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 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

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** 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'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**. • **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**, 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**.
• **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**. • **To estimate** your financial aid, use the FAFSA4caster tool at **fafsa.ed.gov**. • **Go to 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**.
• **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**, 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**.
• **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 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**. • **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**.

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**.
• **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**.