Teaching your children about money

Learning through Imitation

Children are learning all the time, even when parents are not trying to teach. Children watch adult behavior and imitate it. So, like it or not, your attitudes and habits will rub off on your kids. Poor consumer habits are very contagious. Parents must watch what they do as well as what they say.

Learning by doing

Having money to manage, through earnings or allowance, is crucial. Parents are often afraid that children will waste money, so they limit their choices by selecting what they can and cannot buy. But when adults make all the decisions, the child will not learn which toy is the best value. But, if the child buys one that falls apart instantly, she or he will remember. Children learn by their mistakes, just as adults do. It is better to make $5 mistakes on toys now than $1,000 mistakes later.

Learning together

Parents shouldn't neglect the educational value of unpleasant family financial events either. Children need to know how to deal with a sudden loss of income or an unexpected debt. Children will need sound financial skills all the more in such circumstances. In these economic times, when so many families are so hard pressed, opportunities to demonstrate the effects of heavy spending and heavy borrowing will undoubtedly arise.

Many adults have learned their skills the hard way, but are determined to protect their children from financial hardships that they raise sons and daughters who never acquire the discipline of money management.

Daughters need financial education just as much as sons. All children need to learn to take care of themselves financially.

Love and money

On a deeper level money may take on dangerous significance for children because they easily associate it with affection and approval. Parents must be careful not to let this simplistic connection bloom into an inflexible cause-and-effect relation of love with cash. ("You won't buy me that bike because you don't love me anymore!") Gifts of money and toys show your affection for your child quite legitimately as long as they're not the **ONLY** way you show it. Plenty of verbal approval, lots of hugs and kisses, and above all, attention to your child's concerns andd accomplishments are crucial to development; money isn't.

Values and money

Sometimes parental bribery distorts the value of family and individual responsibilities.

The real reasons parents want children to do the dishes, study hard or clean the car have nothing to do with money, so why bring it into the discussion? Payment for these efforts creates the impression that every good deed has its price. Instead, children should learn there are unpleasant tasks in life that must be done and there can be satisfaction in doing a job well.

Ever wonder where all your $$$ goes?

Do you wish you could save money to reach long-term goals, but all your funds seem to be used for everyday living expenses? A monthly Expense Statement can help you discover where your income comes from and where it goes. These statements (also known as personal income or cash flow statements) are a record of your finances.

By listing your sources of income and expenditures over the past month, you see how you spent your money. And that can be the basis for deciding if you want to spend the same way, or, if not, what changes you want to make.

This helps you compare income and expenditures to your values and goals. Some items or activities are not as important to you as other items. You want to use your money for those items and activities you consider important.

Some goals, such as down payment for a home or college education, require a long-term saving plan. A monthly Expense Statement is a tool for determing where to trim expenditures in order to increase funds for saving or spending.

Your statement might indicate, for example, that you spend $200 on clothing last month. Saving money for a home might be so important to you, that you should decide to spend only $100 on clothing next month, and put the balance into savings.

A monthly Expense Statement is not the same as a Net Worth Statement or a Budget. A Net Worth Statement calculates your financial status at a point in time. A monthly Expense Statement, in contrast, is a record of your income and outgo over a month.

A personal budget is a plan for future expenditures and income. A budget controls spending for a week or a month.

Setting up a monthly or weekly budget

This will aid you in establishing a budget, serving as a personal spending guide and helping you make the most of your money.

	Planned expenditure	Actual expenditure
Total Income (salary, wages, interest, Social Security, other)		$________
Less all withholding		________
Take-Home Pay		$________
Fixed Expenses		
Rent or mortgage payment	$________	$________
Insurance payments:		
Automobile	________	________
Life	________	________
Property	________	________
Medical	________	________
Installment payments	________	________
Emergency fund	________	________
Savings and investments	________	________
Any other	________	________
Flexible expenses		
Food	________	________
Household supplies	________	________
Repairs and maintenance	________	________
Clothing and personal	________	________
Medical, dental	________	________
Recreation	________	________
Other	________	________
Transportation	________	________
Utilities	________	________
Other charge accounts	________	________
Saving and investment	________	________
Other	________	________
Total Expenses	$________	$________

Money: A family matter

What example are you giving your children? Look at the way you handle the family's money. If you find you could use a little financial education yourself, teaching your children about budgeting could be the perfect opportunity for putting your own house in order. Don't use the excuse of personal financial chaos to put off introducing the subject to your children. Few parents can expect perfection and shouldn't be afraid to make mistakes when helping their children. Here's an outline for some financial self-examination for parents, before you take on the kids.

