



# Financial Literacy

## 10 Signs Your Kid Could Be Headed For Financial Failure

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By Michele Lerner

While parents love to look for signs that their kids are musical prodigies or potential Olympic athletes, many don't know how to recognize the signs that their teen and young adult offspring are floundering when it comes to money management skills. Dealing with your kids' disasters is one of the downsides of being a parent, yet the more proactive you are in watching for signs of potential financial failure, the easier it will be to turn around the situation.

A parent's work is never done. Throughout your offspring's life -- from childhood, the teen years, and into their 20s -- there are times you'll need to step in to educate your kids about money matters big and small. It can be a lot of work, but the payoff is worth it when you know you've done your best to raise a financially savvy person with a strong work ethic and sense of responsibility.

### 1. Your teenager must have the newest anything

"We're living in the 'now' generation, with kids wanting everything now and a lot of parents giving in," says Dan White, a certified financial planner with Dan White and Associates in Glenn Mills, Pennsylvania. But there's a difference between simply wanting the shiny new thing because it's out there and desperately needing the shiny new thing because not having it has larger consequences in your teen's mind.

"Sometimes teens feel that if they don't have the latest and greatest gadget, they won't be popular or fit in," says Kimberly Foss, a certified financial plan



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Based in Glen mills, PA. **Daniel A. White** and Associates has helped hundreds of families secure their retirements and enjoy their golden years worry free. Call 888-690-8820 to set up a free consultation.

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ner and president of Empyrion Wealth Management in Roseville, California. "This is reflective of a deeper issue of self-worth and self-esteem."

**The prevention:** Foss recommends asking in a calm, non-emotional environment about the reasons they made the purchases and listening to the response and watching the body language. Counseling may be in order if you feel your teen is compensating for a bigger emotional issue, Foss says.

If it's just a case of your teen wanting the next newest thing, White recommends establishing an allowance and saying no to your kids when they ask for more

### 2. The word "budget" is meaningless to your kid

According to a recent Gallup Poll, 68 percent of American adults do not have a detailed monthly household budget. Kids who don't see their parents paying attention to the family's inflows and outflows are going to have to cram in later life to learn those important lessons -- in real time, with their own real money.

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**The prevention:** Kids should learn the concept of budgeting for life's expenses before they go to college, advises Ric Runestad, owner of Runestad Financial in Fort Wayne, Indiana. Establish your own budget and share it with your kids. Have your children make their own budget for things like vacations and summer camp.

### **3. Your millennial says buying a lottery ticket is his retirement plan**

"The odds of winning the lottery is somewhere around 1 in 259 million," says Gregg Murset, a certified financial planner and CEO of MyJobChart.com in Scottsdale, Arizona. "If your child thinks this is a good way to plan for the future, just start planning now to have them living with you during your retirement."

**The prevention:** Make sure you're quickly correcting your kids whenever they mention a lottery ticket or windfall. (Search "odds of winning the lottery" for even more colorful examples.) Explain the importance of saving and working hard to fulfill their future dreams.

### **4. Your kid overspends on his allowance**

It's one thing if your child asks to borrow a few dollars to buy something and pays it back immediately when you get home. "However, if a child starts to treat their parents as a payday loan service, then the parents should act as a payday loan service by charging expensive rates of interest," Runestad says.

**The prevention:** Reinforce the "If you want it now, you have to pay for it now" behavior by instituting a realistic interest rate on borrowed money. Take a cue from the credit card industry and set it around 15 percent. Run the math with your child and show how much more an item costs in the long run when it is paid for with borrowed dollars.

### **5. Your teen assumes she'll inherit your riches**

Does your child assume (unrealistically) that he or she will replicate your lifestyle when it's time to be on their own? Here, again, there may be a communication breakdown. "It's important for parents to assess their own behavior and guide the child in the right financial direction," says Eric Johnson, principal of Signature, a wealth management advisor in Charlottesville, Virginia. "If they're spending lavishly

and telling their children to save, there will be a large disconnect in the child being able to form solid monetary values on their own."

**The prevention:** Talk early and often about your money values and reinforce the idea that your wealth may not be a signal of your child's future lifestyle.

### **6. Your teen lends money to people who never pay her back**

"Children can be every bit as gullible as adults when it comes to trying to help someone out who really is just taking advantage of them," says Runestad. "Everyone wants to be liked, and we all have times we need someone to lend us some money. However, any time money is lent it should be under very stringent requirements."

**The prevention:** You can't always know about your child's private financial dealings. But you can instill in them standard expectations when it comes to money issues by consistently following certain money rules when they come up at home. So, when you lend money to your child, remind them that you are not in the debt forgiveness business and you expect full repayment of the loan by a certain date. Consider drawing up a standard fill-in-the-blank lending document for all parties to sign.

### **7. Your kid still uses a piggy bank**

"While piggy banks can be a cute way for a youngster to learn about nickels and dimes, what purpose do they serve after that?" asks Murset. "If your kids are old enough to earn money, they're old enough for their own bank account."

**The prevention:** Open a bank account with your child, walk them through the process of making deposits, teach them about online banking and earning interest. There's no better education about the adult world of finances than actual hands-on experience with the products they'll be using for the rest of their lives

### **8. Your teen thinks credit cards offer free money**

"Some kids think that credit cards represent free money that banks give away for people to buy things," says Murset. "Until your children have a clear understanding of how cash advances work and

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what interest rates, penalties and fees mean, they shouldn't have one."

**The prevention:** Teach your kids the difference between a debit card and a credit card as you use them. When they are old enough, get them a pre-paid credit card. Fund it with their allowance or savings, and give them room to make their own mistakes (such as running out of money because they weren't keeping track of the balance). Better that they learn the lessons of proper plastic usage under your watch

### **9. Your child is lazy**

If your kids spend more time watching TV or playing video games than helping around the house, they're not developing a sense of responsibility, says Murset.

"Get your children off the couch and out of their rooms to do their share around the house," he says. "Besides building a daily routine, they'll develop a good work ethic."

**The prevention:** Not all chores should be equated with payment. Helping around the house is simply

part of what family members do. However, certain chores and work above and beyond the basics can be linked to extra payments. As your kids develop a work ethic, they'll start to learn that doing a good job and taking on more work can be satisfying both financially and emotionally

### **10. Your college student accrues massive debt**

"Young adults are made to believe that once they graduate college they'll be able to pay off their student loans quickly," says White. "That couldn't be further from the truth. An average student takes a minimum of 10 years to pay off an undergraduate degree."

**The prevention:** Together, as a family, go over all of the costs of higher education -- everything from tuition to room and board, meals, gas money, and airplane tickets home for the holidays. Together, discuss ways to cut costs. And make sure your kids are exploring every opportunity and avenue for covering college expenses before they commit to a large loan, says White.

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