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Feature Story

Demystifying the Magic Plastic Card
How to Teach Your Kids about Credit
By Brette Sember

If the recent credit crunch is any indication, many of us headed into the world with very little understanding of how to use credit responsibly. In fact, the average U.S. household currently carries about \$8000 in debt on a total of 12.71 credit cards per family.

We devote a lot of time to religious education, music lessons, sports camps, dance lessons, not to mention SAT prep courses and tutors to help our kids learn and grow, yet most parents spend little to no time helping kids learn about money and credit.

Start Young

Your five year old doesn't need to know a lot about credit. At this age, he's still learning how to count money and discovering how to spend it. Instead, help your preschooler learn to save. If he gets \$20 for his birthday, suggest he save half and spend half. Start a piggy bank or open a savings account for your child. Learning to save is an important skill, and one that does not come naturally to many kids. Saving is, after all, a kind of impulse control. Just as you probably don't let your child eat all his Halloween candy in one sitting, you shouldn't let him spend all his money at once either.

Young, school-age children can start to understand the concept of credit. When your child sees you use credit cards, explain how they work. Tell your child that the credit card allows you to buy things now and pay for them later, at the end of the month. Then give your child a concrete example: if he buys a ten-cent piece of gum from you every day of the week on credit, he will owe you seventy cents at the end of the week.

Encourage Kids to Think Critically about Money

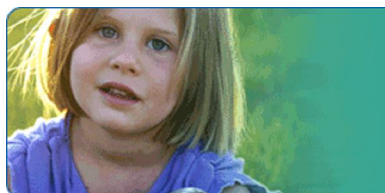
Your elementary and middle school-age kids understand how money works, but they still need to be taught how to think about cash flow. Explain how you stick to a household budget, which means you can't run out and spend every paycheck on clothes, video games, or candy. If you did, you couldn't pay for electricity, gas, or food. Encourage your child to make thoughtful purchases and avoid impulse spending, and expect her to create and maintain some savings. Praise her for wise financial decisions that help her savings grow.

If your child wants to purchase something she can't afford, allowing her to borrow from you is fine, as long as you set up and enforce a repayment schedule. You may even want to charge her interest to teach her about credit in a hands-on way. If your child wants to buy a \$25 item, but only earns \$5 a week in allowance, it will take her five weeks to pay you back (more if she misses a payment and you charge her interest).

Model Wise Money Management

Be sure to talk to your kids about the financial choices you make. Take them to the grocery store with you and explain why you're using coupons or buying the store brand. Whenever you use your credit card to pay, explain that if you don't pay the bill at the end of the month, your groceries will end up costing even more. With a little guidance, your kids will learn to resist the lure of easy money that credit promises. And they'll come to know, as you do, that the only magic trick your plastic credit card can perform is to make your bills larger if you don't pay them off each month.

Brette Sember is a former attorney and mom of two children. She is the author of The Everything Kids Money Book and The Complete Credit Repair Kit. Visit her at www.BretteSember.com.



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