



PENNSYLVANIA ASSOCIATION OF COMMUNITY BANKERS

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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. A recent news report said that children are some of the major victims of the recession.

April is Financial Literacy Month. One of the best gifts you can give your child is to sit down with him or her and explain the financial facts of life.

Begin by teaching them the most important fact—savings. If children learn at an early age to save, they will be 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 an account. Whenever they receive a birthday check from Grandma, encourage your children to put at least half in a savings account to save up for a large ticket item they may want in 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 in their savings account and the rest in their checking account 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 in "safe" investments 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 what we call "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 their child an allowance. However, an allowance provides an opportunity for your child 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 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 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?" Mom or Dad would tell him the correct amount to transfer from their account to Mary's account and that was the end of it, at least until Mom or Dad talked to Mary about her spending habits. Today, there are bounced check fees, insufficient funds fees and overdraft fees, all of which can be a very expensive lesson for Mary—or her parents!

Today's young people are very savvy when it comes to using the Internet. However, it is important for them 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 request via e-mail, 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 for us all to do some spring cleaning on our finances so that we are prepared for any financial bumps along the road.

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