



Do Your Children Know the Financial Facts of Life?

Despite the financial pessimism in today's economy, there is optimism on the horizon. One way that parents can ensure their

children are prepared to navigate through the ups and downs of the economy is to make sure they understand the financial facts of life. Recent news reports indicate that children are some of the major victims of the recession.

April is Financial Literacy Month. One of the best gifts parents can give their children is to sit down with them and explain the financial facts of life.

Begin by teaching them the most important fact—the value of savings. When children learn at an early age to save, they are better equipped to manage their finances and debts conservatively. Teaching them to keep an emergency fund will help them weather any financial storm.

If your child does not already have a savings account, celebrate Financial Literacy Month by taking him or her to the bank to open one. Whenever they receive birthday checks from relatives, encourage them to put at least half in a savings account to save up for the future.

As children get older and earn money from babysitting, lawn mowing or other part-time jobs, go with them to open a checking account. Encourage them to put some of every paycheck into their savings accounts and the rest into checking to help them with their entertainment expenses.

Sit down as a family, and review some of the recent headlines in order to teach your child the difference between “safe” and “risky” investments. Keeping money in a bank is a safe investment, since deposits are insured by the federal government up to \$250,000 per account. Stocks and bonds are considered risky investments; however, they can yield a higher return on investment.

It is also important to help your children understand their net worth:

- **Total assets:** What is owned (home, retirement plan, stocks);
- **Total liabilities:** What is owed (mortgage, credit card balances, car loan, student loans).

Subtract liabilities from assets to determine **net worth**.

Parents differ on the pros and cons of giving children an allowance. However an allowance provides an opportunity

for children to learn money management skills and to experiment without losing too much in the process. They can learn to start saving for long-term goals.

Let your children help you with simple financial tasks, such as preparing deposits or balancing the checkbook. Let them observe as you pay bills, teaching them that debts must be repaid in order to maintain a good credit report. This exercise also will allow you to teach your children the benefits of budgeting, and will help them understand where their parents' money goes and the importance of avoiding overspending.

It is important that teenagers learn the importance of recording every deposit and withdrawal, paying careful attention to ATM withdrawals and debit card transactions. This practice will provide a good foundation to help them when they go off to college. Gone are the days when your local banker would call and say, “Mary is overdrawn again. How much money do you want to put into her account?” Today there are bounced check fees, insufficient funds fees and overdraft fees, all of which can be expensive.

Today's young people are savvy when it comes to using the Internet, but they need to understand the importance of protecting themselves from crooks who target teens. Stress to your children to never give out Social Security numbers, bank card information or passwords to any e-mail request, no matter how legitimate it may seem. These same types of fraudulent requests can also come through phone text messages or in the mail.

Financial Literacy Month provides the perfect time to prepare youth for their financial future.

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