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Try teaching teen-agers about saving and investing

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From the latest designer jeans to fun-filled nights out with friends, teen-agers sure know how to spend money. Therefore, it is no surprise a new survey shows many teens don't know about managing their money. High school seniors, on average, answered only 52.4% of the answers correctly on a survey measuring basic financial literacy, according to the Jump$tart Coalition for Personal Financial Literacy.

Because effective money management results from disciplined behavior, which is most easily mastered if learned early in life, it's important for parents to take the lead in providing their teens with a financial education.

Of course, it's difficult to know where to start, especially with teens, who seem more interested in iPods than in their financial futures.

Because learning how to save and manage money begins with understanding spending, the first move into the world of "teen finance" might be to ask teens to keep an expense log on the computer or in a notebook. That way, they can see for themselves exactly how their money is spent.

The list undoubtedly will uncover some surprises such as: "What? I spend $30 a month on cookies from the school cafeteria?" From there, you can help your teen draft a budget and periodically check in to ensure they stay on track.

You could also do what we did with our kids, which is set up a parent bank. We started this when our children were pre-teens. We created a fictitious account "parent bank" and made deposits on their behalf.

When our children wanted to purchase new clothes, or some other item, they would write us a check, and we would pay for it. That way they learned how to manage money very early in life, long before they could have a checking account of their own.

We gave our children a much larger allowance than when they were pre-teens when they were old enough to have a checking account, then we encouraged them manage their own personal finances. For the most part, they followed their own budget for clothes, gifts, and anything else they wanted to own.

Our allowance also provided them with money they could save for long-term financial goals such as buying a car or financing a vacation. Our only requirement was when they began working, they set aside money for Roth IRAs to begin saving for their retirement. Our plan was to encourage our children to make wise choices between short-term and long-term goals.

Because teens have such high expenses, “to work or not to work” is often a common debate between parents and teens. Today, many parents’ have the desire to make their children’s lives easier than they had it, which often denies children the satisfaction and self-confidence that comes from hard work.

Sure, the combination of academics and extra-curricular activities may keep your teen too busy to work during the school year. However, will free time all summer long help teens grow to be happy and responsible? Therefore, another idea would be to help children put together a resume and discuss where they might work, either during the school year or the summer.

Once your teen is working outside the home, compromise on budget items you expect his, or her, paycheck to cover. Encourage a long-term, rather than short-term, perspective.

For example, remember earned income qualifies someone to open a Roth IRA. Of course, saving for retirement is never going to be at the top of any teen’s list, but you might consider gifting them the money for a down payment on a car and encouraging them to open a Roth IRA with their earned income.

Why? Consider this: a 15 year old contributing $1,000 each year until age 65, with a 9 percent return, could have more than $800,000 in a retirement account. That’s not a bad deal considering they would have invested only $50,000.

With extra cash coming in, it’s a good time to talk about other savings goals. Have your teen open a savings account to get into the habit of making regular deposits.

Finally, but perhaps most importantly, educate teens about the hidden costs of using credit. Many teens see credit cards as a convenience, not realizing they will be subject to interest charges if they can’t pay the bill in full in one month. Ask your teen to figure what 8 percent interest on a $100 purchase could add to the cost of the item over two years.

To encourage wise use of credit, consider listing your teen as an authorized user on your credit account. Your teen will get a card with his, or her, name on it, but will pay you for any purchases made.

National Endowment for Financial Education’s philosophy of “learning about money is as important as earning it,” is great advice. Bottom line: Financial lessons not learned at a young age become more expensive as we grow older.

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