

Should our kids carry credit cards?

Written by 3K Admin
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WASHINGTON (MarketWatch) -- There's never been a better time to teach your children how to manage money. As lawmakers debate how to reform the nation's banking system and news stories detail the travails of Americans who took on too much debt, parents can point to the current economy as a way to talk to kids about the risks of credit.

"Looking at all the news stories that show people who have lost their homes from too much debt or are incurring substantial interest charges or who have bad credit and can't get an apartment or job, it's a wonderful way for parents to teach their kids about credit or debt," said Ric Edelman, author and financial adviser.

But are kids and credit two entities that should never meet?

Not necessarily, experts said. It's important to teach children about credit, as well as cash and debit cards, so they are prepared to handle their personal finances as young adults.

"There's a time and a place for all three," said Jordan Amin, chair of the American Institute of Certified Public Accountants's national CPA financial literacy commission.

"Cash and debit are for immediate purchases, and credit is for a longer-term purchase or an unexpected expense," he said. "A credit card shouldn't be used for discretionary items."

As Congress debates how to reform the nation's banking system, parents may want to look closer to home. Current events can be used to teach kids about the pros and cons of using cash versus credit versus debit, experts said. Here are some points to keep in mind when introducing your kids to using money.

Cash is king

For younger kids, cash is a good way to introduce them to money. Credit and debit cards are too abstract, Amin said. "Something that's tangible and universal makes it easier to teach them," he said.

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Cash is especially useful for teaching children about regulating their spending, said Kathleen Gurney, a psychologist and chief executive of Financial Psychology Corp., a Sarasota, Fla., advisory firm. Read Gurney's blog.

"There's the tangibility issue," Gurney said. "People will tend to spend less money when spending cash than using a credit or debit card because the cash is finite. If you only have \$10 cash, you can't spend \$30. So for kids cash is always a great way to teach them to use money more wisely."

Gurney also recommended that parents teach their kids to use less cash than they have.

"Most kids will want to go through all their cash and more," Gurney said. "If they have \$10 and want to buy something for \$12 or \$13, they are always bargaining and trying to get that extra \$2 or \$3. Teach them to buy something within that \$10."

Teaching tools

Cards are a reality of life, and parents can help teenagers spend wisely by teaching them about the proper use of plastic. And debit cards and prepaid cards can be useful budgeting tools because they can help track spending, experts said.

"Give them an allowance on a prepaid card and talk with them at end of the month about where they spend money," said Jason Alderman, senior director of financial education at Visa.

A prepaid card is a great way to teach kids about self-regulation, Gurney said.

"Lack of self-regulation is one of the most significant issues that I deal with in helping people become better money managers," Gurney said.

When it comes to credit, consumers between 18 and 21 cannot get a card in their name unless they get a parent or guardian to co-sign, or unless they can prove they have independent

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means to repay the balance, according to the American Bankers Association. This means they must have sufficient income or assets.

Children under 18 can be added as an authorized user to an adult's card account and have a card issued with their name on it. However, the parents must agree and bear responsibility for repayment.

Gurney suggested parents introduce kids to a card after children learn how to spend cash within limits.

"Once they know how to regulate their spending they will know how to pay off a card," Gurney said. "If they are off to a good start and have a good experience these are lessons that will stick to them through life. There are so many people that really don't know how to use credit appropriately and it's because they never developed the discipline of self-regulation."

Values

Whether your family lives on cash, plastic or uses both, Alderman recommended teaching kids about your family's choices.

"The most important thing is to make sure you instill your own money values with kids. If you are a family that shies away from debt and values cash, that's fine. Conversely if you are a family that uses cards for everything, help them understand that, too, and why you make those choices," Alderman said.

Parents set a financial model for their kids, Amin said.

"So if your children only see you use your credit or debit card that will certainly have an impact," he said. "We have to be mindful of how our spending habits influence our children."

Credit cards are not inherently bad -- it's how consumers use credit that can cause problems,

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Amin said. "It's running up debt for discretionary items where people get into trouble and it doesn't make a lot of sense," he said.

Right for your kid?

Parents can start to introduce plastic when their kids become teenagers, experts said. Amin recommended setting low limits for cards for kids.

"Let kids start small so if they make mistakes it's not catastrophic to them or you, and let them learn to manage credit but with keeping a tight watch on how much they can spend," he said.

Not all kids will be well suited to using plastic. "You have to be honest about who your kids are," Alderman said.

Parents who aren't comfortable with their kids having a card should still talk to them about the differences between payment vehicles.

"So many kids just see a piece of plastic, but we know that they are radically different," Alderman said. "You have to help the kids understand that."

Source: <http://www.practicalmoneyskills.com/>