

Kids need to learn early about managing money

By Karen Cheney, CNN Money

As they regularly remind us, teens know everything. Money is no exception.

In a recent Capital One 360 poll, 87 percent of 12- to 17-year-olds reported knowing at least an average amount about managing finances. Or not. That study also found that 24 percent of them think a debit card is used to borrow cash.

And a Charles Schwab poll found that fewer than a third of teens understand how credit card interest works and four in 10 can't budget.

Parents' money talks with high schoolers tend to start and end with "How much do you need?"

"The more you teach your kids before they go off on their own, the better prepared they are," says Daniel Hebert of Jump\$tart, a coalition promoting financial literacy.

The most critical skills to impart:

Managing on a limited budget

The key word is limited. "Teens need to know that money is finite," says Anton Simunovic, founder of ThreeJars.com, a money-management site for kids.

How to build the skill. Figure out what you're spending for junior's clothing, entertainment, and gifts for friends. "Then give that amount to your kid and let him pay for those things," says Jayne Pearl, author of a series of books on kids and money.

Set teens up with a checking account and debit card, and when they mess up, resist the urge to bail them out.

“It is important to make them responsible for their financial actions while the consequences are not serious,” says Jeffrey Arnett, a psychology professor at Clark University and co-author of “When Will My Grown-Up Kid Grow Up?”

Paying yourself first

“You want to get your child in the habit of putting something aside,” says Stephanie Bell, spokesperson for Junior Achievement USA.

A good goal is to stash 10 percent of every allowance, paycheck, and birthday check. And nothing provides better motivation than an understanding of how money makes money – a.k.a. compound interest.

Use an online calculator to show your teen how compounding works, says Beth Kobliner, author of *Get a Financial Life*. (Try the Simple Savings Calculator at Bankrate.com.) You might also sweeten the pot by offering to match her with, say, \$25 for every \$100 she banks.

Just 9 percent of college kids pay their credit cards off every month, a study in the *International Journal of Business and Social Science* found. Help your child understand the value of being in that minority.

The next time you pay with plastic in your child’s presence, point out that it’s borrowed money and that compounding works against you when you carry a balance. Later, show her your bill, specifically the box illustrating how long it will take to pay off and how much it will cost if you fork over only the minimum.

Make sure she understands, too, that you’re “graded” on your use of credit; regularly paying late, for example, could

result in a higher rate on a car loan. When she's ready for her own card – around age 21 – “ask for a \$500 limit,” says Hebert. Well prepared as your child may be, it never hurts to use training wheels the first time out.