

# MONEY AS YOU GROW

## 20 THINGS KIDS NEED TO KNOW TO LIVE FINANCIALLY SMART LIVES

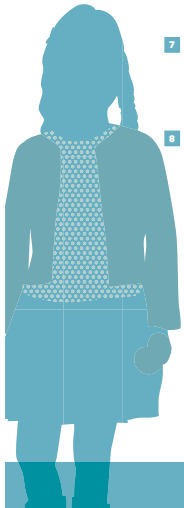
### 3-5 YEARS

- 1 YOU NEED MONEY to buy things.**
  - Identify coins and their value. Discuss how you may value something that is free, such as playing with a friend. Identify items that cost money, such as ice cream, gas for the car, or clothes.
- 2 You earn money by WORKING.**
  - Describe your job to your child. Walk through your neighborhood or town and point out people working, like the bus driver or the police officer. Explain that some people start their own businesses, like clothing stores or restaurants, and those people are called entrepreneurs. Encourage your child to think about how she could earn money by setting up a lemonade or cookie stand.
- 3 You may have to WAIT BEFORE YOU CAN BUY something you want.**
  - When your child is standing in line for a turn on the swings, or looking forward to her favorite holiday, point out that sometimes we have to wait for things we want. Find three jars (or cans) and label one for saving, one for spending, and one for sharing. Suggest that your child put some of the money she gets into the saving jar, so she can buy a toy or treat when she has saved enough.
- 4 There's a difference between THINGS YOU WANT and things you need.**
  - When you are out shopping, point out essentials such as food and clothing, and ask your child to describe items that she may want but are optional. Talk about how your family decides what to buy and what to pass up. Which is more important, buying cookies or fresh fruit? Soda or milk?
  - Draw a circle and divide it into sections for food, rent or house payments, clothes, and "optional items," to show that there is a finite amount of money to spend.



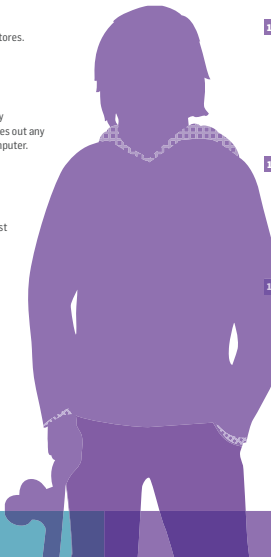
### 6-10 YEARS

- 5 You need to MAKE CHOICES about how to spend your money.**
  - Include your child in some of your small decisions. For example, at the grocery store, explain why you pick one item over another. Give your child two dollars and let her choose which fruit to buy.
  - When shopping with your child, ask yourself aloud: Do I need this item? Can I borrow it? Would it cost less somewhere else?
- 6 It's good to shop around and COMPARE PRICES before you buy.**
  - With your child, compare prices for a particular toy at various online or brick-and-mortar stores.
  - Use coupons and discount cards, and show your child how much you are saving. Consider allowing her to keep part of the savings, if she helps clip or print out coupons.
- 7 It can be costly and DANGEROUS TO SHARE INFORMATION online.**
  - Know the websites your child visits. Decide which websites are appropriate, and block any inappropriate sites using parental control software. Make it a rule that your child never gives out any personal information—like her birthdate, address, phone number, or school—when on the computer.
  - Don't allow her to buy anything online without your permission.
- 8 Putting your money in a savings account will PROTECT it and pay you interest.**
  - Visit a nearby federally insured bank or credit union with your child. Ask about the current rate on a savings account. Discuss with your child how money in savings accounts is protected by federal insurance. If the bank goes out of business, she will get her money back.
  - Open a savings account for your child.



### 11-13 YEARS

- 9 You should SAVE AT LEAST A DIME for every dollar you receive.**
  - Encourage your child to always save 10% of the money he gets. Have your child set a goal to buy something he wants, and have him work toward that amount. To reinforce the savings habit, go to the bank two to three times a year with your child to deposit savings into his account, and look at how much bigger the balance is on each visit. Consider a "matching plan" for your child's savings: You put in 25 cents for every dollar he saves.
- 10 Entering personal information, like a bank or credit card number, online is risky because SOMEONE COULD STEAL IT.**
  - Discuss the dangers of entering personal information online. Explain that thieves can use Social Security numbers or other personal information to open credit cards or create fake documents.
  - Explain that "free" offers online, such as cell phone ringtones or games, are scams to get people to spend money without realizing it. Make it a rule that your child never answers emails from someone he doesn't know and never clicks on pop-up ads. Go to [ftc.gov/idtheft](http://ftc.gov/idtheft) for tips on information security.
- 11 The sooner you save, the FASTER YOUR MONEY CAN GROW from compound interest.**
  - Compound interest is when you earn interest on both the money you save and the interest you earn. Show your child the following: If he sets aside \$100 every year starting at age 14, he'll have about \$23,000 at age 65. However, if he begins saving at age 35, he'll have about \$7,000 at age 65. Assume the account earns 5% every year. To compare compound interest, use the calculators at [investor.gov](http://investor.gov). Discuss how much your child can save. What will he have to give up? Is it worth it?
- 12 USING A CREDIT CARD IS LIKE TAKING OUT A LOAN; if you don't pay your bill in full every month, you'll be charged interest and owe more than you originally spent.**
  - Discuss why you should not use a credit card to buy something that you can't afford to pay for with cash. Look at credit card offers online with your child, and compare the interest rates. Using the Credit Card Repayment Calculator at [federalreserve.gov](http://federalreserve.gov), see how long it could take to repay a \$1,000 credit card debt by making the minimum monthly payments. Discuss how a credit card can be useful for making purchases online, or as a convenience.



