Tips to Teach Your Daughter How to Manage Finances

By Zaneilia Harris, CFP August 30, 2018

As you prepare to send your daughters off to college, one of the best gifts you can give as a parent is financial advice to assist her as she navigates life independent of you. Here are four tips to financially prepare your daughter for life on her own.

1. Teach Her to Read a Credit Report

Pull your daughter's credit report from all three credit bureaus: Equifax, Experian and Transunion. I strongly suggest not waiting until college to review it. You should obtain a copy once a year to ensure no one has stolen your child's identity. Then, sit down with your child to teach her how to read the report.

A credit report is organized into four sections: identifying information, credit history, public records and inquiries. Identifying information will show her name, current and past address(es), Social Security number, date of birth, telephone numbers, driver license numbers, employer, and when she gets married, her partner's name.

Credit history will show:

- Names of the creditors with the corresponding account numbers.
- Type of account, such as installment or revolving.
- Total amount of the loan, high credit limit, or highest balance on the card,
- How much is still owed.
- Fixed monthly payments or minimum monthly amount.
- Status of the account (open, inactive, closed, paid, etc.).
- Recent payment history and whether accounts were paid as agreed each month.

Additional comments can include whether or not the account is closed by consumer, internal collection, charged off or in default.

The final section lists all inquiries. This reports everyone who has asked to see the credit report, including you. There are two types of inquiries: hard and soft*. When she completes and submits a credit application, that is considered a hard inquiry. Prescreening for credit offers by new and current companies or potential employers are soft inquiries.

Annualcreditreport.com is a good resource to order your daughter's credit report. It is important to obtain the report from all three credit bureaus annually. Use this opportunity to discuss how imperative it is for her to properly manage her credit. This will help her when she's ready to get her ideal job after college, rent her first apartment, and buy her first car or house. Her credit is the gateway to a solid financial future.

2. Help Her Understand How to Manage Money

Have your daughter use a free tool like Mint (www.mint.com) to track her monthly income and expenses and explain the importance of properly managing her cash flow. Educate her on not overspending and deciphering between wants and needs. Show her the impact of making unwise money decisions. By doing this, it will help her when she gets into the workforce.

Financial stress is a major factor in people's lives. A 2018 study shows that among 1,600 full-time employees, 53% report being stressed about their finances. Across all generations, Millennials, Gen X and Baby Boomers, financial matters were the top cause of stress. Talk about student loans and weigh the cost benefits of specific educational choices and its impact on her future earnings and livelihood. The earlier she learns how to properly handle her money, the better off she will be in life.

3. Encourage Her to Start Saving

When your daughter obtains her first job, help her to open a checking and savings account with a local credit union. I suggest a credit union because they generally provide better customer service because their focus is not on creating the biggest profits, but on creating the best customer service and support possible. Their members, not shareholders, come first. Also, because of the lower fees charged, credit unions are able to offer higher interest rates on deposits and lower rates on loans.

4. Educate Your Daughter on Investing in Stocks

According to a recent article by Glamour magazine, women aren't investing enough. After you have established your child's banking relationship, get her to open a Roth IRA** and an investment account so she can start investing for her future by purchasing stock in companies where she shops. This is a good way to expose her to buying stocks early.

Having her embrace investing early, puts her on a path to building wealth and having choices with how she lives her life. It gives her options.

Learning to manage your finances properly is an important step in becoming independent. There are many resources to educate both yourself and your daughter. The earlier you get started, the more it will benefit your daughter and prepare her for life on her own.

Disclaimer: This article is for informational purposes only.

<u>*Hard Inquiry</u>

A hard inquiry is a type of credit information request that includes a borrower's full credit report and deducts points from a borrower's credit score. These types of inquiries are used in credit approvals and background checks.

*Soft Inquiry

A soft inquiry is a credit report check that does not affect an individual's credit score. A soft inquiry, also called a soft pull, can occur when an individual checks his or her own credit report, when you give a potential employer permission to check your credit, when financial institutions you already do business with check your credit and when credit card companies that want to send you preapproved offers check your credit.

**Definition of 'Roth IRA'

Named for Delaware Senator William Roth and established by the Taxpayer Relief Act of 1997, a Roth IRA is an individual retirement plan (a type of qualified retirement plan) that bears many similarities to the traditional IRA. The biggest distinction between the two is how they're taxed.

Traditional IRA contributions are generally made with pretax dollars; you pay income tax when you withdraw the money from the account during retirement. Conversely, Roth IRAs are funded with after-tax dollars; the contributions are not tax deductible (although you may be able to take a tax credit of 10 to 50% of the contribution), depending on your income and life situation). But when you start withdrawing funds, qualified distributions (see below) are tax free.

Read more: Roth IRA https://www.investopedia.com/terms/r/rothira.asp#ixzz5QoUeJnY7

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