

Teaching Kids about “Real” Money and Credit Cards

“Money management” and “credit” are two words that have become taboo in our society and many households. Spending, however, goes on.

According to the National Endowment for Financial Education’s High School Financial Planning Program, U.S. teenagers spent more than \$155 billion dollars in 2000, but 68 percent of teens say they have never discussed using credit cards responsibly with a family member even though 31 percent of teenagers aged 18 and 19 already have their own credit cards.

Here are a few tips to help your child prepare for the world of credit.

- 1) Teach your children about the value of credit. Credit is an important feature of today’s society. Help your children understand the many benefits of credit, such as easy access to cash in an emergency. Credit offers our society an opportunity to access cash quickly, as well as the ability to use it when you need it. It’s a convenience in our society like none other.
- 2) Teach your children about the costs of credit. Explain to your children that interest is the cost that the consumer must pay to use credit. Also, share with your children the magic of compounding and the fact that interest accrues over time. Help your children understand the concept of an annual percentage rate (APR) and how having a lower rather than a higher APR can affect the amount of money you pay in interest for using credit.

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Family and Consumer Sciences (FCS) program staff at MSU Extension can answer questions or help you learn more about money management, parent, food, nutrition and health issues. MSU Extension educators integrate university and community resources to provide tools that help families succeed. For more information on FCS programs in Michigan, call your county MSU Extension office. Check the government pages of your phone book for contact information.

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- 3) Teach your children about the responsibility of using credit. Many times children may view using credit as “free” money. Help them see not only the costs of using credit but also the importance of maintaining good credit throughout their lives. Order a copy of your credit report so they can see what a credit history is. The three main credit reporting agencies are Experian (www.experian.com/), Equifax (www.equifax.com/) and Transunion (<http://www.transunion.com/>). Remember, it is important to review your credit history each year. Also, talk about the effects of bad credit and how it may affect your future.
- 4) Teach your children about the value of shopping around for the right type of credit. Not every credit option may be suitable for you and your needs. Deciding on the right option takes time and research.

Remember, credit is a major responsibility in life that we sometimes tend to take for granted. Ensuring that your child is educated in the basics of credit will assist him/her in becoming a knowledgeable adult consumer.

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