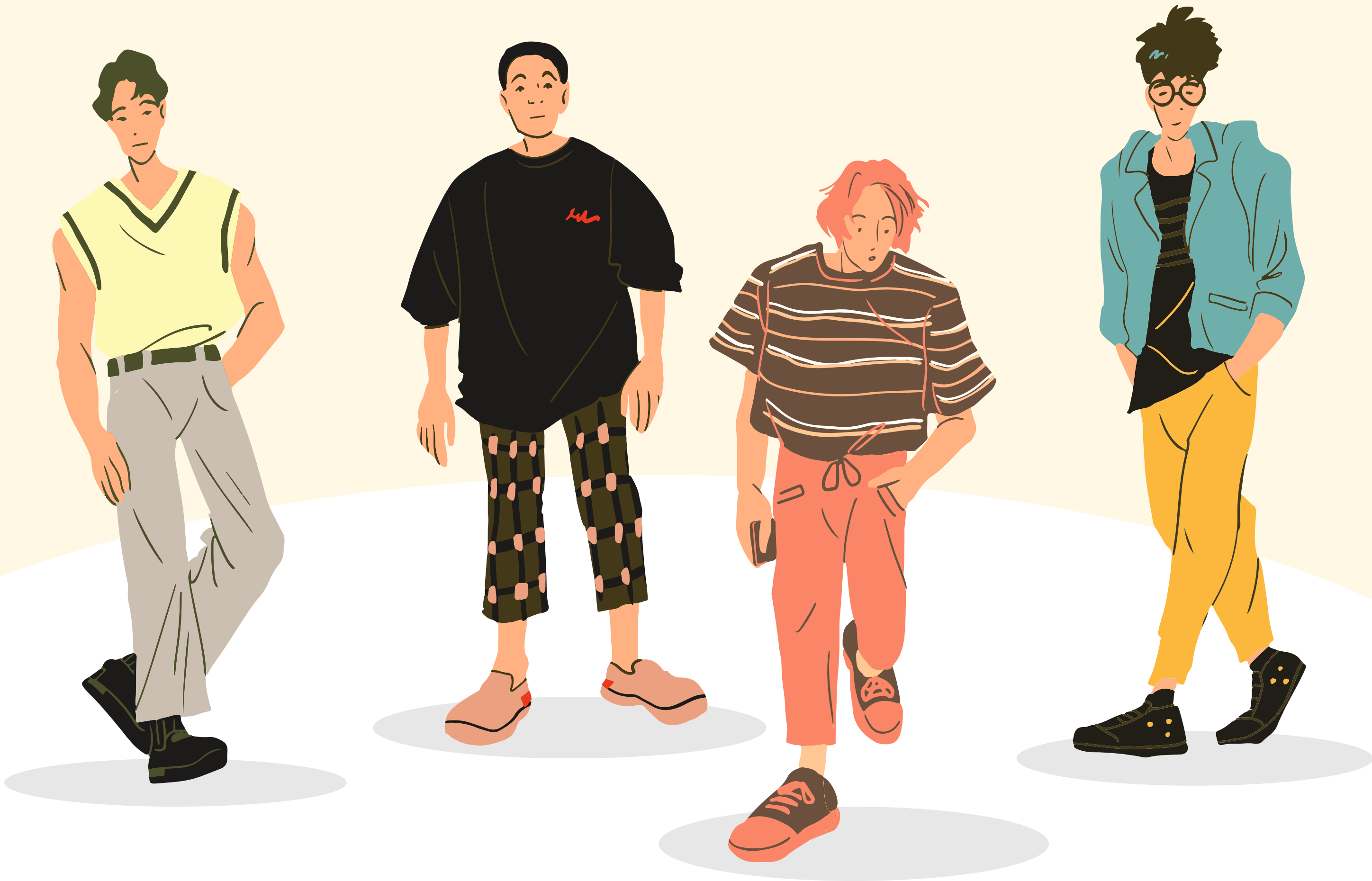
TEACHING TEENAGERS ABOUT PERSONAL FINANCE: A GUIDE FOR PARENTS

Freedom 5:one Ministries



As a parent, you want to give your children the tools they need to succeed in life. And one of the most important tools they'll need is an understanding of personal finance. By teaching your teenagers about budgeting, saving, and debt, you can help them build a solid financial foundation that will serve them well throughout their lives. In this article, we'll explore some tips and strategies for teaching teenagers about personal finance.

Proverbs 22:6 says, "Train up a child in the way he should go; even when he is old he will not depart from it."

1. **Start Early**

It's never too early to start teaching your children about money. Even young children can learn about the value of saving and the basics of budgeting. As your children get older, you can introduce more advanced concepts like investing and credit. By starting early, you'll give your children a head start on building good financial habits.

