new car loan, the information is shared with the credit bureaus and recorded on your report. *Inquiries* (when a lender checks your credit report as you apply for a loan) are included on the report. As you make your monthly payment; or satisfy the repayment terms of the loan agreement, your payment information is reported to the bureaus as well. Once the loan is fully repaid, the account is listed as closed on the report. When potential lenders see a history of good financial behaviors on a credit report, they feel more comfortable loaning money or extending credit to the applicant.

The bad stuff also gets recorded. If kids are late paying a bill, skip a payment, or if they stop paying their bills altogether, that information also gets added to the report each month as well. Charge-offs, liens, foreclosures, bankruptcies, and other negative actions are also reflected on the report.

✪ Explain how the credit report is used.

Explain that the purpose of a credit report is for potential lenders to gauge how responsible your kids are with money. After reviewing the report, lenders determine if they want to work with you — be it opening a bank account, giving a loan, or opening a credit card. Potential employers will frequently pull a credit report to determine how trustworthy a potential job candidate might be, similar to how colleges review kids' transcripts before acceptance.

If your credit report shows that you've always paid your car loan on time and you were eventually able to pay it off completely, then the next dealer issuing you a car loan will feel much more secure about loaning you the money. If you have a series of missed or late payments on your credit cards, a lender is going to be more wary of letting you open another account. It expects you won't pay in a timely manner and it might charge you a higher interest rate or refuse to let you open a new account.

Lenders also look at trends: A couple of months of early struggles won't negate several years of good behavior; however, the reverse is true as well — two recent months of good behavior are not going to erase several years of bad behavior. Since information on a credit report lasts seven years, the most current information is the most important.

Credit reports 101.

If you feel comfortable, request a copy of your credit report and show it to your kids. Show them how you can see the loans you've taken out, the credit cards you have open, and the associated payment history. In doing so, explain how credit reports work and explain that your kids won't have anything on their report until they have their own accounts. If your kids are older and they have started building their credit, pull their credit report and review it with them.

CREDIT SCORE

Just like grades, if a student has a 3.8 GPA, you probably don't need to review their report cards to know they are a good student. Lenders use a similar numeric system, called a "credit score," to give them a quick idea as to whether they are working with a good borrower or not, without needing to request and review the entire credit report.

A credit score between 300 and 850 is generated using a series of metrics to provide an estimate of creditworthiness. The higher the score, the more trustworthy a borrower you are deemed to be. A score of 850 means lenders trust you completely and will give you the best rates when borrowing money. A score of 300 means it will be almost impossible for you to qualify for most loans, and the banker will likely check their desk to make sure you didn't steal any pens when you left!

IF YOUR CREDIT REPORT IS A REPORT CARD FOR YOUR FINANCIAL BEHAVIOR, THEN YOUR CREDIT SCORE (ALSO KNOWN AS YOUR FICO® SCORE) IS YOUR GPA.

WHAT YOUR FICO SCORE MEANS

750-850
Excellent
Highest likelihood of loan approval with low interest rates

700-749
Good
Loan approval probable with possibly higher rates

650-699
Fair
Loan approval possible with higher interest rates or could be declined

300-649
Poor
Highest likelihood of loan application being declined

WHAT YOUR KIDS NEED TO KNOW ABOUT A FICO® SCORE:

1. FICO scores range from 300 to 850. The higher the score, the better the credit.
2. The score is determined based on your credit report.
3. The score allows a company or lender to get a quick and accurate impression of how risky you are as a borrower, without taking the time to review your entire credit report.
4. It is used for "quick credit" decisions, such as credit cards, insurance rates, and many car loans.
5. With larger purchases, like a home, your FICO score may help determine your eligibility for a loan or rate, but the lender will eventually review your entire credit report before a decision is made.
6. Positive borrowing behaviors cause scores to go up, and negative behaviors cause scores to go down.

WHAT MAKES UP A FICO SCORE?

1. Timeliness of payments.

How kids pay their bills carries a lot of weight with creditors; in fact, 35% of the credit score is based on the timeliness of payments. Paying bills on time is a sign that kids can take responsibility for their debt and can be trusted. If kids start making late payments, or missing payments, their score will drop.

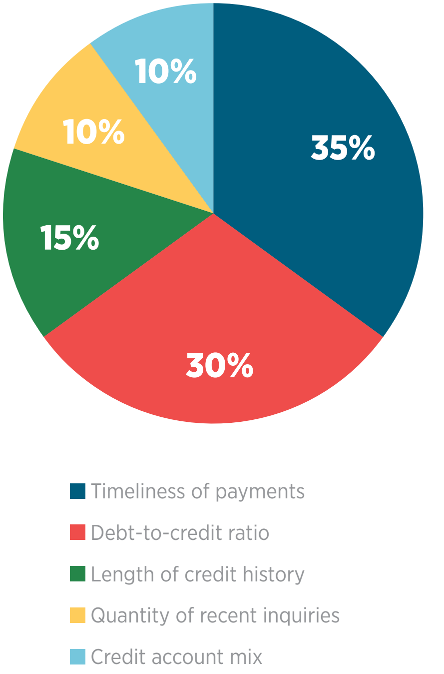
2. Debt-to-credit ratio.

Creditors and lenders like to see borrowers carrying manageable amounts of debt. Someone who has $10,000 in credit available to them but is only using $1,000 of it can more easily afford the payments and has more of a cushion in the event of an emergency. A person who has maxed out their credit cannot afford to take on any more debt and represents an increased risk in the event something goes wrong. As kids take on more debt, their credit score goes down. As they pay off more debt, their credit score goes up.

✪ Explain the debt-to-credit ratio in terms of a server at a restaurant.

Have your kids think about a time when they've been to a restaurant where they've seen a server shakily carrying huge armloads of dishes. Every time the server passes by the table,

WHAT MAKES UP A FICO SCORE?



you're nervous that they are going to drop all of the dishes, and when they do, the entire restaurant hears the sound of breaking glass. Debt-to-credit ratio is like this: Creditors might be afraid you have more debt than you can handle and that you may not be able to pay it back. This is why your credit score goes down when you take on more debt and goes up as you pay it off.

3. Quantity and age of information.

Creditors feel more comfortable lending money to someone who has borrowed before and has shown their ability to be responsible in repaying the loan. Kids with longer credit histories will have higher scores than those just starting out. This is why kids start off with zero credit — they have no credit history, and it takes time for them to build it up. A long, steady history of good behaviors leads to higher scores; those with a short credit history will have lower scores.

4. Quantity of recent inquiries.

Whenever a company requests a borrower's credit score or report, an inquiry is generated on the report. This is generally not a big deal if it happens once in a while, but if applications for five credit cards are suddenly submitted in a short period of time, creditors worry that kids are loading up for a shopping spree, and the score drops. Nervous creditors mean a lower credit score.

5. Credit account mix.

It's not just the amount of debt that matters; it's the type of debts kids have that matter, too. Because of the ways different loans are structured, the legal treatment of different kinds of debt, and the repayment scenarios available for each, all debt is not treated equally. There is a big difference between having a $100,000 mortgage and having $100,000 in credit card debt. Creditors want to see that kids have handled all types of loans, credit cards, and bills responsibly.

ESTABLISHING CREDIT

Even if your kids have no intention of opening a credit card or buying a home today, at some point in the future, being able to take on that level of financial responsibility will be important to them. But if they have not demonstrated that they are capable of paying off debts, they may not be able to get the loan they want when they need it.

THE MOST IMPORTANT THING FOR A YOUNG MAN IS TO ESTABLISH A CREDIT ... REPUTATION, CHARACTER.

John D. Rockefeller

The only way for kids to develop a history of paying back debt responsibly is to take on a debt and repay it. As a parent, you will need to decide if your kids are ready for this responsibility and if you have the ability to monitor their progress. You also need to be prepared for your kids to make mistakes and to coach them through their difficulties. When you are ready to help your kids build credit, there are several ways to get started:

1. GET EXPERIENCE WITH A CREDIT CARD.

It's important that teens understand how to use a credit card before they get their own card, and you can help them prepare.

Make your teen an authorized signer on your credit card.
This is a great way to help your teen establish good credit. Most companies allow authorized signers to be under the age of 18 as long as the primary account holder is an adult. The benefits include "piggybacking," where your child gets a credit boost because of your good score and repayment behaviors. Also, you will be able to keep a close watch on how they use the card, ensuring they use it responsibly. Kids can pay you for their portion of the bill.

If you are sharing a card with your teen, consider opening a new account to which they will be added as the signer rather than adding them to an existing account. This way, kids can have their own card where their transactions will not be mixed in with yours.

It's important to lay down ground rules in advance: How much can your teen spend? What can they use the card for? Do they need to ask your permission before making a purchase? Who makes the payments, and when is the money due? Kids can technically use the card however they please, so rules and expectations are important. Discuss the consequences for not following your agreement and follow through on those consequences should it become necessary.

When the bill comes, make sure to review the charges with your teen and help them reconcile the account. Once your teen can qualify for a credit card on their own, you can remove them as an authorized user with a phone call to your credit card company.

2. HAVE YOUR 18-YEAR-OLD OBTAIN THEIR OWN CREDIT CARD.

If your teen is over 18, they should consider getting their own credit card. They will need proof of earned income if they are under the age of 21. There are many tips on how to teach your kids to be responsible with credit cards in Chapter 8, *Debt and Borrowing*.

There are two primary credit card options for young adults to build up their credit scores: secured cards and student cards.

