

# Opinion: Young adults need to understand finances

By Mark Hanson

As children blossom into young men and women, most insist on planning and running their own lives. Parents worry about all the basic essentials for their kids' independent living, like housing, eating properly, staying warm, being careful at night and more.

But most parents forget to teach their youngsters one of the most important lessons of all – financial responsibility. The resulting turmoil can spell disaster for a child's future.

Consider this: The average young adult amasses \$45,000 in debt by the time they turn 29, according to a recent PNC Bank report.

This generation of 20-somethings was raised during an economically-thriving period. Undisciplined spending habits, student and car loans, and a tough job market have stymied their financial growth. Perhaps the worst culprit is financial ignorance, but we can count this as a lesson for future 20-somethings.

For young people, organizing finances can be intimidating to the point of prohibitive.

We need to have a curriculum in schools, from kindergarten through 12th grade, that ensures our kids graduate with financially literacy. From balancing a checkbook to understanding what it means to pay – and earn – interest, kids need basic money management skills to survive in the world, and most aren't getting them.

All teens should know and practice so they can control their

financial destinies:

- Saving for dreams – the three-envelope method: Use the first envelope for your day-to-day expenses: gas or lunch money. Pause before blowing this money at the movie theater or a fast-food restaurant. Envelope No. 2 is for short-term goals, which might be clothing or a new laptop. The third envelope is for long-term goals such as a car, college or a “future millionaire club” fund.
- How to create a budget: A budget lets us know what’s possible, and not possible, with money. There are six steps to creating a budget. 1. List all of your expenses. 2. List all income. 3. List monthly expenses. 4. Add up these lists separately. 5. Tweak your budget so you can meet your expenses with money left over for savings. 6. Review your budget every week.
- How to set and follow through on goals: First, figure out what your current finances are, then determine what they will be in the future – one year out, then two years out, then four years later, etc. How will you get to your one- or two-year goal? You need a plan, and most of the time that means either earning more money, spending less, or a combination of the two. Finally, you have to stick to your plan in order for it to work.
- Understanding interest rates, such as credit cards: Interest is a fee paid for using someone else’s money. Simple interest is straightforward: 5 percent accrued in your bank account with \$100 yields \$5 in interest at the end of the year. Compound interest, however, means ever-increasing amounts. This is crucial to understanding debt you may take on from lenders. Know what you are borrowing, and the terms thereof. Just as your money can work for you in a bank account, money borrowed can work against you if it is not paid back in a timely manner.

- How to write checks and balance a checkbook: These days, it's easier than ever to review accounts online, which automatically tracks exchanges. However, banks do make mistakes, which is why it's wise to track your accounts independently. Ask. Don't be embarrassed. Banks are putting a premium on service and want to establish a positive relationship with young customers. If you have a question, speak to someone at the bank. As you take control of your money, you'll also take control of your life.

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