## Financial Literacy for Children

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Any family with children knows that there is a large financial impact due to the cost of raising a child. From daycare or sports activities to college education, expenses accumulate when adding a new member to the family. The U.S. Department of Agriculture's annual report on the "Cost of Raising a Child" estimates a baby born in 2013 will have an average cost through age 18 of $245,340 ($304,480 with projected inflation). That figure does not include college. For many parents, the financial impact doesn't end at 18 either. Parents who start early to show and teach their child good financial habits will help their child become confident about making smart financial decisions well into the future.

It's prudent to teach children money management starting at a young age. You might want to let your child earn money by doing odd jobs around the house or give them an allowance for set weekly chores. How much allowance is appropriate? It depends on what you expect them to spend their money on. As a child ages, you may expect them to pay for items such as movie tickets, X-Box games, special sports equipment, cell phone charges or snacks. Consider giving the same amount on the same day each week and consider 'raises' for children who manage money well.

A 'piggy bank' is all well and good but as a child gets older, helping them open a savings account can be a great learning experience. One way to assist your child in understanding short-term and long-term money goals is to have them see what money they need immediately and what should be saved for later. You can help them achieve that by having them write down their goals. Do they want to go to the movies this weekend but save up for the family vacation or a hot new pair of sunglasses? Ask your child to write down their goals, what it will cost and how long it will take them to save what they need. If the goal is a large one, you might offer to match what the child is saving as an incentive.

Helping your children understand spending money wisely can be facilitated by having them with you when making a major (or small) purchase. For instance, when car shopping, explain the difference between buying new or used and buying or leasing a vehicle. Just showing the drop in value after driving a new car off the car lot can be educational and eye opening. Giving you child an insight into everyday money decisions can help prepare them for life.

For an older child earning income through a summer job or part-time work, looking at a 529 or Roth IRA may be beneficial. For example, if you or a grandparent have started a college account for your child, ask your child to contribute toward their long-term future. This will give them an understanding about investing and help demonstrate the enormous cost of higher education.

One of the big questions for parents is whether their child should be trusted with a credit card. First of all, in most cases an adult must cosign on a credit card for a person under 21. If you cosign, you are taking on legal liability for the debt and it will be on your credit report. It is a good idea to help your son or daughter get used to credit card debt and the need to pay off the amount each month and not to over extend. Initially, consider using a prepaid spending card or a card with a low credit limit to more easily control spending limits. Have an agreement with your child on how the bill gets paid and what will happen if it does not. Explain the structure of the credit card, the minimum payment (how long it takes to pay off a card only paying the minimum), the interest rate and credit limit. Make a habit of communicating with your child regularly on how to use the card sensibly, such as only for emergencies.

Getting a child started early on financial budgeting, saving and credit can lead to financial success later in life.  An investment of your time now in your child's financial education could help eliminate the possibility of a parental bailout later!

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