Secured Credit Cards

With a secured card, kids give a security deposit to the credit card company, typically $50 to $300, depending on the card. The credit card company holds this payment as collateral until the account is closed. The amount of credit available on the card is limited to the amount of the security deposit, which makes these cards less risky for both the borrower and the credit card company. Kids will still need to make their monthly payments as promised.

H Obtaining a secured credit card.
Look for a well-known company that is eager to report all activity to the credit bureaus. The whole point of getting a secured card is to establish credit history, and some cards do not regularly report payment information. Keep the credit limit on the account small and consider limiting the use of the card to certain expenses, like gas or meals. The idea is to keep the payments manageable so kids can practice paying monthly bills. If the limit is too high, the temptation to overspend will be greater.

STUDENT CREDIT CARDS

Student credit cards are designed for college students as an entry point to unsecured debt (no security deposit is required). Typical credit limits range from $500 to $1,500 for student cards, but they frequently offer the additional perks of a traditional credit card: cash back, travel points, etc. Since these are unsecured credit cards, kids need to have demonstrated their responsibility with a secured credit card first. They should also have enough money in their savings to cover the credit limit of the card in case of emergencies.

3. HELP YOUR KIDS WITH OTHER FORMS OF BORROWING.

There are other ways to borrow money or use credit, such as renting an apartment, repaying auto loans, etc. As a parent, you will need to cosign on these loans to help kids get approved until their credit scores are high enough for them to qualify on their own. The drawback to cosigning is that these loans become the parent's responsibility if kids cannot repay them, which can create financial hardships for the parent. We will talk more about cosigning loans in the next chapter.

BUILDING AND MAINTAINING GOOD CREDIT

Good credit takes time to build, and if you don't care for what you've built, all of that work will be a wasted effort. It's not hard to nurture a credit score, but it does take discipline. Here are 10 things you can tell your kids to help them build good credit:

1. Start building your credit before you need it.

Kids shouldn't wait until they want to apply for a loan, rent an apartment, or open a credit card to think about their credit score or credit history. Their score will start out low, so kids must allow time to build it up to where they want it to be.

2. Start small.

The path to a great credit score is made up of a long history of consistently good behaviors. To get started, have kids choose a small obligation (like a secured credit card) they can manage before they work their way up to bigger responsibilities.

3. Communicate with your lenders.
Lenders want one thing from borrowers: their money back. If kids find themselves unable to pay their bills as they promised, they should contact their lenders immediately to work out a solution. If kids are proactive and honest, lenders will work with them to find alternatives. If kids wait until they are buried under so much debt and late fees, their lenders aren't going to be willing to help much.

IT TAKES 20 YEARS TO BUILD A REPUTATION AND FIVE MINUTES TO RUIN IT. IF YOU THINK ABOUT THAT, YOU'LL DO THINGS DIFFERENTLY.

Warren Buffett

4. Keep credit cards to 30% utilization or less.
This means that if kids have a $100 credit limit on their credit card, they should only charge $30 (or less) on the card and then pay off the entire balance at the end of the month. This gives kids a favorable debt-to-credit ratio. Kids should use their card: Lenders want to see that they use credit and use it responsibly.

5. Pay on time, all the time.
Before you let kids take on the responsibility of paying a company directly, you should maintain responsibility for the payments and have the kids reimburse you. It's important that kids show they can pay their portion of their expenses on time, every time, before you let them manage their own bills directly.

6. Have a good credit account mix.
Having a mix of loan types — from auto loans to credit cards — can help their credit score more than just loading up on one type of debt.

7. Close credit card accounts with caution.

Many people choose to close their credit card accounts or lines of credit with the intent of never using those accounts again after the balances have been paid off. While this is great in principle, it can work against kids in practice: 30% of a credit score is derived from the debt-to-credit ratio, or what percentage of the total credit available limit is being used. When an account is closed, the amount of available credit is reduced, which can actually cause the FICO score to go down.

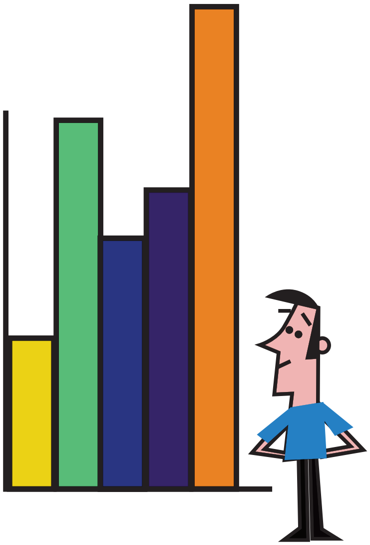
Encourage kids to leave their accounts open, at least until a point when closing them will have little impact on their total available credit. Credit cards that aren't actively being used can be kept at home in a safe place to prevent the temptation of using them again.

8. Take your credit seriously.

A credit score is a reflection of the way kids handle their finances, and kids are responsible for taking care of it. It may not sound very serious if a lender threatens to add negative information to their credit report, but that action can haunt kids for a long time. It may keep them from getting an apartment, getting loans for college, buying a car, or even getting hired for certain types of work. Encourage kids to treat their credit score as a source of pride that shows the world they are responsible and can be trusted with money, rather than as a source of embarrassment.

9. Don't open multiple accounts at once.

When kids are starting to build credit, it can be tempting to apply for everything available to them all at once, but kids need to keep the quantity



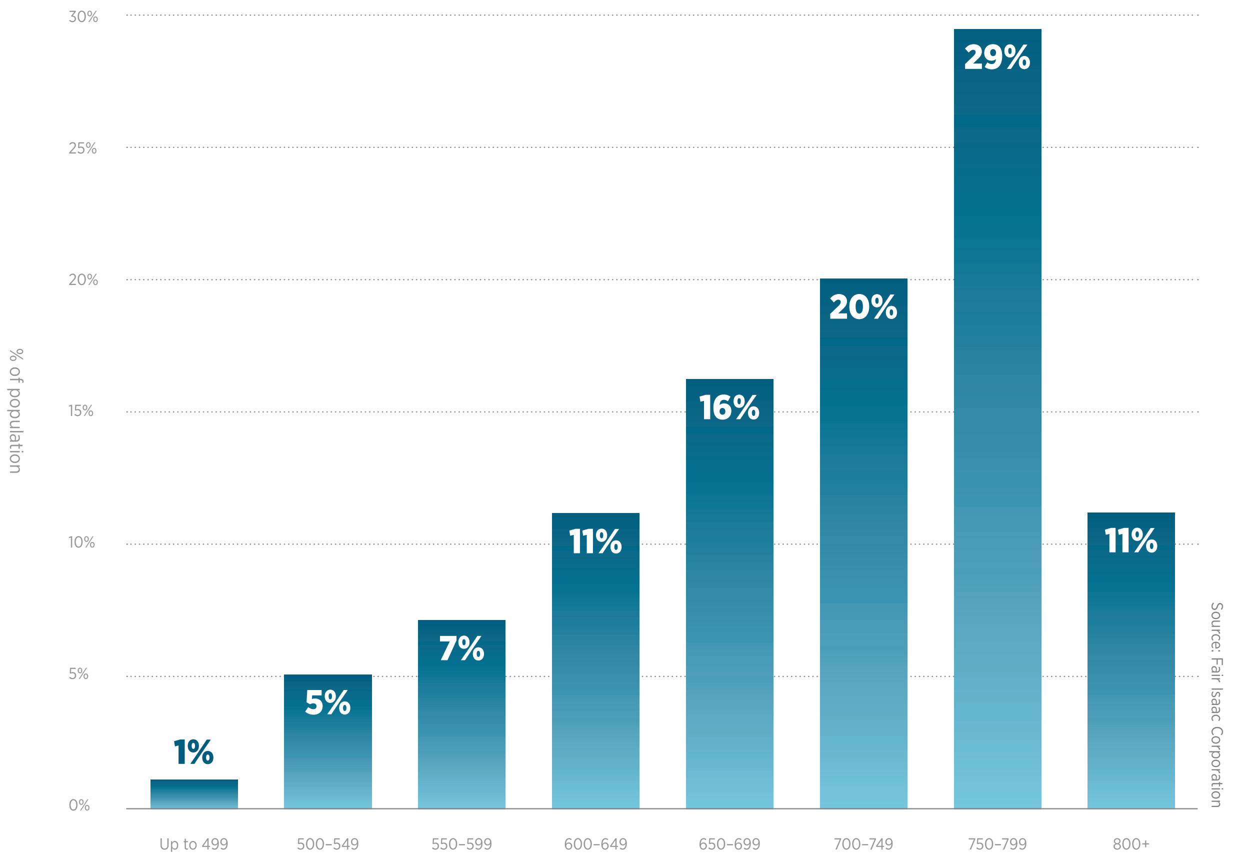
of recent hard-credit inquiries to a minimum. If kids get a credit card, wait several months before applying for another. That being said, lenders do understand that sometimes shopping for certain things — like an apartment or a new car — can cause several banks to check kids' credit scores in a short period of time, and this will not have a negative impact on the score.

10. Check your credit regularly.

Once kids have started to build their credit, they need to start checking it to measure their progress and to verify the accuracy of what is being reported. Kids should use annualcreditreport.com, which is the only government-authorized website for free credit reports. Kids can request a free copy of their report every 12 months or after a credit application is denied. Some companies and websites offer credit-monitoring services, but these generally aren't necessary unless kids have made serious credit mistakes they are trying to repair or if they have been the victims of identity theft. For the way most kids will use their credit, there won't be enough changes to make checking more than once per year worth the extra cost.

