The Basics

10 vital money lessons for teens

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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 then 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 that this is not easy money. FinAid offers a more extensive set of calculators for student loans with varying terms.

Seeing that they'll be on the hook for $575 a month for 10 years if they take out $50,000 in loans may give your children an incentive to look for ways to cut costs. They might consider commuting or attending a state school. (See "How much college debt is too much?")

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% 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." (See "Confessions of a credit card pusher.")

Although Howard advises against freshmen or sophomores having credit cards, he does encourage college students to apply for two cards during their junior or senior year. "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.

Identify wants versus needs

Some teenagers think of credit cards as free money, so remind them that when they charge something, they're taking out a loan that must be repaid. They should use credit cards only to meet their needs, not their wants. Some 11% of high schoolers surveyed said it's OK to borrow against future income to go on vacation or buy sale-priced clothing. (See "Needs vs. wants? Listen closely to your elders.")

"Kids need to understand the many factors you consider when you make a financial decision," says Brette McWhorter Sember, the author of "The Everything Kids' Money Book."

"It just looks too easy to a child when you make the purchase. They don't see all the thinking you've done to get you to the point where you do whip out the plastic," Sember says. (See "Taking charge of your credit cards.")

Costs are increasing. Will you lose out if you save a lot? Should you keep money in your child's name?

Deal with debt

Whether college students racked up debt buying pizza and beer or charging car repairs, a third of those surveyed had an outstanding balance of $1,000 or more on their credit cards, and half said they carried a balance some or all of the time.

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Though paying the minimum looks like the easy way out, you might be surprised to learn the true cost of debt. It could take more than 20 years and more than $4,000 in interest to pay off a $3,000 credit card balance with an 18% interest rate if a debtor paid only the minimum.

"It's a real eye-opener," says Bodnar, who is also the author of Kiplinger's Money-Smart Kids column. "It does a lot more than even lecturing kids on credit, because they might forget the lecture, but they will remember this."

Pay taxes

Of the college students surveyed, only a third had prepared their own taxes, leaving the vast majority ignorant of the basics. A mere 39% knew that interest earned from a savings account is taxable, while fewer than half understood that when your salary doubles, your taxes also double, at least.

Starting with the first paycheck, sit down with teens and explain what's on the stub, showing them where their money goes. To estimate withholding on a higher salary, use the 25% rule: 10% for federal taxes, 10% for Social Security and Medicare, and 5% for state taxes.

Continued: Teach them to file their own tax returns

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