2. **Use Real-Life Examples**

One of the best ways to teach your teenagers about personal finance is to use real-life examples. For example, you could show them your own budget and explain how you allocate your income. You could also discuss the pros and cons of different types of investments and loans. By using concrete examples, you'll make the concepts more tangible and easier to understand.

A survey conducted by the National Endowment for Financial Education found that only 24% of millennials (those born between 1981 and 1996) have basic financial literacy, such as being able to understand a bank statement or pay bills on time.

3. **Emphasize Contentment**

In a society that's constantly pushing us to want more, it's important to teach your teenagers about contentment. Encourage them to be grateful for what they have and to avoid the trap of constantly striving for more. You could also introduce them to the concept of minimalism, which emphasizes living with less and focusing on experiences rather than possessions.

4. **Teach Financial Integrity**

Financial integrity is essential for a healthy financial life. Teach your teenagers to be honest and fair in their financial dealings, and to avoid borrowing more than they can afford to repay. You could also discuss the importance of giving generously to others, whether through charitable donations or acts of service.

5. **Encourage Entrepreneurship**
Finally, consider encouraging your teenagers to explore entrepreneurship. Starting a business can be a great way to learn about money management, marketing, and sales. It can also help your teenagers develop valuable skills that will serve them well in their future careers.

Financial Stress: A survey by the American Psychological Association found that 81% of Gen Zers report experiencing at least one symptom of financial stress, such as feeling anxious about paying bills or worried about debt.

Below you will find a list of step by step exercises to begin the conversation around personal finance with your teenager.

Debt, credit scores, credit cards, and amortization:

Step 1: Define Debt
Start by explaining the concept of debt to your teenager. Define what it means to owe money and the consequences of not repaying debts, such as late fees, increased interest rates, and damage to credit scores.

Psalm 37:21 The wicked borrows but does not pay back, but the righteous is generous and gives.

Step 2: Discuss Credit Scores
Explain the importance of credit scores and how they affect a person's ability to get approved for loans and credit cards. Discuss the factors that impact credit scores, such as payment history, credit utilization, length of credit history, and new credit.

Step 3: Introduce Credit Cards
Explain what credit cards are and how they work. Discuss the benefits and risks of using credit cards, including rewards programs, high interest rates, and the potential for overspending.

Step 4: Teach About Amortization
Introduce the concept of amortization and explain how it works for loans, such as mortgages and car loans. Discuss the impact of interest rates and loan terms on the total amount paid over time.Using a mortgage calculator, practice amortization with your teenager by plugging in different loan amounts, interest rates, and terms to see how they impact the total amount paid over time.

Step 5: Discuss Strategies for Managing Debt
Discuss strategies for managing debt, such as creating a budget, making on-time payments, and avoiding unnecessary spending.

Step 6: Track Credit Score
Show your teenager your free credit report and walk them through the process of checking over it.

Step 7: Introduce Secured Credit Cards
If appropriate, introduce the concept of secured credit cards as a way to help your teenager build credit. Discuss the benefits and risks of using secured credit cards and how they differ from traditional credit cards. Another consideration would be to add your teenage as an authorized user but only allow them to use it on certain things. This may help them to establish credit.

A practical exercise for teaching teenagers about credit card interest is to create a hypothetical scenario where they have to calculate the interest on a credit card balance.

Here's an example:

1. Provide your teenager with a hypothetical credit card statement with a balance of $1,000 and an interest rate of 18% per year.
2. Ask them to calculate the monthly interest charge on the balance. To do this, they would multiply the balance by the interest rate (0.18) and divide the result by 12 (the number of months in a year). The calculation would be: ($1,000 x 0.18) / 12 = $15.
3. Have them calculate the minimum payment due on the statement. Credit card companies typically require a minimum payment of 2-3% of the balance, so in this case, the minimum payment would be $20.
4. Ask them to calculate how long it would take to pay off the balance if only the minimum payment is made each month. Use a credit card payment calculator to help them determine this. They will discover that it would take several years to pay off the balance and they would end up paying much more in interest charges than the original balance.

By doing this exercise, your teenager will have a better understanding of how credit card interest works and the importance of paying off their balance in full each month.

Savings Plan

Step 1: Identify a Savings Goal
Have your teenager identify a savings goal, such as a new smartphone, a designer outfit, or a trip with friends. Make sure the goal is specific and achievable within a reasonable timeframe.

The wise store up choice food and olive oil, but fools gulp theirs down" (Proverbs 21:20 NIV)

Step 2: Research the Cost
Help your teenager research the cost of their savings goal. They can use online shopping websites, comparison apps, or check with local stores to get an idea of the price.

Step 3: Determine Monthly Savings Amount
Encourage your teenager to think beyond just their wants and also plan for irregular expenses, such as car repairs or summer camp. Help them determine how much money they should save each month to cover these types of expenses in addition to the things they want.