How does your credit stack up?

National distribution of FICO scores:



PROTECTING AGAINST IDENTITY THEFT

Young people are prime targets for identity thieves because they have a clean credit record, are comfortable posting personal information online, and are more trusting of what they read online. This means kids have a greater likelihood of posting personal information online that can be used by identity thieves as well as being more susceptible to phishing and other scam tactics. It's critical to teach your kids how to keep their personal information secure both online and offline. These are 10 ways to help keep kids' identity safe:

ACCORDING TO JAVELIN STRATEGY AND RESEARCH, SOMEONE'S IDENTITY IS STOLEN EVERY THREE SECONDS, MAKING 12 MILLION IDENTITY FRAUD VICTIMS IN THE UNITED STATES IN A YEAR.

1. **Keep private documents secure.**
Kids should never carry around their social security card or birth certificate in their wallet or purse. Important identification documents should always be kept in a safe place at home or in a safe-deposit box at the bank. Kids should only have these items on their person when they are needed — like when completing forms to start a new job — and then immediately return the documents to their secured place.

2. **Do not share personal information.**
Kids should keep important personal information private, such as their social security number, driver's license number, bank account numbers and PINs, and passwords. This information should not be shared with anyone, including their friends, unless absolutely necessary. For example, kids will need to provide their social security number for a job application or credit card application.

3. Be careful on social media.

Thieves are increasingly turning to social media to find their victims. Many password retrieval questions ask things like "Where did you attend high school?" "What was the make and model of your first car?" and "What is your mother's maiden name?" Many of these things are easy to find on an online profile. Make sure your kids keep their profiles on Facebook and other social media sites private or only shared with friends. Kids also need to be careful whom they friend on social media sites so they aren't inadvertently adding someone with a fake profile looking to get access to personal information.

4. Use a password on a smartphone.

Most kids keep their phones locked, but it's important they choose a longer password for their phone (beyond the standard 4-digit PIN if available) and set it to delete the information after a certain number of failed attempts. This will prevent a would-be thief from using brute-force hacking methods to attempt to break into the phone.

5. Shred statements.

Any document with personal or financial information should be shredded before it goes in the trash. Many identity thieves will search through people's trash to find bank statements or other

information to help them get into personal accounts. The family should invest in a crosscut shredder (one that essentially turns documents into confetti) so it's practically impossible for an identity thief to reconstruct the shredded documents. Look for a model that can destroy plastic media so expired credit cards, photo ID badges, driver's licenses, etc., can stay out of the wrong hands.

6. Be mindful of phishing scams.

A common tactic many identity thieves use is "phishing," where kids may receive a call or an email from someone claiming to represent their bank, school, or other important organization. Kids will be asked to verify their identity by providing full details about their credit cards, social security number, PIN, or account password. Thieves will then use that information to make fraudulent purchases or apply for loans.

Kids should always be wary of any unsolicited email or phone call from a financial institution. If there are any concerns about the legitimacy of the call, kids should be able to call the person back on an independently verified phone number listed on the bank's official website or on printed materials.

7. Use secure passwords.

It seems like everything requires a password these days. Kids should avoid having one master password that they use for every site; this way, if one site is compromised or one password is revealed, the damage is limited. Kids should use strong passwords that are hard to guess, using a combination of capital and lowercase letters, numbers, and symbols. Passwords should be changed at least every six months, and they should never use a password on a retail site that matches the password for their email or bank accounts.

When it comes to creating answers to password-retrieval questions, encourage kids to lie. If kids say their first car was the Batmobile or they went to Hogwarts for high school, thieves cannot use their actual personal information to gain access to an account, even if it becomes compromised. Of course, kids have to remember their made-up answers or they won't be able to retrieve their password either!

8. Keep a list of important account numbers.

Many cases of identity theft begin with a lost wallet or purse. Kids may want to report their debit card as stolen, but without the card, they won't have the account number to report or know whom to call. Have kids make a list of all of their important account numbers, such as bank account, debit, and credit card numbers, and include the customer service contact information for each institution. This document should be kept in a safe and secure place in the home.

9. Read account statements.

Kids should frequently check their bank account balances online to look for fraudulent charges on the accounts. Mailed statements should be reviewed carefully and accounts reconciled before shredding the statements. Kids should request a free copy of their credit report annually to review for fraudulent activity. They should review their report more frequently if they've been a victim of identity theft.

10. If you or your kids suspect identity theft or fraudulent activity:

- Contact your kids' financial institutions to put a hold on their accounts.
- Contact the Federal Trade Commission (FTC) to report the fraud: (877) ID THEFT.
- Contact the Social Security Administration if you suspect your kids' social security number has been used improperly: (800) 269-0271.
- Notify the credit bureaus: Equifax (800) 525-6285, Experian (888) 397-3742, and TransUnion (800) 680-7289.
- Contact your local police department to file a report and get advice on what you need to do.

FINAL THOUGHTS

- Teach your kids that credit represents financial trust, and it's important to build good credit.
- Show your kids how to read a credit report and help them check theirs once they have established some credit themselves.
- Tell your kids about the three credit bureaus and how their FICO score is calculated.
- Help your kids build their credit by authorizing their use of your credit card before they obtain their own.
- Emphasize the importance of responsible credit and debt behaviors to build and maintain good credit.
- Teach your kids how to protect their credit and identity.

CHAPTER 8

DEBT AND BORROWING

IN THIS CHAPTER, YOU WILL LEARN:

- Responsible ways to use debt
- Irresponsible ways to use debt
- The cost of financing
- Kids and debt: auto loans, credit cards, and student loans

At some point, saving and earning just won't be enough for kids to cover the expenses of everything they want or need. Be it paying for their college education or buying their first home, there will come a point where borrowing money will enter the equation.

There are many responsible ways to use debt to help finance important purchases; however, used without discretion, debt can wreak permanent havoc on your kids' financial lives. For this reason, many parents choose to avoid the topic of debt or simply take a hard-line stance against it. Unfortunately, this does not diminish the likelihood that your kids will be faced with making decisions about debt at some point in their lives. It's important to include debt as part of your conversation about finances early on, preparing your kids to make the right moves when they're faced with the prospect of taking on debt in the future.

RESPONSIBLE WAYS TO USE DEBT

WHY DO PEOPLE CHOOSE TO BORROW MONEY?

It's important to acknowledge that, above all else, debt serves an important place in the world of finance and it can be advantageous when used carefully. The purpose of borrowing money is to pay for an immediate expense that the borrower cannot (or does not want to) pay cash for. There are many good reasons people choose to do this:

1. **To finance expansion.** Businesses often use debt for investment purposes. For example, if a business needs to expand the production capacity of its factory, it may borrow money to buy new machinery, etc., and pay off the loan with the profits from the increased sales.

2. **To more closely match expenses to income.** If an expense is paid quarterly, but income is received monthly, it can be beneficial to borrow the money to pay the expense up front and repay the loan as the money comes in.

3. **To more closely match need with ability to pay.** In a similar fashion, some large purchases — such as a home or vehicle — would be almost impossible to buy paying cash. If someone needed to save $100,000 to buy a home, it could take them 20 or more years, during which time they would still have to pay for a place to live; however, by borrowing the funds, they can live in the home while paying off the debt, using the money they would have

saved. Student loan debt works in a similar fashion: Kids need to borrow money to pay for their education up front, but they should be in a position to pay off the loans when they are earning more after graduation.

4. **To lower opportunity cost.** As mentioned back in Chapter 1, anytime money is spent, the opportunity to save that money has been lost. Debt can offer the best of both worlds to savvy shoppers: If money can be borrowed at a lower interest rate than what saved or invested money is earning, then it can sometimes make sense to take out a loan rather than pull cash out of the investment or savings account.

IRRESPONSIBLE WAYS TO USE DEBT

There are also other uses of debt that can get people into trouble:

1. **Facilitating deficit spending.** When people are living beyond their means, they frequently turn to credit cards or other loan sources for additional spending, and it's usually beyond what they are capable of repaying. This only makes things worse because the mounting interest charges can make paying off the debts almost impossible.

2. **Using debt to purchase things that are not assets.** The previous list mentioned uses of debt related to obtaining assets, like purchasing a home

or investing in an education. Typically, the interest rates for this type of borrowing are lower, and if the borrower gets in trouble financially, they often have something they can sell or otherwise use to help repay the obligation. If debt is used to purchase something that is not an asset, like expensive meals or trendy clothing, the cost of the debt often remains long after the value of the purchase is gone.

TO CONTRACT NEW DEBT IS NOT THE WAY TO PAY OLD ONES.

George Washington

TALKING ABOUT DEBT

Similar to other spending experiences, using debt is frequently something kids observe their parents doing without much conversation around it. This can create difficulties when kids see you using the credit card while shopping yet simultaneously hear you telling them not to get into debt. As with most financial activities, honest communication is the key. If you are using your credit card because you get points, let your kids know that paying in this manner gives you special rewards, but you make a point to pay the bill immediately. If you are charging something to your credit card to cover a cost until you get paid, share that information with your kids. Being open helps kids not only see the action but also understand the rationale behind the decision.

If your family prefers not to use debt, it's also important to

have an open discussion with your kids as to why you made this decision and the impact it has on you financially, both positively and negatively. Perhaps you had significant debt that you paid off and you can speak to the financial challenge it created. You can also discuss how your family handles large expenses or emergency needs without using debt.

