



Teaching Teens the ABCs of Using Credit Wisely

Teens notice each time you pull out the plastic — but do they understand how it works? Probably not. You might be using a debit or credit card — very different ways to pay for things, but to kids, they look the same. Any time you make a purchase, regardless of whether you use cash, credit or debit, there's an opportunity to teach kids about savings, budgeting and credit.

Learning about credit cards and debit cards is particularly important for teens, with debit cards becoming a very good option over credit cards. In fact, 50 percent of teens aged 18 and 19 had a debit card in 2005, according to Teenage Research Unlimited, up from 37 percent in 2001. Moreover, credit cards held by this same group declined to 25 percent in 2005 from 45 percent in 2001. Teens and their parents are realizing that a debit card can be a very valuable budgeting tool since cardholders can only spend what is already in their account (unless there are special overdraft features of the card). As kids mature, a credit card will be an important option in order to establish a credit history that may be necessary to rent or purchase a home. The credit history may even be checked by a potential employer. Thus, helping your teens develop good credit management habits will help them avoid serious consequences that can last for years.

An opportune time to talk about spending and using debit and credit cards is before shopping for school clothes. Talk about:

- How you will pay for the purchases — debit or credit.
 - Budgeting — these are anticipated expenses that can be planned for in advance.
 - Having a limit on what you'll spend.
 - What you or your family might need to cut back on or do without to cover these expenses.
- Children only see what you buy and not what is given up.

If you use a credit card, help your children understand that you are taking out a small loan. Paying your debts on time and keeping your credit history strong is another important message. And tell them what the real cost will be for your purchase once the interest charges are added on.

Here are a few quick questions your teen could ask himself or herself when shopping:

- Do I really need this item now?
- Do I have enough money in my debit account or in my budget this month to pay off the entire purchase?
- If I use a credit card, what additional fees or interest will I pay to carry a balance?
- What will I have to give up in order to buy this?

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