



## How to teach your kids the value of a dollar

'Today' financial editor Jean Chatzky offers advice to parents on how to raise financially responsible teenagers

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As the mother of two children, neither of whom (thank goodness) have hit their teenage years quite yet, I am keeping a list of those things my kids will have to know more about — or at least understand in a different way — than I did at their age.

There's Internet safety. A souped-up college application process. Sex (gulp). And money.

Today, I think I'll stick close to my comfort zone and focus on the last topic.

Last week, the Charles Schwab Foundation released its annual survey on Teens and Money, and it shows that although kids are acting financially, in many ways, as adults do, they don't have the appropriate knowledge to guide their behavior.

"Kids today are taking on more sophisticated money habits, yet they don't understand the implications," says Carrie Schwab Pomerantz, president of the Schwab Foundation.

According to the survey, six out of 10 teens age 13 to 18 know how to spend money — and not just cash. However, only four out of 10 know how to balance a checkbook. This is a problem. If your kids aren't tracking what they spend, they'll find their money flows through their fingers far too quickly.

Also, they'll find it's way too easy to withdraw more money than they actually have and get swamped with overdraft charges. You can learn to balance a checkbook in a few hours. It's just simple math.

According to JA Worldwide (formerly known as Junior Achievement), 11 percent of teens have credit cards in their own name, and 6.2 percent of 13- and 14-year-olds have their own plastic.

With this in mind, it's important to teach teens what interest is — the percentage of your purchases you pay for the privilege of borrowing money from the credit card company — and how quickly it can add up.

Pomerantz notes that kids also don't understand the fees and penalties that come with not paying their credit card bills on time or going over their spending limit. So, print out a few online credit card applications as examples. The required Schumer Box displays details such as the interest rates, late fees, penalty fees and grace period. Warn against paying the minimum balance.

For example, a \$1,000 balance on a card with an 18 percent rate will take more than seven years and cost an extra \$516 to pay off if you make only minimum payments. Tell your teen he'll be 25 by then. That should hammer the message home. Finally, explain how truly useless reward cards marketed to students tend to be. With a spending limit of \$500, earning enough points for a plane ticket to use for spring break is tough — if not impossible — to do.

If you haven't started your teen on an allowance, I'd recommend it. Consider it an introduction to a paycheck, says Hollis Harman, author of "Money Sense for Kids" (Barron, 2004) and president of kidsfinance.com. The idea is to give your teen a part of the money you already spend on him or her, along with some direction on what it's to be used for.

Harman recommends teaching your teen to save 10 percent of that allowance so it will seem natural to save 10 percent of the first paycheck as well, to save 20 percent for bigger purchases to come later and to live on the other 70 percent. Then require your teen to pay for some of his or her recurring expenses, such as meals out or cell phone bills.

"Teens will begin to feel the reality of living day to day and how much things cost," says Harman. "If they get a latte every day they go to school at \$3 a pop, then that is \$15 a week they don't have for the manicure and pedicure. So which do they want? You'll have transferred some of these expense choices onto them."

Oh — and one other thing — when they blow this budget (and they will) don't bail them out. They have to suffer a bit to take these lessons to heart.

Investing in the stock market is a good way to make money — and an important skill to have for their future. But explain to them that, despite you and the parents of their friends making a lot of money on Google, such opportunities come rarely.

Explain to them the value of diversification — of not putting all their eggs in one basket. But above all, stress consistency. If you keep investing from your 20s until your 60s, come retirement, you'll be just fine. If you start when you're a teen, you'll be finer than fine. After all, the days of living off pensions in retirement are numbered.

And Social Security seems like a not-so-sure thing. Investing for retirement is going to be your kids' responsibility. Explain to them if they can muster \$100 a month — less than \$25 a week — and put it into a brokerage account where they earn an 8 percent return, they'll have \$350,000 40 years down the road. That's what most people can expect if they start this habit when they get their first job. But what if they start 10 years earlier and invest the same \$100 a month from age 15 to age 65? That little nest egg is worth \$800,000. Their mouths will drop.

Finally, it's important to point out that it's not just what you say to your kids that matter, it's the behavior you model for them on a day-to-day basis. One quarter of the teens surveyed by Schwab said their parents often lecture them about money — but then don't practice what they preach.

I've always felt that the most important money lesson you can teach your kids has much more to do with good parenting than good financial management. If your kids have the opportunity to see you dealing with the choices in your own lives — if you let them in on the fact that you'd like the BMW but can only afford the Honda, so that'll have to do — they'll have a much easier time dealing with the fact that they, too, can't have everything they want when they want it.

*Jean Chatzky is an editor-at-large at Money magazine and serves as AOL's official Money Coach. She is the personal finance editor for NBC's "Today Show" and is also a columnist for Life magazine. She is the author of four books, including "Pay It Down! From Debt to Wealth on \$10 a Day" (Portfolio, 2004). To find out more, visit her Web site, [www.jeanchatzky.com](http://www.jeanchatzky.com).*

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