Regardless, it's important to be able to discuss the items in this chapter with your kids. Debt is not unlike drugs or alcohol; at some point, your kids will be faced with making a decision about getting a credit card or taking out a loan, and you want them to know how to make the right choices.

✪ How have you used debt?

Talk to your kids about what you have used debt for — like the purchase of your home or your college education — and discuss why you chose to borrow money. What were some of the benefits of borrowing as well as some of the challenges? If it was on the "responsible ways to use debt" list, which category of borrowing was it? If you paid off the debts early, explain why that was important to you and the family to do so.

THE COST OF FINANCING

Many consumers get over their head with debt because they lack an appreciation for the real cost of borrowing. Just like we discussed with spending versus saving, the allure of debt is that it feeds the desire for instant gratification, and any associated costs seem trivial by comparison. If a salesperson tells your kids that by opening a store credit card they can get the hot new video game console plus a stack of games (or whatever your kids most desire) without spending a penny of their own money today, it's going to take a truckload of willpower to keep them from jumping on that deal. The only way that's likely to happen is if they understand what the real cost of that decision will be.

✪ Explain how debt works.

Debt works a lot like investing, only in reverse. When kids make an investment, they buy something expected to grow at a compounding rate of interest. When kids borrow money, the lender gives them money and expects to be paid back at a compounding rate of interest. Just like with investing, the longer the term of the loan (or the higher the interest rate), the more interest your kids will pay. This can become a very expensive proposition.

HOW A LOAN WORKS

Let's look at a simple numerical example of how a loan works. Below is an amortization table, which basically shows every payment from a loan and what portion of each payment is applied to principal and interest. We will skip over the math used to calculate these numbers, which is beyond the scope of this book and focus instead on the bigger picture. For this example, assume that $10,000 was borrowed for 1 year (12 months) at an annual interest rate of 12%, with payments due monthly. This is what the table would look like showing the payoff of the loan:

Month	Starting Balance	Monthly Payment	Amount to Interest	Amount to Principal	Ending Balance
1	$10,000.00	$888.49	$100.00	$788.49	$9,211.51
2	$9,211.51	$888.49	$92.12	$796.37	$8,415.14
3	$8,415.14	$888.49	$84.15	$804.34	$7,610.80
4	$7,610.80	$888.49	$76.11	$812.38	$6,798.42
5	$6,798.42	$888.49	$67.98	$820.50	$5,977.92
6	$5,977.92	$888.49	$59.78	$828.71	$5,149.21
7	$5,149.21	$888.49	$51.49	$837.00	$4,312.21
8	$4,312.21	$888.49	$43.12	$845.37	$3,466.85
9	$3,466.85	$888.49	$34.67	$853.82	$2,613.03
10	$2,613.03	$888.49	$26.13	$862.36	$1,750.67
11	$1,750.67	$888.49	$17.51	$870.98	$879.69
12	$879.69	$888.49	$8.80	$879.69	$0.00
	Totals:	$10,661.85	$661.85	$10,000.00	

In this simple example, you can see the mechanics of how paying off a fixed-payment loan (like a mortgage or car payment) works. Each month, a contractually obligated payment is made. A portion of that payment goes toward the interest on the loan (in this case 12% per year) and the remainder goes toward paying down the principal balance. This continues until the balance on the loan drops to zero. In the table on page 205, you can see that the total payments ($888.49 × 12) add up to $10,661.85, meaning the total interest paid on the $10,000 loan was $661.85.

In this example, the numbers don't look too bad, but what if this was a 5-year loan instead of a 12-month loan? In that case, the monthly payment would drop to $222.44, but the total interest paid would increase to $3,346.67. If this was a 15-year loan, the monthly payment would drop to $120.02, but the total interest paid would jump to $11,603.03! You are reading that correctly: The total interest paid would be more than what was originally borrowed!

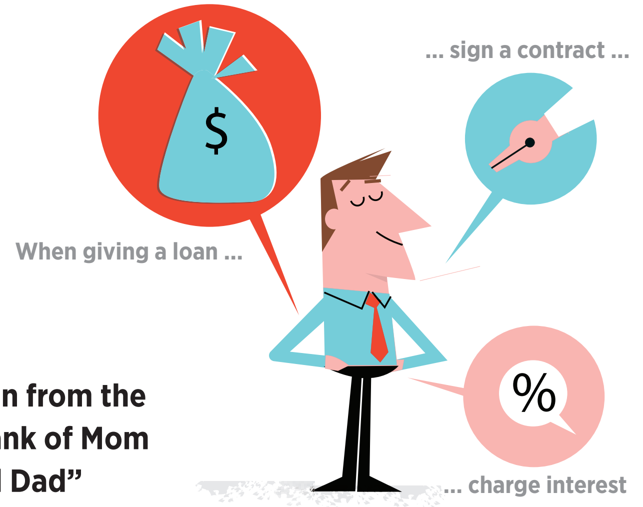
This is the dangerous lure of debt: The longer the term of the loan, the more affordable the monthly payments become to the borrower while, at the same time, the total cost of borrowing increases dramatically.

✪ Explain paying interest.

Explain to kids that when they borrow money in the real world, the lender expects to be compensated for loaning money, which is why interest is added to the loans. Help kids understand that borrowing money always has additional costs, and these costs can make a purchase much more expensive than they might expect.

E M H Be the bank.

When your kids ask you for money, consider lending it to them instead, particularly if it's a larger amount and the kids have a means to repay (allowance money counts). Create a real loan contract (which is just a simple promise to pay a certain amount of money each day, week, or month until the debt is repaid) that you both sign. You can take collateral on the loan, which can either be an item (like a toy or game) or an activity (like screen time) that your kids value. Charge interest on the loan (which you can deposit in their bank account or college savings fund) and keep track of the payments using an amortization table (templates for Microsoft Excel can be found online along with other apps and websites that handle the math for you).



Loan from the "Bank of Mom and Dad"

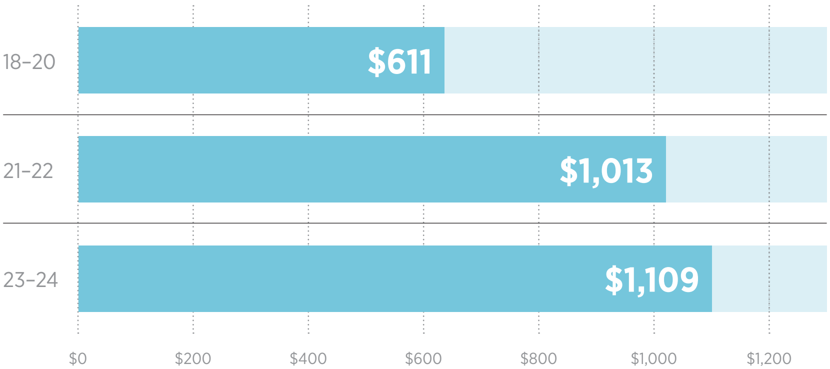
REVOLVING DEBT

Not all debt has a fixed payment like what we just saw. Credit cards and other lines of credit frequently work on a different system, where only a minimum monthly payment is required to meet the terms of the loan. By law, this is 2% of the outstanding balance plus any fees (usually with a required payment amount, like $20, as the loan balance gets to be small). Obviously, a larger payment can be made, but many credit card users only ever make the minimum payment — either because it's all they can afford or they don't realize how ineffectual it is. Let's look at how that would change the previous example, assuming it was a credit card with a $10,000 balance and an 18% annual interest rate:

Month	Starting Balance	Minimum Payment	Amount to Interest	Amount to Principal	Ending Balance
1	$10,000.00	$200.00	$150.00	$50.00	$9,950.00
2	$9,950.00	$199.00	$149.25	$49.75	$9,900.25
3	$9,900.25	$198.01	$148.50	$49.50	$9,850.75
4	$9,850.75	$197.01	$147.76	$49.25	$9,801.50
5	$9,801.50	$196.03	$147.02	$49.01	$9,752.49
6	$9,752.49	$195.05	$146.29	$48.76	$9,703.73
7	$9,703.73	$194.07	$145.56	$48.52	$9,655.21
8	$9,655.21	$193.10	$144.83	$48.28	$9,606.93
9	$9,606.93	$192.14	$144.10	$48.03	$9,558.90
10	$9,558.90	$191.18	$143.38	$47.79	$9,511.10
11	$9,511.10	$190.22	$142.67	$47.56	$9,463.55
12	$9,463.55	$189.27	$141.95	$47.32	$9,416.23
	Totals:	$2,335.09	$1,751.32	$583.77	

In this case, the results are more dramatic. The minimum monthly payments are just barely covering the interest charges, so the balance on the account hardly moves. After one year, payments totaling over $2,300 have been made, but less than $600 of the balance has been paid off. If your kids only ever made the minimum monthly payment on this credit card balance, it would take over *46 years* and *$37,862.23* of payments to pay off a $10,000 balance! It's easy to see how this can become a crippling financial burden.

Average student credit card debt by age in 2015



Source: Sallie Mae "Majoring in Money" Report 2016

M H Do the math.

When there are offers for credit cards or loans on TV or in the mail, review the details with your kids. Use an online tool or spreadsheet template to help them calculate what it would cost to repay the loan offered or purchase made using the credit card.

HOW WILL YOUR KIDS USE DEBT?

Kids usually get their first experience with debt in one of three ways: buying their first car, opening their first credit card, or using student loans. In all cases, it's important to have very open discussions about each type of loan.

