

# Talk money with your kids everyday

Recent survey shows financial matters are a taboo topic in many households.

Published: 00:04 August 2, 2008  
By Jennifer Maciejewski, Financial Times



SHARE

When it comes to financial literacy in the US, today's graduates fail to make the grade. Asked about basic financial concepts, high school seniors correctly answered only 48 per cent of the questions, down from 52 per cent in 2006, according to the Jump\$tart Coalition's recent survey on financial literacy. College students didn't fare much better, with college seniors scoring a 65 on their survey, administered for the first time in 2008.

Why do so many miss the mark?

It starts at home. Whether they lack confidence in their own money management skills or assume that their children's schools will cover it, many parents don't talk about money with their kids, and those who do often miss the fundamentals.

"A lot of the basic stuff is overlooked by parents just because they assume that their kids know it, and they don't," says Janet Bodnar, author of Raising Money-Smart Kids. "Why would they? Unless you tell them, there is no reason they would know that your family insurance bill is going up by \$1,000 a year just because they start to drive." Before they leave the nest, boost your brood's financial literacy with these 10 money management lessons.

Based on recent survey results, it appears that money remains a taboo topic in many households. Make it part of your family's daily conversation. The financial facts of life:

**1. Balance a chequebook** As soon as teenagers start earning income from a job, it's time open a bank account, even if it's a joint account with a parent, says consumer adviser Clark Howard, author of Clark Smart Parents, Clark Smart Kids. Teach them how to write checks, use a register and reconcile their account with their bank statement.

Mistakes will happen, so look for kid-friendly options, such as accounts that charge teens lower overdraft fees. And though he refers to them as "piece-of-trash fake Visas" on his radio show, debit cards are a good choice for teenagers, Howard concedes. Because there's a finite amount of money they can tap, it's like training wheels for credit cards.

**2. Budget money** Over a third of the college students surveyed had paid a credit card bill late, and while some just forgot to pay it, others put off writing a check because they ran out of money. Start teaching your kids how to budget their money as soon as they bring home their first paycheck. Before they go away to school, have them set up a budget for expenses. It will increase their awareness about money flows, ingoing and outgoing. After graduation, show your children how to make a household budget. Using the starting salary of their chosen profession as a guide, have them calculate their after-tax income and then figure out how much they can actually afford to pay for the basics, such as rent, food, utilities, insurance and transportation, as well as vacations and entertainment.

**3. Finance college** Don't forget to factor student loan payments into the monthly budget. Of the college students surveyed, two-thirds carry some student loan debt, with 70 per cent of those students shouldering \$10,000 or more. To keep your teens from getting in too deep, work the numbers together. Tell them how much you will kick in toward their college expenses and help them figure out a plan for covering the rest. If their answer is "student loans," Bankrate's calculator shows the true cost of a loan, which may help your children understand this is not easy money.

**4. Establish credit** College loans make up only part of the debt load that students carry after graduation. Because two-thirds of college students surveyed have one or more credit cards and 83 per cent got their first one by the end of their freshman year, it's easy to graduate owing thousands more. "They hand them out like candy on college campuses," Howard says. "I look at it as part of the freshman year survival kit: Don't flunk out, don't get arrested and don't take on debt." Although Howard advises against freshmen or sophomores having credit cards, he does encourage college students to apply for two during their junior or senior years. "It's the only time in your life that someone will give you credit with no proof of income and no credit history," Howard says.

**5. Identify wants and needs** Because some teenagers think of credit cards as free money, remind them that when they charge something, they're taking out a loan that must be repaid. As such, they should only use credit cards to meet their needs, not their wants. Some 11 per cent of high schoolers surveyed thought it was OK to borrow against future income to go on vacation or buy sale-priced clothing. "Kids need to understand the many factors you consider when you make a financial decision," says Brette Sember, author of The Everything Kids' Money Book.

**6. Deal with debt** Whether they racked up debt buying pizza and beer or charging car repairs, a third of college students surveyed have an outstanding balance of \$1,000 or more on their credit cards, and half carry a balance some or all of the time. While paying the minimum looks like the easy way out, plug the numbers to find out the true cost of debt. Assuming they charge nothing else, it'll take nearly 22 years and over \$4,100 in interest to pay off a \$3,000 credit card balance with an 18 per cent interest rate if they only pay the minimum. "It's a real eye-opener," says Bodnar. "It does a lot more than even lecturing kids on credit because they might forget the lecture, but they will remember this."

**7. Pay taxes** Of the college students surveyed, only a third prepare their own taxes, leaving the vast majority ignorant of the basics. When it's time to file a tax return, don't do it for them. Teach them the ins and outs of the system by making them an active part of the process.

**8. Consider all costs** For many teens, buying a car is their first major investment. But few understand the true cost of ownership, and they often leave expenses such as maintenance, repairs, gas and insurance out of their savings plan. Even if you're planning to cover most of the costs so that they can focus on school, not work, break down all of the expenses, from how much the family's insurance premium increases when they're added as a driver to the cost of new tires. And make them responsible for paying a portion of the expenses, especially gas. "It's a great budgeting tool," says Bodnar, whose son, a freshman in college, has bought his own gas since high school.

