WESTCHESTER family

FINANCE 101: START FINANCIAL EDUCATION EARLY
By Lisa Santo

Parents need to ensure that their children are fully prepared for all aspects of adulthood. During troubled economic times such as these, that is especially true for helping our children become financially prepared.

That does not necessarily mean money in the bank — although the importance of savings cannot be overstated — but how to save, use credit cards, or borrow money. Kids need to learn the fundamentals of financial responsibility.

While college, jobs, and home ownership may be more than a decade off, financial knowledge will set kids up for long-term success. It will help them maintain personal stability, and help them succeed professionally. Conversely, lack of this knowledge will ensure difficult times. How can one successfully run a business if money management is not second nature?

It's never too early to teach "money IQ." Here's how:

When they're small:

• Consider a ticket system (children save "tickets" and redeem them for privileges like watching a movie or buying a toy) to underscore the importance of long-term savings.
• Give an allowance to teach budgeting and financial discipline.
• Include them in household purchases to model smart shopping.

During their teens:

• Open a checking account.
• Use a credit card.

By college, they should:

• Know their credit score. Employers conduct a credit report before hiring. Banks do before providing a loan. Home and car insurance rates are based on it. Kids should understand building and maintaining credit.
• Know their statements. Online or by mail, be it credit card bill, mortgage statement, or 401K report, these documents contain vital financial information. Banks make mistakes; we should catch them.
• Know their savings rate. From the first paper route, savings is vital. Maxing out contributions to a 401k and contributing to a Roth IRA are crucial for young adults in the workplace. Teach children the beauty of 50 years' worth of compounded interest, and how a relatively small amount of savings left untouched can ensure a happy retirement.
• Know how to borrow. We seek bargains at the mall, and we "shop" for money to borrow by comparing interest rates, prepayment penalties, variable vs. fixed rates, etcetera.
• Know their financial advisor. Granted, kids will only need a financial advisor when they get serious about saving and investing, but that financial advisor can provide unique expertise in achieving prosperity.

This isn't a complete guide for parents and kids, but it's a good start. It's never too early to teach a financial lesson to your child. They'll thank you later on.

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