Daily Union Article
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Title: Teaching Kids about Money – Part 3 of 3

Teaching young people about money may seem premature to their development, but what they see parents do with their own money and how they make decisions about spending begins their education – even as young as toddlers. Talking to and teaching your child about money is very important, regardless of their age. In previous articles, I addressed the concepts of earning, saving, sharing, and prioritizing. Now a tougher concept – credit (money you never see, but have borrowed to spend.)

Elementary aged children can be introduced to this concept whenever they ask to borrow money to buy something they want. The process of loaning them money can be a great teaching tool about credit. Draw up a contract, no matter the age of the child, which outlines how the loan will be repaid. You can provide a grace period for repayment and charge minimal interest on the loan when that period of time is over if the loan has not been paid off. Lending money to your child in this manner teaches 1) the cost of borrowing, 2) that borrowed money must be paid back, 3) the borrower has to determine if the "cost" of obtaining money in this way is worth it, 4) that there are consequences of buying now and paying later, 5) the process and structure of borrowing, and 6) the idea of credit limits (since you have a limited amount of money you are willing to loan.)

Another concept that you can help your child understand through this learning opportunity is that of **saving** for purchases they want to make. When a savings plan is put in place to make purchases, kids are forced to think about their desire to purchase something as well as determine ways to generate income to pay for the item.

As children approach their teen years, they have likely witnessed you and many other consumers at the grocery store using a plastic card to pay for purchases. Many young adults end up in financial trouble because they receive credit card offers that tempt them to make impulse and excessive purchases. Young Americans now have the second highest rate of bankruptcy, just after those aged 25-44. Teaching children about the dangers and drawbacks of using plastic while still young will help reverse this trend.

Help teens distinguish between a debit card and a credit card. Tell them that the use of a credit card is like borrowing money. Share your credit card bill with your child and have them calculate the interest amount if you did not pay the bill on time. Emphasize that credit cards do not provide "free money." By sharing the bill payment process with your child, they will be able to see that using a credit card involves more than a swipe and a signature. Explain the financial loss that occurs when you carry a balance from month to month on a credit card. Credit card companies allow consumers to make a minimum payment that provides a false sense of security. Card holders think that everything is fine with their credit card as long as the minimum payments are being made. Help your child understand that the practice of NOT paying credit cards off monthly could be taking them into more debt than they can afford. An item purchased on a credit card where only minimum payments are made can end up costing hundreds, if not thousands, of dollars more than the original purchase price of the item.

Debit cards, on the other hand, can help teens have a better understanding of managing the money they have, versus the money they "borrow" with a credit card. The use of a debit card will help them learn to live within their means while also giving them the convenience of not carrying cash or using checks. In my own experience, though, it has made it more difficult to teach them about prioritizing purchases and avoiding impulse purchases. Working with your children to create their own spending plan will help guide them with spending money, whether through use of a debit card, check, or by paying with cash.

As you begin to teach your children about money, here are some general guidelines to keep in mind:

Guide and advise your children rather than dictate and direct. Empower your child to make their own decisions, giving them more freedom with these decisions as they mature.

Give praise and encouragement rather than criticism. Kids will make mistakes just as adults have. Giving them the opportunity to learn from mistakes is a very effective tool in helping them understand how to manage money. Kids will also have successes. Celebrate these events with praise and affirming words.

Include all family members in money management discussions. When you talk about money decisions openly, they can better understand the rationale behind your own money decisions. Additionally, include your children in some of the money decisions you make. For example, if you are planning a family trip, ask your kids what they would like to do and together make decisions about how those activities would be paid for. You might find yourselves prioritizing activities and determining that you can't afford to do all of them.

Don’t be afraid to dream with your kids. Share your desire to have things you can’t afford. Your children need to know that you have to say “no” to yourself, just like they have to with their own money decisions.

For more information about money management and financial literacy for youth, contact me at the Geary County Extension office at 785-238-4161. Until next time, keep living resourcefully!