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A Learner's Permit for Credit Cards
Scott Brown

On the day we dropped off our daughter at college, we attended the Parent Freshman meeting. The school officials were describing security precautions for the student ID card because it doubled as a credit card for charging purposes in the school bookstore and campus restaurants. We watched as shock and fear swept through the room. For many parents, the idea of their 18-year-old kids having access to a credit card was too much to handle.

My wife and I didn't share their anxiety. For more than two years, our daughter had demonstrated the discipline and financial responsibility of using and safeguarding a credit card. Just as we would never hand the keys to a teenager who had never driven before, we made sure she knew how to handle credit long before she went off to college.

It's something any parent can do for their college-bound teenager. Provide a credit card that is attached to your account once your teenager begins driving. This should help your child accomplish several things. It provides a sense of independence, develops responsibility and teaches financial discipline. It helps them mature and helps you build trust and confidence. If your child has any missteps with the credit card, it gives you a chance to work through it while he or she is still at home.

Here's one plan for getting started:

- Each month, children would get an allowance for things they do around the house. They should receive a check for the allowance amount.
- Attach a bill to the check that includes the costs for auto insurance, smart phones, and anything they've charged on the credit card. The credit card is to be used for gasoline and other items that they desire that don't qualify as necessities, like school clothing. In our case, the allowance was about $100 a month more than the costs, so she ended up with about $100 for discretionary spending or additional savings.
- They would deposit the allowance check into their own checking account and then write a check to you for that month's bills. If they spent more than they received, the balance would come from their savings.

When our daughter began her freshman year of college, she knew how to balance a checkbook, pay bills and use discretion with a credit card. Taking on this type of responsibility has far more value than just having a short chat about being responsible with money right before they move into the dorms.

This is just one financial lesson that teenagers need before they leave the nest. Here are some others:

Save toward goals — Children seem to better understand the idea of saving when they are putting away money for some specific "want." For example, our youngest daughter wanted to save up her money to buy a large popcorn maker. It took her a long time to accumulate $75, but that made the purchase even more satisfying for her. Not only did she use it for her own benefit, but she brought it to several volunteer fundraising events over the years.

Grow through giving — The satisfaction and feeling of self-worth a child receives by helping others is powerful. When a child gives, it is usually unconditional, which comes from the pure joy of knowing they can help somebody less fortunate. Encouraging giving develops positive behaviors that help children and society in general.

Don't forget the taxes — Most children receive their money in the form of gifts, allowance or babysitting jobs. They do not pay tax on this money, so if they receive $20, then they have $20 to spend. This all changes with their first real paycheck — when their expression may quickly change from excitement to confusion and disappointment. For many, this is the first time they have been introduced to their new lifelong companions Mr. FICA and Mrs. Medicare. It is important to explain to them the importance of these taxes. Inform them that their employer is matching these withholdings as well, so they realize the entire burden is not on them.

The lessons above can help children as they mature into young adults to make smart decisions about money and break the trend of overspending in our society. With some of these lessons learned, the first day of college might not be as stressful for new students or their parents.

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Scott Brown, CPA/PFS is managing member of Wealth Management Group, LLC, an independent member of the BAM ALLIANCE.

Scott has been involved in the financial service industry for more than 20 years. He spent many years as managing partner for Raymond F. Book & Associates before becoming the managing member of Wealth Management Group. Scott uses the combination of tax knowledge and wealth management experience to help clients achieve their financial goals.

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