

Build Your Teen's **Financial Literacy**



Why does financial literacy matter?

What is financial literacy, and why is it so important for today's teens? A financially literate teen (or adult) has skills and knowledge related to earning, managing and investing money. This understanding helps them make short-term and long-term decisions about money that create a more secure financial situation.

A recent study shows that only 50 percent of adults in the United States understand basic financial concepts like saving and investing. Another study shows that Generation X youth (born in 1965-1980) reported an average debt of \$60,000 by their late 20s. Millennials (born in 1981-1996) reported owing the same amount earlier—by their mid 20s.



The good news is that young people who develop solid financial literacy skills are more likely to become adults with greater savings, higher credit scores and less debt. Families can build these skills in their teens by talking about money early and often. This guide offers practical advice and teen-friendly activities that families can use to help students make informed spending decisions, understand credit and debt, and manage money.

Have your teen study financial literacy

Half of all states require high school students to successfully complete a financial literacy course. Teens who have formal training in economics tend to improve their financial knowledge and behavior in the short and long term, so encourage your teen to take a class, even if it isn't required. Ask about what your teen is learning and encourage your teen to apply concepts and skills from the course to real life.



The cost of living

How much does a car tire cost? A month of internet access? Many teens have no idea. Yet the first step toward making informed buying choices is to get a general sense of what goods and services cost. Play this version of The Price Is Right together to teach your teen how much your family spends on everyday purchases.

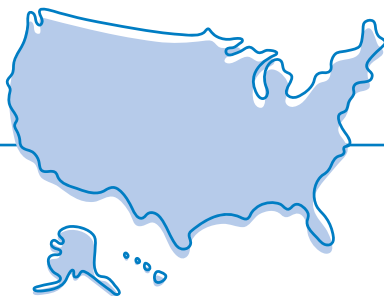
1. **Give each player** five slips of paper. On each slip, a player writes a good or service that your family uses regularly (bread, cell service, toothpaste). For your own slips, choose expenses your teen might not consider, like health insurance and laundry detergent. Each player lays their slips face down in front of them.
2. **Take turns** flipping over one slip and placing it in the middle of the table. The object of the game is to arrange the slips in order from least to most expensive. Players may move items to make room for new items between them.



3. **Have your teen** go online to research the average cost of each expense. How many did your family get right? Which prices surprised your teen the most?



Explain to your teen that prices vary depending on your location. Challenge your teen to research the price of one gallon of milk and one gallon of gas in several major cities and small towns across the U.S. What does your teen notice? Why might prices be higher in a big city?



Raise a wise consumer

One of the best everyday ways to raise a savvy consumer is to shop with your teen. Explain strategies you use to get the best value for your money, and involve your teen in spending decisions throughout the shopping process. You might:

- **Look at advertising circulars** for sales and coupons together. Discuss whether it's worth your time and money to drive around and shop at multiple stores. Ask your teen to compare prices and point out potential savings.

- **Read unit prices.** Explain that the price per item is usually lower if you can buy in bulk. Share strategies for avoiding waste, such as freezing extra meat.

- **Buy store brands.** These are less expensive than brand-name products, in part because stores don't pay to advertise them. Sometimes they're nearly identical—only the packaging is different. Challenge your teen to a blind taste test, perhaps with brand-name vs. generic yogurt. Can your teen tell the difference?



- **Weigh now vs. later costs.**

This is especially important if you include your teen in a major buying decision. For instance, buying a very inexpensive car now may lead to expensive repair costs later.



- **Read the fine print.** When comparing two car insurance policies or internet plans, show your teen how you make sure you are comparing similar coverage or services. Also explain how you carefully consider hidden costs, such as in-app purchases and subscriptions (discuss “free” trials and one-time charge vs. recurring charges).