Budgeting

Do you have a monthy budget? If not, make it a top priority to draw one up. Forms are available at the Extension office that will help you get started on a family budget. Children can learn by being involved in the process.

Saving

As a rule of thumb, 10 percent of your income should be set aside for savings of one kind or another.

Divide your savings goals into short-term, medium-term and long-term projects. A medium-term project might be a vacation for the family. You could post in the kitchen a chart that progressively shows savings approaching the amount needed to pay for the trip, thereby letting your children share in the anticipation. If, on the other hand, you're not much of a saver, will you be able to afford the holiday at all?

Also, allow room in your savings for unexpected situations and emergencies.

Most importantly, once you have a budget, stick to it. Revise it if necessary, but make budgeting a habit!

How to handle money problems

One month a family's income, outlook and spending are in line. The next month something unexpected happens—sudden illness, a death, an accident, a job change, unemployment, or a change in the number of dependents. What can be done about these financial problems? There are several alternatives to consider.

There may be ways to increase income to meet demands. The wage earner may be able to work overtime, find extra part-time work or possibly a better paying job. If both spouses are not working, an additional full or part-time job in the family—even temporarily—can be a boost. Older children may be able to earn money through part-time jobs to relieve some of the pressure.

Try to cut living expenses to a minimum. Stop buying clothes. Omit non-essential food products (i.e., snack foods, pop, candy, cigarettes, etc.) from the grocery cart. Switch to less convenient foods. Use the car less to reduce gasoline costs. Cut entertaining at home and keep it inexpensive.

But if income cannot be increased enough to pay debts and obligations, or expenses cannot be reduced sufficiently, outside help is required.

If you are in a situation where you want to pay but cannot do so at the moment, you can most likely resolve the problem within the credit system itself. Most creditors, if they know the facts surrounding your problem and are convinced of your good will and intent to pay, usually are understanding and willing to help. They may defer payments or refinance the debt to reduce the size of the monthly payments. It may be possible to return merchandise bought on time before repossession is necessary. But it is important to go to all your creditors before payments are overdue, or as soon as possible thereafter, to see what arrangements can be made for fulfilling obligations. The worst thing you can do if you are not able to meet payments on schedule is to avoid your creditors.

What if obligations are too great to be handled by temporarily deferring or reducing payments? It may be necessary to find a willing lending agency who will arrange a loan large enough to pay off all other bills and arrange one lower monthly payment extended over a longer period of time. This is called a consolidation loan. While such a loan is a legitimate way to make monthly payments more manageable, it can only work effectively if you forego additonal credit purchases and get a spending in line with income. Lowered monthly payments do not mean you have more money to spend—they just alleviate some of the pressure. In addition, consolidation loans can be more costly than paying off debts individually, depending on the total finance charges in both cases and the length of the extended repayment period.

Consolidation loan will not damage your credit history as chronically late or skipped payments certainly will.

Watch for these danger signals

Is an increasing percentage of your income going to pay off debts?

Are you near or at the limit on your lines of credit?

Are you extending repayment schedules—paying in 60 or 90 days bills that you once paid in 30?

Can you only make the minimum payments on your revolving charge accounts?

Are you paying bills with money earmarked for something else?

Are you borrowing to pay for items you used to buy with cash?

Are you chronically late in paying your bills?

Is your savings cushion inadequate or nonexistent?

Do you take out a new loan before the old one is paid off, or take a new one out to pay off the old loan?

Do you put off medical or dental visits because you can't afford them right now?

Are you threatened with repossession of your car or credit cards, or with other legal action?

Are you working overtime just to make ends meet?

If you lost your job, would you be in immediate financial difficulty?

Are you unsure about how much you owe?

