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Young need to get a financial life early
In increasingly complex world, money smarts become more important than ever

By David Robinson - NEWS BUSINESS REPORTER

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Matthew Reynolds is still in high school, but already thinking about what he will have to save for his retirement.

"You've got to invest properly, especially with Social Security" facing a questionable long-term future, said Reynolds, a senior at Springville-Griffith Institute.

"Budgeting is big," he said. "For a lot of people, you don't realize what you actually need to live, what you need to save for."

Financial experts say Reynolds is right. Good money skills are more important than ever for students.

"We all need to be financially literate to avoid pitfalls, like foreclosure and bankruptcy," said M. Susie Irvine, the president and chief executive officer of the American Financial Services Association Education Foundation.

"The earlier we learn these concepts, the better off we are," she said last week at a high school financial literacy competition on the University at Buffalo North Campus in Amherst.

After all, it's more complicated than ever for students, who along with the day-to-day financial budgeting and money management demands, are facing long-term hurdles, such as retirement savings and skyrocketing college costs that are much more complex and costly than those their parents faced.

No longer is buying a car just about whether you can afford one and what the monthly payments will be. Are you better off leasing or buying? Is it better to take the $1,500 rebate or the cut-rate financing? asks David Rutecki, an administrative vice president at M&T Bank.

Experts say parents can't start too early teaching their children the value of money.

* Start saving. Open a savings account for your children and encourage them to save some of their money. Even elementary school children can learn to save a portion of the birthday money they get from their grandparents.

* Consider an allowance. Experts are split on the wisdom of giving children an allowance. Irvine says they can be a helpful learning tool, as long as they're linked with specific chores or responsibilities in the home. And children who receive an allowance shouldn't expect Mom and Dad to pay for everything.

"If you do it early on, with the understanding that you save first, have some fun with some of it, and that the child has the responsibility for buying some of their things, like a bike," Irvine said. "As they grow older, they get more money, and with that comes more responsibility."

* Don't be an ATM machine. "Probably the biggest mistake a parent can make is dealing with their children with an entitlement mentality," said **Anthony J. Ogorek**, who runs Ogorek Wealth Management in Amherst.

"Parents love their kids, and they want to do the best for them," he said. "But don't insulate them from the true cost of things."

So if junior wants a pair of $100-plus sneakers, offer to pay the $50 or so it might cost to buy a less trendy, but perfectly acceptable pair. If junior really wants the more expensive pair, he can pay the difference himself, Ogorek suggests.

That teaches budgeting and forces a child to consider whether those sneakers really are worth the extra money.

"All of us have to make economic decisions on a daily basis. That's where kids get shocked," Ogorek said. "As long as you're spending Mom and Dad's money, your economic interests are different from when you're spending your own money."

As a child gets older, that approach can carry over to more costly expenses, like car insurance. "Maybe you have your child pay 25 percent of the auto insurance and pay all of the gas costs," Ogorek said.

* Don't keep the family budget a secret. You don't have to share all the details with your children, but don't shy away from talking about the family budget and how its limitations impact your spending decisions.

"It's so important to include the kids in the finances of the family," said Peter Aleksandrowicz, a Hamburg financial planner and a former Hamburg High School teacher. "You've got to include them."

Irvine agreed. "The best thing a parent can do is communicate," she said. As a child gets older and gets a job, come to an agreement on what expenses should become the responsibility of the child.

"I don't think it hurts them one bit," Irvine said. "A good concept to learn is that money is limited."

* Start investing. The stock market can be a confusing and intimidating thing for a student. One way to overcome that is to start them investing at an early age, beginning with a few shares of an individual stock or a small stake in a no-load mutual fund with a low minimum purchase.

"Get them involved in investing at an early age," Aleksandrowicz said, noting that a $3,500 investment by an 18-year-old that returns 8 percent a year will grow to nearly $500,000 by the time that child turns 68, even without adding any more money to the account.

But don't just buy the shares and leave it at that. Track the stock or mutual fund. Talk with your child about how it's doing and why.

Understanding the stock and bond markets is more important than ever because, as pension plans are replaced by 401(k) programs, children today will bear more responsibility than their parents for funding their retirement, Ogorek said.

* Understand credit and its risks. Discuss the risks -- and the costs -- of credit card debt. Explain to your children how that $100 purchase on a credit card at 24 percent annual interest can wind up costing a lot more than that if it's not paid off right away.

"You've got to show them what the real cost is," Aleksandrowicz said.

The same concept applies to longer-term debt, from student loans to car loans.

* Parents as role models. In other words, save as much as you can. Keep debt under control. Follow a budget. Have an investment plan.

"A lot of kids don't really listen to what their parents say, but they watch what their parents do," Ogorek said. "You can lead by example."