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Personal Finance Principles Every Child Should Know

Research shows that only one-third of parents discuss financial issues with their children, and only one out of seven parents believes their children have a solid understanding of financial matters. In addition, the majority of children determine their attitudes about money by the time they finish fifth grade. As a result, many states are beginning to emphasize the need for personal finance education for children. Below are ten personal finance principles that every child should know.

Determine want versus need. Children often want more than they need. They, and their parents, are also susceptible to peer pressure. However, constantly giving in to a child's wants and desires can make it difficult for them to set limits for themselves as adults, which can ultimately lead to financial problems.

Think about consequences. Unless an expense is critical, think carefully about it before buying. If you aren't sure whether you should buy something, try waiting a day or two before you decide. If you still want it after waiting, then you likely won't regret buying it later. Most importantly, never use shopping as personal therapy.

Remember that the government gets part of your pay. Once you start working, you start paying taxes. Gross pay refers to pay before taxes, and net pay refers to what's left. Always base your budgeting and spending on net pay, and remember that income taxes are not always returned to students – the return amount is dependent on the total earned from all jobs during the year.

Pay yourself first. For young people, time is their most valuable asset. Start saving early for big purchases and retirement, even if it seems impossible. Deferred gratification is a sign of maturity.

Make a budget. Think of budgets as a spending plan and not as a burden. Prioritizing values makes planning much simpler. When determining your budget, always consider your needs first, and then decide what is left for your desires. A common mistake teens make is buying a relatively expensive automobile. Then, when they begin paying more of their own bills, the cost may become too large a burden to maintain.

Use credit wisely. Credit is important, especially when considering student loans – often the first debt a child may have. Never put clothes, food, gas, etc. on a credit card that isn't paid off at the end of the month. How you handle your credit determines your credit rating, which is needed to rent an apartment, or buy or lease a car and is often considered as part of the screening process for job applications. Credit reports also determine the amount charged for utility deposits and, of course, the rate of interest charged on loans.

Treat your money like a business. Keep records, balance your checkbook and always read your statements thoroughly. Be systematic and careful about checking accounts and credit usage. Take precautions to protect your social security number and to minimize your risk of identity theft potential. If you find a mistake, take action immediately. The sooner you attempt to solve a problem, the more likely it will have a successful resolution.

Don't forget about interest. Interest is the amount paid for the use of someone else's money. The bank pays you when you deposit savings, and you pay the lender when you borrow money. Look for the highest rate when you save and the lowest rate when you borrow. Remember that interest costs on loans and credit can significantly increase the overall price.

Protect yourself. Insurance is intended to keep you from incurring substantial financial losses. When determining your insurance needs, consider the cost versus the potential loss. In any case, never expect 100% replacement value. Depreciation and deductibles are often involved, and too many claims can increase insurance premiums.

Don't be afraid to ask for help. Successful personal financial management is a skill often learned through mistakes. Ask a parent, teacher, banker or trusted friend for advice or help if you begin to struggle. It will often take work or sacrifice to achieve stability again, but it can always be done.

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