### 14-18 YEARS

- 13 When COMPARING COLLEGES, be sure to consider how much each school would cost you.**
  - Point out that college grads earn almost twice as much as people who did not go to college.
  - Discuss how much you can contribute to your child's college tuition and expenses each year.
  - Compare college costs, graduation rates, loan default rates, average monthly loan payments, and employment prospects by using the "College Scorecard" at [collegecost.ed.gov/scorecard](http://collegecost.ed.gov/scorecard).
  - See what schools cost by finding the "net price calculator" on their websites; know that most families don't pay the tuition sticker price. Use the Consumer Financial Protection Bureau's Paying for College tool to compare financial aid offers at [consumerfinance.gov](http://consumerfinance.gov). To estimate your financial aid, use the FAFSA4caster tool at [fafsa.ed.gov](http://fafsa.ed.gov). Go to [studentaid.ed.gov](http://studentaid.ed.gov) to research additional loans, scholarships, and grants, and use the calculators to estimate your monthly loan payments.
- 14 You should AVOID USING CREDIT CARDS to buy things you can't afford to pay for with cash.**
  - With your child, fill out the Income and Expenses budgeting worksheet available at [mymoney.gov](http://mymoney.gov).
  - Discuss why having a savings and spending plan in place could help him avoid using credit cards.
  - Drive home this rule: When you use a credit card, aim to pay it back in full each month; otherwise, you could be charged high interest. Using the Credit Card Repayment Calculator at [federalreserve.gov](http://federalreserve.gov), see how long it could take to repay a \$1,000 credit card debt by making the minimum monthly payments.
- 15 Your first paycheck may seem smaller than expected since MONEY IS TAKEN OUT FOR TAXES.**
  - Discuss the difference between gross pay (before taxes are taken out) and net pay (the amount you take home). Explain that the W-4 form, which you fill out when starting a job, determines the amount of taxes taken out of a paycheck. Explain that tax brackets vary depending on how much you earn. In 2012, single people who earn \$8,700 or less per year pay a tax rate of 10%, for example, and those who earn between \$8,700 and \$35,350 pay 15%. Discuss what taxes pay for, including schools, road maintenance, and medical help for the elderly. Once your child has a steady job, help him set up an automatic savings program so that at least 10% of earnings goes directly into his savings account.
- 16 A great place to SAVE AND INVEST MONEY you earn is in a Roth IRA.**
  - If your child has a job, encourage him to open a Roth IRA (Individual Retirement Account).
  - Explain that a Roth IRA allows the interest you earn to grow tax-free for life. Experiment with different amounts of savings and interest rates. Use a compound interest calculator at [investor.gov](http://investor.gov).
  - Use the "Rule of 72" to estimate how many years it would take to double your money. If you invest in an account that earns 8% interest, you'll double your money in nine years (72 divided by 8 is 9).
  - Explain to your child that once he starts a job, he may be offered a similar account at work called a 401(k). Some employers even provide matching contributions.



### 18+ YEARS

- 17 You should use a credit card only if you can PAY OFF THE MONEY OWED IN FULL each month.**
  - Understand that when a parent co-signs, any late payments you make will also affect their credit history. Paying bills late can hurt your credit history and affect your chances of getting a job.
  - Get free credit reports once a year at [annualcreditreport.gov](http://annualcreditreport.gov). Look for a credit card with a low interest rate and no annual fee. There may be an emergency expense that you can't pay off immediately and need to charge. That's why it's important not to charge everyday items. To learn more about the credit card rules, go to [federalreserve.gov](http://federalreserve.gov).
- 18 You need HEALTH INSURANCE.**
  - Comparison shop for insurance like you would for any other product. If your parents have health insurance, see if you can stay on their policy—with some exceptions, you are entitled to, by law, until you turn 26. Get more information about the health insurance available to you at [healthcare.gov](http://healthcare.gov).
  - Purchase renter's insurance if you lease an apartment, and auto insurance if you own, lease, or rent a car.
- 19 It's important to save at least three months' worth of living expenses IN CASE OF AN EMERGENCY.**
  - Make a list of your expenses (rent, bills, food) to see how much you spend each month; this will help you estimate how much you'll need to save for three months' worth of expenses. Store the money in a safe place, like a federally insured bank or credit union. If you're able to, try saving six to nine months' worth of living expenses, instead of only three. Don't stop once you've built your emergency fund; try to automate your savings so you stash away 10% of your earnings.
- 20 When investing, consider THE RISKS AND THE ANNUAL EXPENSES.**
  - Invest in an IRA or a 401(k) as soon as you have some income. Putting all your eggs in one basket can be a risky way to invest; consider a diverse mix of stocks, bonds, and cash. Compare mutual fund costs: An "annual expense ratio" of 1.5% instead of 0.5% on a \$1,000 investment could cost you almost \$2,000 over the course of 35 years. Ask about index funds, which tend to have low annual fees. Think about your goals: Attending college? Buying a home in 10 years? Purchasing a car in five? Define two financial goals for the long-term future, and make a plan to achieve them. For more information go to [investor.gov](http://investor.gov).

