



Consumer Credit Counseling Service
of Maryland and Delaware, Inc.

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Teach Your Children Well: Money Lessons Kids Need to Know Before Leaving Home

(BALTIMORE) In today's material world, young people become consumers at an increasingly early age, spending billions of dollars of their own and their parents' money each year. But having purchasing power doesn't equate with having financial awareness. After answering a 35-question test in last year's U.S. Treasury sponsored National Financial Literacy Challenge, the 46,000 high school students who participated received an average score of 56% (a failing grade). This demonstrates that many young adults are in need of further personal finance education. Those students who fail to learn money management skills before they leave home are likely to confront financial problems and economic hardship later in life. Here are five money concepts that all children need to learn before living on their own:

- **Save now for rainy days.** Saving is a foundation for financial wellness, because it helps us prepare for emergencies and achieve short and long-term goals. Children can learn about saving from a very early age. When they are old enough to ask for toys, books, or video games, show them how to save for the things they want. An allowance is a very good tool for teaching this concept. To help promote this idea, open a savings account with your child at a bank or credit union.
- **Money comes with hard work.** Children need to realize that money is not freely given; it is earned through work. To teach this concept, assign age-appropriate chores and rewards. Ask young children to help with simple tasks like setting the table. As kids grow older, assign harder tasks with more responsibility, such as mowing the lawn or weeding the garden. If you give your kids an allowance, tie it to the successful completion of their assigned jobs.
- **A budget helps you plan.** For most kids, budgeting is a foreign concept. The best way to teach them about how it works is just to show them. To demonstrate this concept to younger children, take a stack of Monopoly money, and explain that this is how much you make every month from work. Then divide up the bills into piles to show how much goes toward food, your home, savings, and charitable organizations. It's important to show that you have a conscious plan for managing your money. Consider including young adults in monthly bill paying sessions. This will give them a realistic understanding of how much living expenses actually cost.
- **Interest adds up when it's compounded.** "Compound interest" simply means that the rate at which your money earns interest increases over time. To help kids understand this concept, start by asking them: "Would you rather have \$10,000 or a penny a day doubled for 30 days?" Believe it or not, a penny a day doubled for 30 days adds up to more than 10 million dollars! While no investment doubles daily, this example drives home why compound interest is important. The CCCS of MD & DE web site (www.cccs-inc.org) has an interactive Financial Tool you can use to demonstrate how compound interest works.
- **Use credit cards wisely.** Children need to be taught from an early age that credit cards are not free money. Use age-appropriate lessons to teach how credit works. Help older children understand the costs of credit and the importance of making more than minimum monthly payments on credit cards with this example: Say your credit card carries an interest rate (APR) of 16% and you owe \$3,500. If you don't charge anything else and make \$120 in payments each month, it will take 37 months to pay off what you owe. You will have paid nearly \$4,430 -- or about \$930 in interest alone. Also encourage teens in your family to visit the CCCS of MD & DE website resource page and view our educational video "How to spend the Rest of Your Life ... Now That You're on Your Own."

When it comes to financial literacy, young people can use all of the help they can get. Advocate making financial education a mandatory graduation requirement for all high school students. Ask your local PTA to place financial literacy on the agenda for its next meeting. Contact those who determine what's included in course content. The money management lessons your children master now will help them long into the future.

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Consumer Credit Counseling Service of MD & DE, Inc. (CCCS) is an accredited 501(c)(3) nonprofit agency that has served the local community since 1966. CCCS is dedicated to helping individuals and families resolve their financial problems. We promote the wise use of credit through education and confidential budget and money management counseling. Please call **1-800-642-2227** or visit our website at www.cccs-inc.org to find out more. Maryland State License #14-01.