

# MONEY AS YOU GROW



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

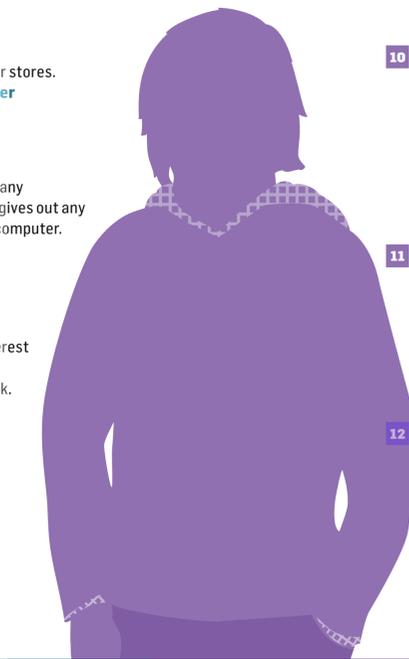
### 3-5 YEARS

- 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.
- 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.
- 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.
- 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

- 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?
- 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.
- 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.
- 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 interest 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

- 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.
- 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.
- 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'd have about \$23,000 at age 65. However, if he begins saving at age 35 he'd have about \$7,000 at age 65. Assume the account earns 5% every year. • **To compute 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?
- 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

- 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. • **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 Cost Comparison Worksheet 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.
- 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.
- 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.
- 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

- You should use a credit card only if you can **PAY OFF THE MONEY OWED IN FULL** each month.
  - **Understand** that when a parent cosigns, 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).
- 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.
- 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.
- 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).