



CENTRE COUNTY PREVENTION COALITION
A SAMHSA Supported Drug-Free Community Coalition
Led By Centre County Drug and Alcohol



October 29, 2008 – Financial Literacy for Kids

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The financial crisis our nation currently faces illustrates well the need for financial literacy in our country. Too many people bought a home with a mortgage they could not afford and are now unable to make their monthly payment. While some people believe they were misled by their mortgage broker, many borrowers simply did not know what they could afford. They had never made a list of their monthly income and living expenses and calculated their maximum mortgage payment. They had no budget. During the twenty years I have been an Investment Advisor, I am always surprised by the number of clients who do not have one! “How can I be out of money when I still have checks” rarely produces a happy outcome!! To make better financial decisions, make a commitment for your family to meet, including your children, and compile a budget. You will be setting an important example.

Begin with your checkbook register or the last twelve months of bank statements. Help your children make a list of the living expenses they consider necessities: rent or mortgage, food, electricity, etc. and compare it to your family income. They will need to differentiate between what they need and what they want. Next, discuss with them how to allocate the remainder; their college education savings account (529); IRAs; Charity; a family vacation; a new flat screen TV; a new car? Help them understand the impact of their selections both in the short term as well as over the next two to ten years.

If their goal is a new TV, have them do the math so they know how much money your family will need to save every month to purchase it. If the retailer is offering a discount or special payment options, read the fine print and discuss it. “Twelve months same as cash” can be very attractive if – IF – you make the payment in full at the end of the twelve months. Unfortunately, too many people fully intend to save the money but on the due date find they must make monthly payments as well as pay high interest charges.

Apply the same strategy with their allowance and earned income. If you help them create a budget for their personal finances, they will learn how to allocate their money to achieve their goals. And, remember to praise your children when they reach their financial goal. It is a powerful reinforcement and helps them overcome their need for immediate gratification.

Most teenagers, and even college students, do not know how their family’s income is spent. As a result, when they leave home, they do not know how to allocate their income. Their learning experiences are often very painful: unmanageable credit card debt, living expenses that exceed their income, and imprudent investments. In almost every case, they turn to their parents for a “bail out.” You can avoid the experience by teaching your children how to budget their money.

I have watched as my clients raise their children from elementary grades to having families of their own and I know those who understood their parent’s budgets have made much better financial decisions in their adulthood.

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