A loan is a legal contract, so in most states, kids who are under the age of 18 are unable to create a legally binding contract on their own. As a parent, you will most likely need to act as the cosigner — or responsible party — on any loan obligations. Before doing so, you will want to carefully consider your kids' maturity level.

Are they responsible with their current obligations, i.e., are they on time to appointments or jobs, not skipping out on commitments, etc.? Do they have a steady and reliable source of income to repay the debt? Do they have reserves in savings they can draw on in case they lose their job? Do you have the ability to cover the liability if your kids are unable to do so themselves? If the answer to any of these questions is "no," your kids are probably not ready to take on the obligations created by debt.

BUYING A CAR

It can be a good idea for kids to finance the purchase of their first car. Newer cars are safer for kids to drive, more reliable (and under warranty), and the cost of borrowing for new vehicles tends to be very low for buyers with good credit scores. If kids are involved in the repayment of the loan and listed on the loan paperwork, this can help build a strong credit score for them as well. However,

before they drive off the lot in their shiny new prize, it's important to have a frank discussion about the ground rules and expectations.

Talk to your kids about how the loan works and their responsibilities. Explain that a loan is a legal obligation. If the payments do not come in every month as agreed, the courts can take action to retrieve the funds. Worse yet, the loan can be "called," which means the entire balance is due immediately. The lender can even repossess the car if problems get bad enough. If you cosigned the loan as a parent, you would be held responsible for making these payments yourself.

Discuss what related expenses kids are responsible for. This could include insurance, gas, maintenance, repairs, and even car washes. It's important for kids to understand the total cost of ownership beyond the car payments themselves. What happens if kids can't keep up with the costs? Is the car sold? Discussing these items in advance can ensure everyone is on the same page about who is responsible for what and what the consequences are if kids fail to own up to their end of the bargain.

Car search. As your kids become interested in having their own car, help them do the research to determine what the total cost of ownership will be. Kids can use the internet to determine the cost of the vehicle and use an online calculator to determine the estimated monthly payment if they finance the car. Automotive publications or car dealerships can provide kids with annual maintenance and repair cost estimates, and kids can estimate what the cost of fuel is likely to be based on fuel efficiency figures and the amount of driving they will do. Kids should also investigate the cost of insurance as well as the estimated property tax and titling costs. Have your kids make a plan as to how they will cover these costs and the amount of work it will take to earn the money to pay these bills. Don't forget the potential need to replenish a savings account balance if funds are withdrawn to make a down payment or pay other costs.

CREDIT CARDS

With the widespread popularity of debit cards, some parents are steering away from giving their kids credit cards; however, as we have discussed, they are a great way to help build credit if used responsibly.

Teach your kids these six things about credit cards:

1. **Credit cards aren't free money.**

Credit card companies don't extend lines of credit to cardholders because it costs them money; they do it so that they can encourage borrowers to spend funds that must be repaid with interest, typically at rates in the double digits. When kids see their first line of credit, they may feel like they've won the lottery and want to go spend it immediately. Kids need to understand that if they max out their credit card, they may not be able to pay it off, which could lead to serious financial issues.

2. **Pay the balance, not the minimum.**

If you only make the minimum payment, you will spend a fortune in interest, and it will take years to pay off the debt. Not to mention you will likely keep increasing the amount of credit you are utilizing, and this can be a vicious cycle. Never charge more than you can afford to pay that month. And always pay the balance in full every time.

3. **When used correctly, credit cards can help build good credit.**

As discussed, good credit is important, but it is critical that cards are used responsibly.

4. **Use the credit card, but not all the time.**

In order to show creditworthiness, you must actually use the card. Purchase something on it every month, but keep the cost small. Aim to use under 30% of your credit limit within the billing period, and if you can keep it around 10%, even better.

5. Credit cards are more secure than debit cards.

The increased popularity of online shopping and the ease of using debit and credit cards for everyday transactions have made these forms of payments an attractive target for identity thieves. Credit card companies offer more extensive fraud protections, with the liability for most fraudulent charges capped at $50. However, credit cards have another advantage: It's not your money that has been stolen. When fraudulent charges occur, the liability can be wiped off the card before the bill is paid. When fraudulent debit charges occur, you must frequently dispute the charges personally and wait for the funds to be credited back to your account.

6. Credit cards can offer rewards.

Many cards offer rewards, like travel points or cash back. You can use these benefits to save money in the long run.

STUDENT LOANS

Given the ever-increasing cost of college tuition, borrowing money to finance education expenses is becoming more widespread. Unlike most loans for kids, these are typically taken out in the student's name, although there are supplemental loans available to parents as well.

The amount that can be borrowed is based on the cost of attendance as well as the "expected family contribution," or EFC, which is the amount of expected financial support provided by the student and their family. The EFC is determined by a formula involving the amount of household assets and

AMERICANS OWE NEARLY $1.3 TRILLION IN STUDENT LOAN DEBT, SPREAD OUT AMONG ABOUT 44 MILLION BORROWERS. IN FACT, THE AVERAGE CLASS OF 2016 GRADUATE HAS $37,172 IN STUDENT LOAN DEBT, UP 10% FROM 2015.

Source: StudentLoanHero.com

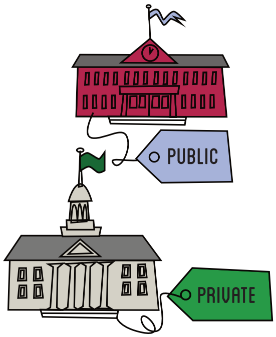
income for both the parents and the student. The calculation methodology varies depending upon whether aid eligibility is determined using the federal method (the Free Application for Federal Student Aid, or FAFSA), which is typically used for public colleges and universities, or the CSS Profile method, which is typically used for private schools and selective state schools.

Regardless of how the eligibility for loans is determined, the characteristics of a student loan are the same. Payments on any borrowed amounts are deferred for six months after the student is no longer enrolled, i.e., they graduate or leave school.

Even though the payments are deferred, the interest begins to accumulate immediately. This means that the interest clock starts ticking on day one of the loan, and with compound interest, that can add up quickly. For example, if a student borrows $20,000 a year for four years of college at an 8% annual interest rate, they don't just graduate with $80,000 in debt; instead, they will graduate with over $90,000 to repay. For this reason, some parents look to other means to borrow for college expenses — like a home equity line of credit or a margin loan — to better manage the cost.

If students do take a traditional student loan, they have many options when it comes to repayment. They can make a fixed payment based on a certain number of years (like the first amortization table example); however, students often

lack the income to make these payments after graduation. There is also income-based repayment, which allows students to pay a figure in line with their discretionary income, and this amount still satisfies their obligations. Unfortunately, this is like the minimum credit card payment in the second amortization table example, where the dollars going to repay the loan may only cover the interest expenses and drive up the total cost of borrowing.



The value of a degree.

It's important to have discussions with kids about their college and degree choices when deciding whether to use loans to pay tuition. If kids are looking at an expensive private or out-of-state school, what additional value is provided with a degree from that school that will make it worth the extra cost? If they are borrowing money to get a degree, what are their prospects for employment with a salary after graduation that will enable them to repay their loans? Many kids are caught off guard by how little they will earn in their first "real job," to say nothing of how much of that salary will need to go to student loan repayment.

Apples to apples.

As your kids are evaluating their college options, help them determine the total cost of attendance. There are calculators online that can estimate the EFC figure, which you can use to determine how much money kids would likely need to borrow for school. You can then use the student loan repayment estimator at studentloans.gov to get a sense of how much it will cost each month to repay the loans. Do this for each school your kids are interested in to capture and compare the real cost differences between each institution. Kids can also search job posting boards to see what openings are available in the professions they are interested in and get a sense of starting pay. Discuss whether the cost of the degree makes sense relative to the pay they are likely to receive. What resources do the various schools have to help their students get hired after graduation?

MANAGING STUDENT LOAN DEBT

While borrowing money to pay for college may be inevitable for some, there are ways to mitigate the overall cost:

1. **Borrow as little as possible.** Make a point to borrow only what is needed, not what is offered. There are many less expensive ways for kids to get extra funds outside of student loans: part-time work during the summers, work-study opportunities, and side jobs (like tutoring or babysitting) during the school year.

2. **Reduce the cost of a degree.** Many kids are able to earn college credits for courses while they are still in high school through AP credits or partnerships through local community colleges. Other kids take summer courses or start their education at a two-year institution to cover their basic coursework at a lower cost. It's important to investigate the transferability of this coursework before enrolling; if the university or degree program won't accept the transfer credits, you'll end up spending more money retaking the courses.

3. **Consider the total cost.** Some kids live close enough to a university campus that living at home can be a money-saving option. If kids are entering a profession, like medicine, which requires them to obtain multiple degrees, the undergraduate school may be less important than the college or university where the final degree is obtained, professionally speaking. By choosing a more economical school to satisfy prerequisites, more funds are available to cover the cost of a more prestigious graduate or post-graduate program.

FINAL THOUGHTS

- Talk to your kids about the responsible and irresponsible uses of debt.
- Be honest and open about your own positive and negative experiences with debt and how it affects (or has affected) your family.
- Help kids understand the cost of debt by acting as a lender when they need money and are old enough to be able to pay you back.
- If you are helping your kids finance a purchase, help them determine the total cost of their purchase beyond just the loan payment amounts.
- Help your kids find alternative ways to obtain what they need or want without resorting to borrowing.