**9. Save for the future** While teens see the value in saving for a car, few have the ability to see 30 years down the road. Although 80 per cent of college students surveyed have savings accounts, most admit that they lack adequate savings, with 60 per cent saying they have slightly less or much less set aside than they should at this phase in life and a mere seven per cent having any form of retirement account. To motivate them to save for the future, use a compound interest calculator to show them the "miracle of compounding," says Neale Godfrey, author of Money Doesn't Grow on Trees. To add even more diversity to the portfolio, Godfrey advises young adults to buy and hold stock in the companies that make the products they use every day.

**10. Stretch a dollar** Even young children can learn the value of a dollar. "Don't make money the biggest secret in the household," Godfrey says. "Get them engaged in the process." Give young kids an allowance and make them responsible for some of their expenses so that they learn how to set priorities and manage their money. Interactive websites such as www.kablinga.com specialise in teaching youngsters the value of money in a fun way. Teens with part-time jobs should pitch in, too, saving money for college or their senior year expenses, such as their prom outfit and their class ring.

When it's time for back-to-school shopping, set a realistic budget and involve them in the buying process.

"Kids will spend unlimited amounts of money as long as it is yours," Bodnar says, "but when their money is on the line, it is a whole new ballgame."

- Bloomberg

By Sophia Grene

There is a boom in financial education, supported by governments, international agencies and the financial services industry globally.

In some countries and in some US states, financial literacy is a required part of the school curriculum. Elsewhere, there are programmes targeting university students or young people who have fallen out of the educational system.

People in work may be offered seminars or online tutorials about how to manage their pension provision, while many agencies offer advice and education to those in crisis situations, such as unmanageable debt.

In the UK, the Personal Finance Education Group (Pfeg), supported by education, business and government, aims to help schools ensure young people have the skills they need "to participate fully in society", while the Financial Services Authority is working on a five-year plan 'Towards Financial Capability'.

The latter being largely focused on education, the FSA commissioned some research into the most effective form of financial education and asked the researchers to come up with an idea of how people are likely to be affected by different forms of financial education.

The conclusion was that there has been little work evaluating the impact of any of the financial education initiatives across the world; what work there was seemed to show that at best the impact was positive but small.

This means, according to some commentators, the approach of educating consumers and using regulation to ensure consumers have access to information may not be ideal.

Lauren Willis, an associate professor at the Loyola Law School in Los Angeles whose work was cited in the FSA research, is prepared to go further.

She has written a paper entitled 'Against Financial Literacy Education', in which she examines the evidence that financial literacy education is useful, finds it wanting, and proceeds to question whether it is even realistic to expect it to be productive.

"Financial literacy education seemed to be an excuse not to do the hard work," she says, explaining this is because it puts all the responsibility for good financial outcomes on the consumer, who in many cases cannot realistically be expected to understand the complex products available in today's market.

### Over-confidence

Although it may seem counter-intuitive, she even claims that financial literacy education may be damaging.

"There is some evidence that people come out of these programmes thinking they know how to run their own finances, and when you ask them to sit down and design their own retirement plan, they can't do it. They're over-optimistic, and that's dangerous."

She advocates education that focuses on instilling more generally useful principles than specific details. "Teaching people how little they know and how the interests of people selling products can affect them, understanding the psychology of marketing: that could be very powerful."

### FILED UNDER

GulfNews › Business › Sectors › Investment

### ALSO IN

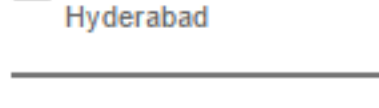
### INVESTMENT

Al Baha to buy retail operator with \$39m shares

### FRAMED GALLERY



Pictures: Metro takes shape in Riyadh



Irani chai a hot hit in Hyderabad

### BUSINESS VIDEOS



Dubai residents on gas increase



Tour of the DWTC kitchens

**MOST POPULAR**

VIEWS COMMENTED VIDEOS PICTURES

- 01** Abdullah Bin Zayed receives New Zealand minister
- 02** Best remittance options from UAE
- 03** The best country to 'buy' a second passport
- 04** Al Baha to buy retail operator with \$39m shares
- 05** UAE foreign minister set for 2-day India visit

**WORLD, UAE MARKETS DATA**

OVERVIEW	GCC	EUROPE	ASIA	U.S.
	Last	Chg	% Chg	
Dubai	3,558.82	16.68	▲ 0.47	▲
Abu Dhabi	4,386.92	-22.06	▼ -0.50	▼
Kuwait	5,709.81	43.61	▲ 0.77	▲
PDS	1,214.63	-31.00	▼ -2.49	▼
DJI	16,102.38	-272.38	▼ -1.66	▼
BSESN	24,893.81	-308.08	▼ -1.22	▼

1D 1WK 1MTH 1QTR 1YR 5YR

As on 2015-09-07 15:50:20

**PROPERTIES FOR SALE**



**APARTMENT** AED 970,000

Jumeirah Lake Towers, Dubai, United Arab Emirates

Bedrooms 1

---



**TOWNHOUSE** AED 4,574,960

Meydan City, Dubai, United Arab Emirates

Bedrooms 4

**GN property**