Do you worry a lot about money?

A "yes" to any of these questions should give pause for thought. While a single red flag is not a sign of impending doom, it is an indication that you need to proceed with caution for a while—revise and update your spending plan, cut back on credit and be alert for other signs of overspending.

The solution to money problems is not necessarily more money. Sometimes it is an understanding of how to get more for the money you have, plus the patience, energy and self-discipline to do it. It is common for young individuals and couples to be tempted to buy more than they can afford. You can become so over-committed to debt payments that other demands on your income suffer. And your inability to repay debts now can hurt your chances for obtaining credit in the future.

Women do have equal credit opportunities

By law, women have equal credit opportunity and may not be discriminated against because of sex and marital status. However, this does not give an automatic right to credit—you must be "credit worthy". You usually need to have an income of your own to establish credit in your own name.

Women sometimes have difficulty in establishing financial identity. Unlike men, who have fairly continuous employment, women sometimes are in and out of paid employment, because of the many roles they perform. When a women marries, she can lose her financial identity if she uses only her husband's name on credit accounts.

If she continues to work and to help pay the bills she should maintain her credit and financial identity by:

Keeping at least one charge account in her own name.

Having her own savings account in addition to a joint one.

Making sure joint charge accounts with her husband are in both names (thus building up credit history in each separate name).

If you recently married and wish to retain a separate credit file, write to your creditors and indicate your name change, if any, and indicate your preference to keep the account in your name only.

Picking vegetables teaches your children how to save money. Gardening teaches how vegetables grow and offers new experiences.

Balance sheet reveals your financial worth

Have you ever asked yourself, "If I sold everything I own and paid off all my debts, how much (if anything) would I have left in dollars and cents?" A net worth statement could help you answer that question.

A net worth statement, also known as a balance sheet, is a record of your assets and your liabilities; the difference between the two is your net worth. Assets are those things of economic value that you own and liabilities are your debts.

Most net worth statements are calculated at a point in time. Your net worth statement tells you the fair market value of your assets today, and the balance of your debts today. If you prepare a net worth statement about the same time each year, you will see how your assets, liabilities, and net worth change from year to year.

Net worth statements are a useful tool for measuring progress toward meeting long-term financial goals, such as paying off major debts, financing your own or your children's educations, saving for your own home or saving for retirement.

Before you formulate a plan on how to meet one or more of these goals, you need to know what resources you already have. A net worth statement visualizes your financial resources.

Net worth statements are also useful as summaries of financial information. You may be asked for this financial information when you apply for credit, a car loan or have an income tax audit. Net worth statements summarize information in a format that is familiar to accountants, tax specialists and insurance agents.

Should everyone calculate net worth? Not necessarily. If you are struggling just to meet daily expenses, budgeting may be your first priority. Young families with few assets or debts may easily determine where they are financially without using a net worth sheet. However, before family members make decisions about increasing debt, purchasing insurance or making investments, they should know their present financial situation.

Net Worth Statement

Name:________________ Date:________________

Assets		Liabilities	
Cash on hand	$________	Past due bills for services, rent, etc.	$________
Checking account(s)	________	Credit cards/charge accounts	
Savings account(s)	________	________	________
Money market funds/ Money market deposit accounts	________	________	________
Time deposits	________	________	________
Savings bonds	________	________	________
Stocks	________		
Bonds	________		
Mutual funds	________	Consumer installment debt	
Real estate		Automobile	________
Home	________	Other	________
Other	________	Real estate debt	
Automobile/other vehicles	________	Home	________
Money owed to you by others	________	Other	________
Partnership and business interests	________	Insurance premiums	________
Retirement accounts		Taxes	________
IRA/Keogh	________	Pledges: charities, churches, etc.	________
Employee retirement fund	________	Other	________
Cash value of life insurance	________	________	________
Cash value of annuities	________	________	________
Home furnishings/appliances	________	________	________
Sports and hobby equipment	________	________	________
Antiques, art, collections	________		
Jewelry, furs, etc.	________	*Total liabilities*	$________
Other	________		
________	________	Total assets	________
________	________	Less total liabilities	________
________	________	Net worth	$________
Total assets	$________		