Step 4: Create a Vision Board
Using digital tools, have your teenager create a vision board that includes images and text related to their savings goal. They can use a free online tool like Canva or Adobe Spark to create a digital vision board.

Step 5: Set up an Automatic Savings Plan
Help your teenager set up an automatic savings plan, such as a direct deposit from their bank account or an automatic transfer from their allowance account. This will help them save money consistently towards their goals, including irregular expenses.

Step 6: Track Progress and Celebrate Milestones
Encourage your teenager to track their progress towards their savings goals using a digital tool like a spreadsheet or a budgeting app. Celebrate milestones with them when they reach a certain percentage of their savings goal.

Step 7: Visualize the End Goal
Encourage your teenager to visualize themselves achieving their savings goals. Have them create a mental picture of how it will feel to own or experience what they're saving for. This can help them stay motivated and focused on their goals, including saving for irregular expenses.

Step 8: Stay Accountable
Encourage your teenager to share their savings goals with a friend or family member and ask them to hold them accountable. This can help them stay on track and avoid unnecessary spending.
Remember, by saving not just for wants, but also for irregular expenses such as car repairs, your teenager can achieve their financial goals and avoid unnecessary debt.

A Giving Plan

15-step exercise to help your child understand and cultivate a generous heart:

> *2 Corinthians 9:6-8*
>
> *Remember this: Whoever sows sparingly will also reap sparingly, and whoever sows generously will also reap generously. Each of you should give what you have decided in your heart to give, not reluctantly or under compulsion, for God loves a cheerful*

1. Lead by example: As a parent, model generosity in your own actions and attitudes towards others. Discuss with your child the importance of giving back to others and the positive impact it can have on both the giver and the receiver. Discuss how the Bible has impacted the way you think about generosity and the impact you have in the world.
2. Discuss the importance of generosity: Have a conversation with your child about why it's important to be generous and the benefits of cultivating a generous heart.
3. Provide opportunities for giving: Encourage your child to give back by providing opportunities to donate money, time, or resources to those in need. This could include volunteering at a local charity, donating to a food bank, or simply offering to help a neighbor in need. Explore the different areas in the new testament that we are called to give (see When you give bible study on our website).
4. Practice gratitude: Help your child develop a mindset of gratitude by encouraging them to focus on the positive aspects of their life and expressing thankfulness for what they have.

5. Foster empathy: Teach your child to put themselves in others' shoes and consider the feelings and needs of those around them. This can help them develop a greater sense of compassion and generosity towards others.
6. Set a giving goal: Encourage your child to set a giving goal and work towards achieving it. This could be as simple as donating a portion of their allowance to a charity each month, or as involved as organizing a fundraiser or volunteer event. Make sure to make the digital version of giving just as tangible as giving paper money.
7. Reflect on giving experiences: After each giving experience, encourage your child to reflect on how it made them feel and the impact they made. This can help them to develop a greater sense of purpose and motivation for future acts of generosity.
8. Encourage creativity: Challenge your child to think creatively about ways to give back to their community. This could involve using their unique talents or interests to make a difference, such as organizing a charity concert or creating handmade gifts to donate.
9. Explore different types of giving: Encourage your child to explore different types of giving beyond just monetary donations. This could include giving their time, skills, or simply being kind and supportive to those around them.
10. Celebrate generosity: Celebrate your child's acts of generosity and help them to see the positive impact they are making on the world. This can reinforce their sense of purpose and encourage them to continue cultivating a generous heart.
11. Learn about the impact of giving: Teach your child about the positive impact that giving can have on both the giver and the receiver, and the potential for generosity to create a ripple effect of kindness in the world.
12. Discuss how generosity relates to your faith: Discuss how generosity is a value that aligns with the heart of God. Do this as often as possible.
13. Encourage a mindset of abundance and generosity: Help your child develop a mindset of abundance, where they feel they have enough to give to others and are not hoarding resources out of fear or scarcity.
14. Teach your child about the importance of stewardship: Help your child understand that they have a responsibility to use their resources, whether that be time, money, or skills, in a way that benefits others and the world around them.
15. Encourage generosity as a lifestyle, not just a one-time event: Finally, encourage your child to view generosity as a lifestyle, where they are constantly looking for ways to give back to others and make a positive impact in the world. Encourage them to continue practicing generosity throughout their lives, even when it may be challenging or inconvenient.

The Right Protections

By completing this exercise, your teenager will learn about the different types of insurance and their importance, and will be better prepared to make informed decisions about their insurance needs in the future. They will also learn the importance of budgeting for insurance and being prepared to navigate the claims process if needed.