CHAPTER 9

GIVING BACK

IN THIS CHAPTER, YOU WILL LEARN:

- How to introduce your kids to giving
- How you can give as a family
- What volunteer activities are available for your kids
- How to use volunteering on college applications
- About legacy plans

As the saying goes, "money can't buy happiness." But many kids try to do that every day by seeking the next toy, game, car, or other purchase they think will make them happy. But as the newness fades away, the desire to buy more sets in again. Unfortunately, this continuous cycle of desire can cause frustration when kids can't buy what they want, and it might even lead to resentment of those who can.

One way to break this cycle is by instilling in kids the value of caring about something larger than themselves, be it those who are less fortunate, the environment, wildlife and animals, or social causes. Kids who appreciate the value of what they have and look to make the lives of others better are often less consumed with the external trappings of wealth or keeping up in the never-ending race to "have it all."

Giving does not have to be just about donating money to a cause; it can also mean giving of your time and talents. Most charitable organizations depend upon the efforts of volunteers, so encourage your kids to get involved in their community personally, not just financially. Kids can choose a cause that inspires them, or you can work together as a family to support a particular cause. Volunteering can foster many benefits in kids and teens. Child Trends Data Bank arrived at some favorable conclusions about teens who volunteer:

Volunteering in adolescence is associated with positive outcomes during the teen years as well as in adulthood. Teens who volunteer are less likely to become pregnant or to use drugs and are more likely to have positive academic, psychological, and occupational well-being. Adolescents who are involved in community service or who volunteer in political activities are more likely as adults to have a strong work ethic, to volunteer, and to vote. Volunteering is also associated with the development of greater respect for others, leadership skills, and an understanding of citizenship that can carry over into adulthood.

When your kids get involved in giving to others, they learn:

- the importance of caring for others
- new skills and knowledge about the real world
- how to make a difference in the community
- how to work with others
- how to appreciate what they have

In this chapter, we will look at the many ways kids can give back to their communities, both financially and through volunteerism.

INTRODUCING YOUR KIDS TO GIVING

Starting the conversation on giving can begin with understanding where your kids' interests and passions lie. Have a little nature bug under your roof? Consider getting involved in a local conservation project. Are you active in a church or synagogue? Consider taking part in a mission trip or service project. Do your kids love animals? Consider volunteering at an animal shelter or donating money for food and other basic needs. Showing kids that there are ways to use their passions and interests to make a difference in the world is an important first step in making giving back a priority in your kids' lives.

FAMILY GIVING

Very often, charitable giving and volunteering is a family value passed down through generations. Other times, new traditions of service are created. Regardless of the situation in your family, participating in your kids' charitable activities or supporting their efforts helps reinforce the value of giving back. There are many ways to start a tradition of giving or to enhance your current routine:

P E M H Sharing is caring.

At the next family "spring cleaning," make a pile of items to give away to others in need. These items may be clothing, toys, books, and other personal items in good condition that can be used by another family. Talk to your children about the people who will receive these items and what you do to help. Don't force your kids to give away something they are not yet ready to part with (you don't want them to resent their involvement in philanthropy).

P E Start a giving container.

In Chapter 3, *Saving Tactics*, we mentioned creating "Saving" and "Spending" containers for kids; some families also make a "Giving" container for the money a child wants to give to charity or share with others. This is a great way to encourage your kids' charitable giving. Kids can decide how much to put in the jar and how they want to use the money to help others. Other family members can chip in to show their support as well.

E M H Gamify your giving.

Boom Boom! Cards encourage you and your kids to perform 26 acts of kindness spread among home, school, and the community. When a card is completed, the unique card ID number allows you to follow the card on boomboomcards.com to see all of the good deeds it has inspired. There are decks for teens and decks for families, and there are even decks geared toward saving the planet.

E M H Volunteer together as a family.

Contact an organization that supports a cause your family finds meaningful or find a community project you are passionate about that everyone can participate in. You can find a list of accredited charities through your Better Business Bureau or at give.org. Talk to your kids about the work you'll be doing and how it will make a difference. Afterwards, discuss what you learned, what you enjoyed, and how your work helped make a difference in the community.

E M H Start or participate in a charity drive.

Organize a drive to support your family's favorite local charity. Have your kids help organize the drive and make the collections. Examples include a canned-food drive for a local food bank, a clothing drive to collect winter coats for a

ACCORDING TO THE YOUTH HELPING AMERICA SURVEY, AN ESTIMATED 15.5 MILLION YOUTH AGES 12 TO 18 PARTICIPATE IN VOLUNTEERING ACTIVITIES.

shelter, and a toy drive for holiday presents for underprivileged children. Be sure to contact your intended charity to determine what is needed or usable. If you have a friend or family member who has suffered with a disease, find out what fundraising and awareness activities are available to support that cause. Kids can also get involved in raising money for fun runs or other charitable events.

P E M H **Collect items for causes.**
When you are at the grocery store, have your children choose a few items to purchase and place in the bin for the local food pantry. If you are at a big-box store, purchase some personal items, such as shampoo, soap, shaving cream, diapers, etc., and give them to a local organization or shelter. Kids can also ask friends and neighbors to pitch in.

H **Help build a house.**
Many communities have charitable organizations like Habitat for Humanity that help build or repair homes for families who need a place to live. Assisting with building a home is not only a great way to help the community, but it's also an opportunity for your kids to learn practical skills.

ACTIVITIES YOUR KIDS CAN DO

As kids get older, there are many ways for them to enhance their giving and community involvement. These are some ways kids can become more philanthropic:

P E M H **Visit a "grandfriend."**

When kids visit the elderly or those in need of companionship, such as nursing home residents, they bring uplifting energy to those who really need it. Playing cards and board games, reading and telling stories, and singing with nursing home residents can help kids learn valuable social skills while providing companionship to those in need. Kids will build a connection with those they visit and the elderly will enjoy the company.

P E **Artwork for giving.**

Kids can create artwork to give to people in the community, like those in the hospital, or give them to a special helper, such as a favorite cashier or restaurant server. Keep some of the artwork with you and ask your children when they would like to offer it to others.

P E M H **Friendly performance.**

If your kids are involved in the performing arts — like a choir or a dance group — encourage them to use their talents and perform for others, perhaps in a nursing home, daycare, or community center. If there are

THE TYPICAL YOUTH VOLUNTEER CONTRIBUTES 29 HOURS PER YEAR. IN TOTAL, YOUTHS CONTRIBUTE 1.3 BILLION HOURS OF COMMUNITY SERVICE PER YEAR.

siblings who are not part of the performance, they can show patrons to their seats, sell tickets, or even work behind the scenes on the set, costumes, or makeup of a show.

P E M H **Birthday for a cause.**
For a unique and meaningful birthday party idea, ask guests to bring something for a cause rather than a present. Your child can choose a cause that is meaningful to them and ask for items accordingly.

P E M H **Lemonade stand or bake sale for a cause.**
If your kids are handy in the kitchen, they can make baked goods and/or lemonade and sell them for a cause they value. Post about it on social media and ask others to join in and bake as well.

E M H **Help a neighbor.**
As they say, "charity begins at home." Maybe there is someone in your neighborhood who has trouble getting around. Your kids could help them rake leaves, make dinner, clean up, collect mail, or shovel snow.

E M H **Write letters to deployed service members.**
Encourage kids to send their best wishes and gratitude to those who are serving our country. Letters can brighten a service member's day by showing appreciation to them for keeping us safe.

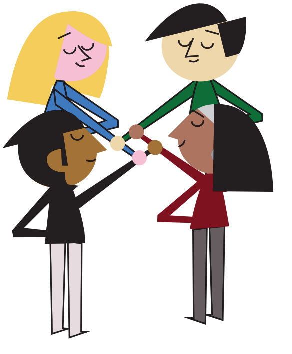
E M H **Care for the environment.**
Kids can pick up litter on the side of the road or in parks, organize a recycling drive, or educate the community on ways to care and protect the environment.

E M H **Make kits for the homeless.**
Kids can make simple bagged meals, containing things like peanut butter and jelly sandwiches, chips, and fruit. Or they can create a hygiene kit, which can include travel-size toiletries or personal items to help care for the homeless. Kits can be delivered to local service organizations that provide assistance to those living on the streets.

VOLUNTEERING AND COLLEGE

As admission to the nation's top colleges has become more competitive, volunteer service hours have become a way for high school students to try to differentiate themselves from other applicants. Colleges and universities appreciate students who are particularly passionate about a specific nonprofit or charity. This doesn't mean that your kids should not venture outside of their regular philanthropic work, but they should show a commitment to at least one charitable organization or cause.

Do Something, an organization that encourages young people to volunteer and contribute to their communities, surveyed admissions officers from 32 of the top universities in the country ranked by *US News & World Report*. Seventy



percent of those queried said they prefer to see a student who sticks with one cause, not one who dabbles in a laundry list of volunteer opportunities. "It is clear that passion and commitment to something bigger play a key role in their decisions," the authors of the survey noted. "Taking the lead to bring about change in a community will help set a student apart from his or her peers, but communicating depth in that experience is also a determining factor for admissions officers."

HOW MANY HOURS?

It is not possible to have too many service hours as long as your kids' grades are good and they are making a valuable contribution to society. Though most colleges will see between 50 to 200 hours of community service as a serious commitment, the number of hours alone is not what the admissions office is looking for. It's more critical that kids convey what they have done, why they have done it, and what they are getting out of it.

