Finance 101
Start financial education early

by Joseph Matthews

April is financial literacy month. It's a good reminder that we parents are responsible for teaching our children how to become financially literate and start saving money. Why? Because in a veritable blink of an eye, it will be time for our offspring to buy their first home.

Money in the bank is excellent - the importance of savings cannot be overstated - but we also need to teach our kids how to use credit cards, borrow money, and invest. Kids need to learn the fundamentals of financial responsibility.

While home ownership may be 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 could result in difficult times. How can one own a home — or successfully run a business, for that matter — if money management is not second nature?

It's never too early to start Finance 101. Here's how. When they're young, you should:

• 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.

• Later, shift savings into the real world. Teach them that from the first paper route, savings is vital. 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.

• Give an allowance to teach budgeting and financial discipline.

• Include them in household purchases to model smart shopping.

• It's never too soon to start teaching kids to give back. Take your toddlers to the local shelter and encourage them to donate some of their toys. Or have them help serve a meal. They can help clean up a park or beach. When they are older they can give the proceeds of a lemonade stand or garage sale to charity. At any age, they can be taught to save a portion from every week's allowance that will eventually become a donation.

During their teens, they should:

• Open a checking account.

• Use a credit card.

• Discuss taxes. They should know that they can't keep everything they earn.

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 :aining credit.

Know their statements. ıe or by mail, be it credit ɔill, mortgage statement, 1(k) report, these docu- s contain vital financial nation. Banks make mis- , we should catch them.

• Know how to borrow. We seek bargains at the mall, l we "shop" for money to row by comparing interest :s, prepayment penalties, iable vs. fixed rates, etc..

en they start their t job, they should:

• Begin maximum contributions to a 401(k). Maxing out a 401(k) and contributing to a Roth IRA are crucial for young adults in the workplace, and if they start right away, they won't miss the extra spending money.

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

Joseph Matthews is a Financial Advisor with the Global Wealth Management Division of Morgan Stanley Smith Barney on Post Road in Fairfield. He can be reached at 203-319-5165 or by email at joseph.matthews@morganstanley.com.