Proverbs 27:12
The prudent see danger and take refuge,

but the simple keep going

The different types of insurance and their importance:

1. Define what insurance is: Start by defining what insurance is, such as a financial product that protects you against unexpected events or losses.
2. Brainstorm different types of insurance (see below for additional resources) : Ask your teenager to brainstorm different types of insurance that they have heard of or that they might need in the future. This could include things like auto insurance, health insurance, renters or homeowners insurance, life insurance, and disability insurance.
3. Discuss the importance of each type of insurance: Talk about why each type of insurance is important, and how it can protect them from financial hardship in the event of an unexpected event or loss. For example, auto insurance can protect them from the cost of damages in a car accident, health insurance can help cover the cost of medical expenses, renters or homeowners insurance can protect their belongings and property, life insurance can provide financial security for loved ones in the event of their death, and disability insurance can provide income if they are unable to work due to a disability.
4. Identify insurance needs: Use this discussion as an opportunity to identify any insurance needs that your teenager may have. For example, if they are about to start driving, they will need auto insurance, or if they are planning to move out of the family home, they may need renters or homeowners insurance.
5. Discuss budgeting for insurance: Talk about how insurance is a necessary expense, and how to budget for it. Encourage your teenager to shop around for the best rates and coverage, and to make insurance payments a regular part of their budget.

6. Explain the process of making insurance claims: Use hypothetical scenarios to practice making insurance claims and navigating the claims process. For example, if they were in a car accident, what steps would they need to take to file an insurance claim? This will help prepare them in the event that they need to make a claim in the future.

Here are 18 common types of insurance with brief definitions of what they cover:

1. Auto insurance: Auto insurance covers the policyholder against financial loss in the event of an accident, theft, or damage to their vehicle. It can also provide liability coverage in the event that the policyholder is responsible for causing injury or property damage to others while driving.
2. Health insurance: Health insurance covers the cost of medical expenses, including doctor visits, hospital stays, and prescription medications. It can also cover preventative care, such as annual check-ups and immunizations.
3. Homeowners insurance: Homeowners insurance covers the policyholder's home and belongings against damage or loss due to events such as fire, theft, or natural disasters. It can also provide liability coverage in the event that someone is injured on the policyholder's property.
4. Renters insurance: Renters insurance covers the policyholder's belongings against damage or loss due to events such as theft, fire, or water damage. It can also provide liability coverage in the event that someone is injured while visiting the policyholder's rental property.
5. Life insurance: Life insurance provides a death benefit to the policyholder's beneficiaries in the event of their death. It can help provide financial security for loved ones by covering expenses such as funeral costs and debt.
6. Disability insurance: Disability insurance provides income replacement in the event that the policyholder becomes unable to work due to a disability. It can help cover living expenses and maintain financial stability during a difficult time.
7. Travel insurance: Travel insurance covers the policyholder against financial loss due to unexpected events that may occur while traveling, such as trip cancellation, medical emergencies, or lost luggage.
8. Pet insurance: Pet insurance covers the cost of medical expenses for pets, including routine check-ups, surgeries, and medications. It can help pet owners avoid unexpected expenses and ensure that their pets receive necessary care.
9. Business insurance: Business insurance covers the financial losses that a business may experience due to unexpected events such as property damage, liability claims, or business interruption. It can help protect a business's assets and financial stability.

10. Flood insurance: Flood insurance covers damage to a property due to flooding. It is often required for properties located in high-risk flood zones, but can also be purchased by homeowners who want additional protection against flooding.
11. Umbrella insurance: Umbrella insurance provides additional liability coverage beyond what is provided by the policyholder's other insurance policies, such as auto or homeowners insurance. It can help protect the policyholder's assets in the event of a lawsuit or other liability claim.
12. Dental insurance: Dental insurance covers the cost of dental care, including routine check-ups, cleanings, and more extensive procedures such as fillings and crowns.
13. Vision insurance: Vision insurance covers the cost of vision care, including routine eye exams, prescription glasses or contact lenses, and certain eye surgeries.
14. Liability insurance: Liability insurance provides coverage for damages or injuries that the policyholder may cause to others. It is often included as part of auto and homeowners insurance policies, but can also be purchased separately by businesses or individuals who want additional liability coverage.
15. Identity theft insurance: Identity theft insurance covers the expenses associated with recovering from identity theft, such as the cost of credit monitoring, legal fees, and lost wages. It can help protect against the financial impact of identity theft.
16. Critical illness insurance: Critical illness insurance provides a lump sum payment to the policyholder in the event they are diagnosed with a specified critical illness, such as cancer, heart attack, or stroke. The payment can be used to cover medical expenses or other costs associated with the illness.
17. Long-term care insurance: Long-term care insurance covers the cost of care for individuals who need assistance with activities of daily living, such as bathing, dressing, and eating. It can help cover the cost of care in a nursing home, assisted living facility, or at home.
18. Short-term disability insurance: Short-term disability insurance provides income replacement for a limited period of time (typically up to six months) in the event the policyholder becomes temporarily disabled and is unable to work. It can help cover living expenses and other financial obligations during the period of disability.