WHAT TO AVOID

Kids do not want to give the impression they participated in community service only for the sake of looking good on a college application. Words like "required" or "mandatory" will not go over well. It is imperative that the work actually made a personal difference in the lives of your kids and of others, as opposed to something they were forced to do.

For students looking for service hours, encourage them to consider the following four things:

1. Demonstrate consistency.
Encourage kids to volunteer with the same organization consistently for at least four years. During that time, have your kids make notes of special experiences they have had and how they have felt personally rewarded for their efforts.

2. Demonstrate passion.
Kids should follow their passions with their charitable work. If they are politically inclined, they can volunteer for a particular political campaign, a civic organization, or a local politician. If they wish to help the homeless community, they can volunteer at a soup kitchen. If they are passionate about education, they can tutor or read to underprivileged children. Kids who volunteer in areas closest to their heart are more likely to value the impact of their work and persist for longer periods of time.

3. Demonstrate leadership.
Demonstrating leadership skills is one of the most important aspects colleges are looking for in kids' volunteering efforts. Kids can show their leadership skills by taking charge of a specific event or activity or they can look for opportunities to manage projects and lead teams while motivating themselves and others to succeed.

4. Learn something new.

No matter what type of volunteering your kids do, they should endeavor to learn new skills. In addition to encouraging personal growth, volunteering can be a great way for kids to take on important roles and responsibilities they can use in their professional careers, including project management skills, office skills, and communication skills.

RELIGIOUS GIVING

If your family is part of a religious community, there can be many opportunities for kids to get involved with philanthropy. Help kids find ways to join community outreach programs or mission trips. As kids become accepted as full adult members of their church, they should understand that they might be expected to share in the religious organization's financial support. Talk about how your family shows their support through weekly offerings, pledges, or tithes. Kids can participate in weekly offerings from their allowance or earned income as well.

LEGACY PLANNING

For many families, charitable giving is a legacy that is passed down through generations. This is often accomplished by creating a family foundation or fund that can benefit a community long after the initial grantors have passed.

A family foundation is typically a nonprofit legal entity created to promote a single charitable purpose, like furthering literacy, finding a cure for cancer, etc. The foundation can be funded during the grantor's lifetime or at their passing as part of an estate plan. The foundation has a board of directors who determines how the funds should be managed and distributed to fulfill the charitable mission.

Because of the legal complexity of these organizations, there can be significant costs with establishing a foundation, so they usually appeal to families with considerable wealth earmarked for charitable purposes (usually in the millions of dollars). However, one benefit of this type of charitable vehicle is that kids and other family members can work for the foundation and be paid for their time. This is a great way to keep kids involved in the charitable legacy of the family. If the foundation is created during your lifetime, your kids can be a part of the decision-making process of how the funds should be used.

There are other ways to continue a family legacy of giving, including setting up a donor-advised fund, funding an endowment or scholarship at a university, and more. As you are determining how you would like your assets to be used after you pass, it's important to consider how your kids can remain involved in furthering your family's charitable legacy.

FINAL THOUGHTS

- Help kids appreciate the value of what they have and find fulfillment in helping others.
- Demonstrate the value of community involvement by participating in activities as a family.
- Support your kids' philanthropic interests by helping them find ways to get involved in their community.
- Encourage older kids to focus on a particular mission or area of interest and to use their volunteerism to develop important skills.
- Include charitable giving as part of your estate plan to create ways for kids to continue the family's legacy after your passing.

CHAPTER 10

YOUR KIDS' FINANCIAL FUTURE

IN THIS CHAPTER, YOU WILL LEARN:

- How to plan for college tuition
- How to protect your kids' financial future: life insurance and estate planning
- How to be a financial educator and further your kids' financial education
- Money isn't everything

This book has focused on helping your children understand how their actions affect their financial future. However, there are many areas where your actions as a parent can have a profound impact on your kids' financial future as well.

COLLEGE TUITION PLANNING

College education has become an interesting dichotomy in this country: On one hand, it provides the pathway to a potentially lucrative career; on the other hand, students who use debt to pay for their education often find themselves crippled financially, with many unable to afford to live on their own after graduation because of their loan payments.

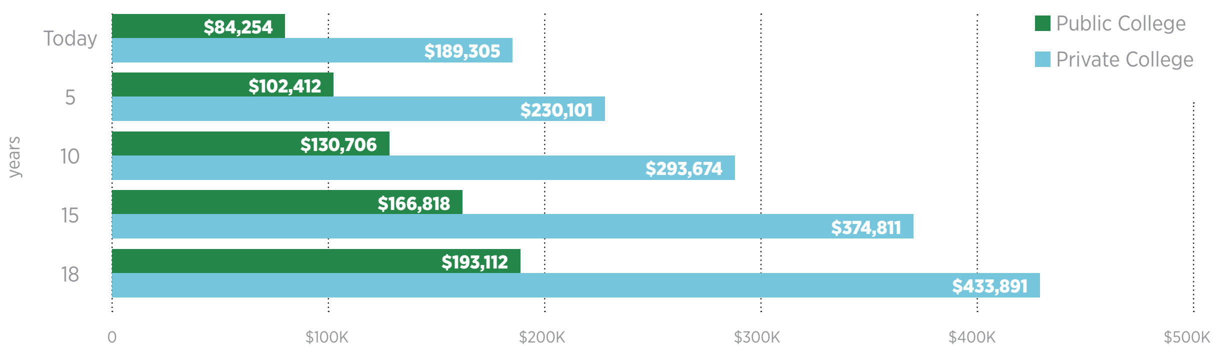
For many parents, paying for college is an important part of securing their kids' financial futures; however, this is something that typically requires careful planning to achieve. Here are a few things to keep in mind:

1. Be prepared for the cost of college ahead of time.

Waiting until your kids reach high school to start looking at colleges is not the time to start thinking about putting together a college savings plan. The earlier you start, the better. It may seem strange to pick a target college for your kids before you choose their preschool, but that's really the optimal time to start saving.

Do your research to determine what in-state, out-of-state, private, and Ivy League schools are projected to cost. How much can you afford to save each month? How much of the goal do you want to fund? Will your kids be responsible for a portion? If

Projected cost of college (4 years)



your kids get into their dream school but can't quite afford it, how will you make up the difference?

2. Maximize your savings options.

For most families, the 529 plan has become the preferred vehicle for college savings. These plans work like an IRA, but for education: Contributions to the plan grow tax-free, and any distributions for qualified education expenses are tax-free as well. Some states offer a state income tax deduction for contributions to a plan, so you should consult your tax advisor to see what benefits are available in your state.

Contributions are considered gifts, so individuals can gift $15,000 per year to the plan, and married couples can double that to $30,000 (in 2018). Gifts can come from other family members as well or be front-loaded to the tune of a single $75,000 (or $150,000 for married couples) gift every five years. Most plans contain a wide variety of mutual fund options and age-based investment strategies to help grow the funds.

Section 529 College Savings Account

Annual Single Contribution Per Beneficiary	
Married, filing jointly	$30,000
Single	$15,000
Five-Year Contribution Made in a Single Year Per Beneficiary	
Married, filing jointly	$150,000
Single	$75,000

The balances or distributions from 529 plans can affect financial aid eligibility, and any distribution of funds not used for educational purposes is subject to taxes and penalties on the earnings portion. However, unused plan assets can be directed toward another beneficiary in the same generation or younger without penalty. For example, if your oldest child did not use all of the money in their plan for college, those funds could be directed to a younger child, niece or nephew, or grandchild. Consider speaking to a financial advisor to learn more about whether or not a 529 plan is appropriate for your needs.

3. Retirement first, college second.
When considering funding an education goal, it's important that you are adequately saving for your retirement needs first. There are many ways to get through college, and kids have the ability to repay loans over time. You, on the other hand, have a limited number of years remaining to accumulate enough money to retire, and there is nothing beyond a modest Social Security benefit as a cushion. If you're not on track to reach your retirement goal, you're not in a place to pay for your kids' college. Consider speaking with a retirement advisor or financial planner to determine if you are in a position to pay for college expenses.

PROTECTING KIDS' FINANCIAL FUTURES

As parents, you want to do everything in your power to ensure your kids are prepared to face the financial world and make smart decisions. But what if you aren't here to teach them what they need to know or to provide for them? Many families fail to plan for the unexpected, which can leave kids vulnerable should something happen to their parents. Two of the most important items to address when it comes to protecting kids are life insurance and estate planning.

LIFE INSURANCE

Whatever goals you have for your kids, your ability to realize those dreams is dependent upon you being around to earn the necessary money to fund those goals. If you pass away prematurely (which is insurance speak for "pass away with unmet financial obligations"), how will that impact your family financially? Will your kids be able to continue living in their family home or will they need to move away, leaving their friends and school? Will there be enough money to send your kids to a good college if they get it in?

Life insurance is a product designed to address this need. No one likes buying life insurance. Thinking about your own mortality is never pleasant, and the wide range of products offered by the insurance industry can feel overwhelming. In simple terms, you must think about all the expenses that would need to be covered should you pass: the mortgage, putting the kids through college, providing for a surviving spouse, etc. If the surviving spouse were not able to pay those costs on their own, an insurance specialist can help you turn these numbers into a policy that can pay a lump-sum figure to meet the needs of the family. Even if you don't work outside of the home, you may still need life insurance. Think of everything you do around the house — childcare, cooking, cleaning, tutoring, transportation, and more — it's possible

the surviving spouse would likely need to hire someone to help.

Many people have group insurance coverage through their employer, but group policies don't typically provide enough coverage to meet the needs of the family, and if you leave your job (willingly or unwillingly), or your employer changes the terms of their group insurance plan, you can find yourself uninsured and uninsurable. It's best to own the coverage you need, so there are no surprises. When shopping for a policy, skip the expensive permanent (whole life) products and go for inexpensive term-life coverage that will last as long as you need it (until the kids are out of college, until the mortgage is paid off, etc.).

ESTATE PLANNING

In addition to needing life insurance, many families do not have estate plan documents in place. Without a proper estate plan, you are giving up control of everything that matters after your passing — from those who will inherit your money and property to those who will raise your kids — to whatever the state rules are where you live. Any money that your kids inherit will typically be available to them outright — meaning in one lump sum — once they turn 18. Your kids may be responsible with their allowance, but how will they handle receiving tens or hundreds of thousands of dollars all at once?

An estate plan doesn't have to be complicated. It simply involves sitting down with an attorney and answering a few simple questions: Who should be in charge when I'm gone? Whom do I want to receive my property, and in what proportion? Whom do I want to raise my children if I pass and they are still minors?

You can also work with the attorney to create a delayed distribution plan — known as a testamentary trust — that holds inherited property for kids and places restrictions on how they can use the funds or when they will receive the money. If you have a blended family — where there are children from different marriages — or children with special needs, there are additional planning steps you can take to ensure everyone is treated fairly at a parent's death.

But these steps can only happen if an estate plan is in place. Depending upon your situation, your attorney may recommend a will or a revocable living trust, as well as other documents (such as powers of attorney) to make sure you are properly protected. These documents can be changed over time as needed, but you need to be certain you have at least something in place now to protect your family.

ESTATE PLANNING FOR KIDS

It may seem odd to think about drafting estate plan documents for your kids, but once they reach the age of 18, they are no longer kids in the eyes of the law. Consequently, you lose your legal right to be the default responsible party for medical and financial decisions. This is why it's important that adult children have health care and financial powers of attorney drafted to name someone that can make these decisions on their behalf if needed.

A health care power of attorney is simply a document that authorizes another person (or persons) to make decisions about medical treatment if your child is unable to make those decisions themselves. A financial power attorney serves the same purpose for financial matters. These documents are particularly useful

if your kids will be attending college out of state. If there is an issue with a kid's bill or other financial matter at home, having the power of attorney document can allow you to handle it on their behalf.

Power of attorney documents are drafted by an attorney in a similar fashion to your estate plan documents. Kids need to determine the person who will be in charge of these decisions (with a couple of backup people named in case the primary individual can't be reached for some reason) and what the scope of their authority will be. After a couple of signatures, the process is done, and your adult children are immediately more prepared than they were before.

Life insurance and estate planning are obviously more involved than the brief summary given here, and you should consult qualified insurance and legal professionals before any decisions are made. However, these are two areas of your life that can be extremely impactful to your children's financial futures, for better or for worse.

BE AN ACTIVE FINANCIAL EDUCATOR

This book has encouraged you to find numerous ways to engage your kids in conversation and activities to expand their awareness on financial matters. Hopefully you have found several that will be helpful to you and your family.

If you take only two things from this book, they should be 1) talk regularly with your kids about money, and 2) be a positive role model for them. Involve them in your decisions and help them learn. Your kids will need words of praise when they succeed and words of encouragement when they fail. Above all, try to be a financial partner who will help them figure out how to achieve what is important to them as they start to develop their financial independence.

If you keep financial matters shrouded in mystery, finances will only intimidate kids as they grow older. Whether it's something as simple as having kids do the math in the store to determine which product size offers the best deal or as involved as purchasing the next family car, inviting kids to join the financial discussion helps them grow more confident in their own decisions.

FURTHER YOUR KIDS' FINANCIAL EDUCATION

It's impossible to cover everything anyone would ever want or need to know about finance in one volume. As your kids express their interest in any element of finance, encourage them to dive deeper. Your local library likely has many books and videos exploring every facet of finance.

Many high schools offer courses in financial literacy or economics, where kids can gain a more detailed understanding of the concepts behind the information in this book. Speak with your kids' school to see how financial literacy is incorporated into the curriculum; it may only be offered as an elective course.

MONEY AS YOU GROW

20 things kids need to know to live financially smart lives

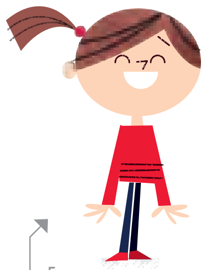
1
You need money to buy things.

2
You earn money by working.

3
You may have to wait before you can buy something you want.

4
There's a difference between things you want and things you need.

3–5 years



5
You need to make choices about how to spend your money.

6
It's good to shop around and compare prices before you buy.

7
It can be costly and dangerous to share information online.

8
Putting your money in a savings account will protect it and pay you interest.

6–10 years

9
You should save at least a dime for every dollar you receive.

10
Entering personal information, like a bank or credit card number, online is risky because someone could steal it.

11
The sooner you save, the faster your money can grow from compound interest.

12
Using a credit card is like taking out a loan; if you don't pay your bill in full every month, you'll be charged interest and owe more than you originally spent.

11–13 years

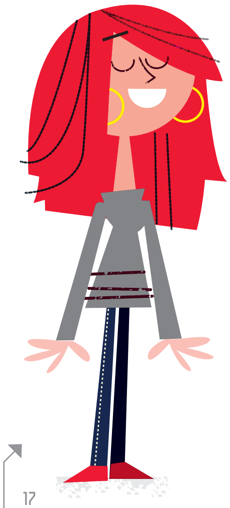
13
When comparing colleges, be sure to consider how much each school would cost you.

14
You should avoid using credit cards to buy things you can't afford to pay for with cash.

15
Your first paycheck may seem smaller than expected since money is taken out for taxes.

16
A great place to save and invest money you earn is in a Roth IRA.

14–18 years



17
You should use a credit card only if you can pay off the money owed in full each month.

18
You need health insurance.

19
It's important to save at least three months' worth of living expenses in case of an emergency.

20
When investing, consider the risks and the annual expenses.

18+ years

There are also finance clubs, periodicals, websites, television programs, and more that engage kids wherever their age and interest levels lie. Allow kids to take the lead as to what subjects and areas of finance interest them.

MONEY ISN'T EVERYTHING

Even though this book has been all about money, *life* isn't all about money. As great as financial awareness and education can be, kids need to keep everything in perspective. These are some ways to encourage kids to maintain a healthy relationship with money:

1. There are going to be ups and downs.

In one moment kids can have a job they are proud of and feel like they are on top of the world, and in the next they could lose that job and struggle to pay their bills. Kids need to understand that these things happen as a part of life, and they will experience difficulties they must overcome. Your kids will look to you as a parent for the emotional support and reassurance needed when times get tough.

2. Your net worth does not define your personal worth.

Kids who use money and possessions as a way to "keep score" will find themselves running a race they have very little chance of winning, and the loser often ends up broke. Encourage kids to do the best they can with the resources they have and to focus on the quality of their life rather than on the quantity of things in their life. This isn't to say that kids shouldn't desire or have nice things; it means they should strive to make responsible decisions with their money and respect the fact that it may take longer for them to achieve their goals than other people they know.

3. There's always a way.

Don't let kids get discouraged when they experience setbacks. Thomas Edison once said, "I have not failed 10,000 times — I've successfully found 10,000 ways that will not work." Encourage them to try something new, take a creative approach, work harder, or find a new path. Help kids figure out what they want to achieve and work with them to devise a plan to get there.

4. Actions have consequences.

Every financial decision can lead to positive or negative outcomes. And just because the outcome of a decision was positive in the past doesn't mean that it can't be negative the next time. Encourage kids to make decisions that reflect their values and goals while carefully considering the pros and cons of each option.

5. Kids have what it takes to be successful.

Your kids will look to you as an example of how things can turn out for the best. Be open and honest about your experiences and help them understand how your struggles made you stronger.

FINAL THOUGHTS

- Participate in your kids' financial lives.
- Serve as a positive financial role model for the behaviors you want your kids to develop.
- Involve kids in the financial life of the family.
- Encourage kids to learn more about money and finance.
- Take steps to adequately protect your family in the event you pass away prematurely.
- Help provide for your kids' college education.
- Raise financially aware kids!

Careful the things you say
Children will listen
Careful the things you do
Children will see and learn
Children may not obey, but children will listen
Children will look to you for which way to turn
To learn what to be
Careful before you say, "Listen to me"
Children will listen
"Finale: Children Will Listen" from Stephen Sondheim's *Into the Woods*

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When is the right time to talk to kids about money?

It's never too early – or too late – to start teaching your kids about money. After all, marketers target young children from an early age to buy the latest toys or novelties, and older kids want to wear the hot fashions or do all the activities with their friends. Teens begin to take on the responsibilities of earning and spending their own money, and by the time they get to college, they are making decisions that will shape their earning potential for the rest of their lives. And, by the time they graduate from college, young adults are expected to be able to care for themselves, regardless of their preparation.

Throughout this process, you will have the opportunity to share and develop family values when it comes to money, work, education, community involvement, and more. Instead of becoming a taboo topic, discussions about money and finance can lead to meaningful conversations that shape your children's understanding of the world while developing skills and discipline that can also carry over to other areas of their lives.

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Special thanks to: Sam Goller & Jack Jonathan

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