Explore the true cost of credit

Credit is an agreement between a borrower and a lender. Borrowers use credit to buy goods and services now and pay for them later. However, borrowers also pay *interest*—the fee for borrowing money. Borrowers can avoid this fee by paying off their entire balance each month. Try this activity to help your student understand credit and its cost:

Have your teen research the price of a product, such as a laptop. Say it costs \$1,250 (this is called the principal), and your teen pays using a credit card with a 27% APR (Annual Percentage Rate—the fee for using the credit). If your teen makes the minimum monthly payment (say, \$100), how long will it take to pay it off? How much will the laptop end up costing? Have your teen follow these steps:



1. **Divide** the APR (27%) by the number of days in a year (365) to get the daily interest rate ($.27 / 365 = 0.0007$).
2. **Multiply** the amount owed (\$1,250) by the daily rate (0.0007) to get the daily interest rate for the amount (88 cents).
3. **Multiply** the daily interest rate (88 cents) by the number of days in the first month (say, 30) to get that month's interest charges (\$26.40).

- 4. Add** the interest to the total amount borrowed ($\$1,250 + 26.40 = 1,276.40$) and subtract the monthly payment ($\$1,276.40 - 100$) to get the new balance ($\$1,176.50$).
- 5. Calculate** the daily interest rate due on the balance ($\$1,176.50 \times .0007 = .82$) and the total interest charges for the next month. Add each month's interest and subtract each month's payment until the balance is zero.

Your teen can also use a credit cost calculator, such as Experian's (<https://www.experian.com/blogs/ask-experian/credit-card-payoff-calculator>).

Terms to know

Compound interest: Interest that is charged on interest. On a typical credit card, an interest fee is added every month to the total amount that the borrower owes.

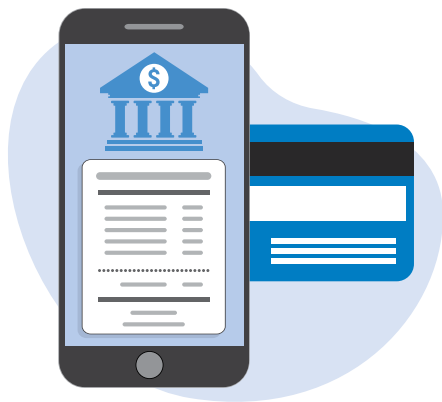
Annual percentage rate (APR): For most credit cards, the interest rate is the same as the APR. (For cards and loans with fees, the fees are counted as part of the APR.)

Managing money: Saving and spending

Having a little money of their own can help teens learn to manage finances, including juggling spending and saving. Potential income sources for teens include an allowance, gift money or a part-time job. Teens can also do yard work, babysit, etc. If you decide your teen can get a job, show where to look for openings, and talk about how many hours are reasonable during the school year. Then, help your teen implement these strategies for managing income:

Open a checking account

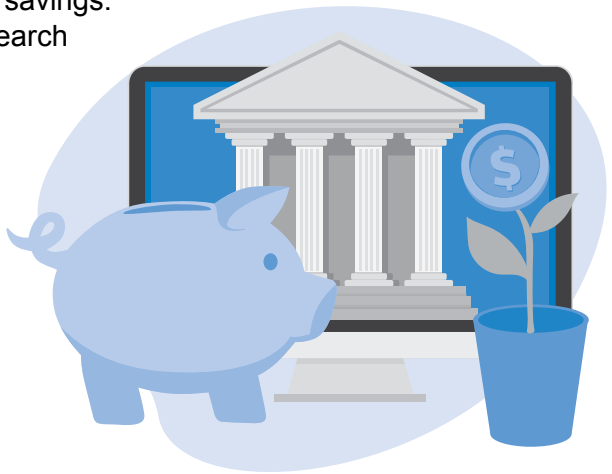
Together, research and compare options to avoid unnecessary fees. Many banks offer free accounts specifically for students. Explain how a debit card works (money comes straight out of your teen's account) and what overdraft fees are (charges for spending more money than is in the account). If possible, have your teen get overdraft protection on the account. And show your teen how to record and cross-check transactions with bank records.



Start a savings account

“Pay yourself first!” Teach your teen this motto when it comes to saving money. It can help teens achieve savings goals—now and in the future. Experts recommend that teens save about 10% of their income, or about three months’ worth of expenses. This allows for unexpected expenses and events (flat tire, loss of job) and long-term savings. To determine how much to save, suggest tracking how much your teen actually spends in a month and multiplying this amount by three. Also, explain that banks pay account holders interest on savings.

Help your teen research savings account options to choose the one with the best interest rate and terms.



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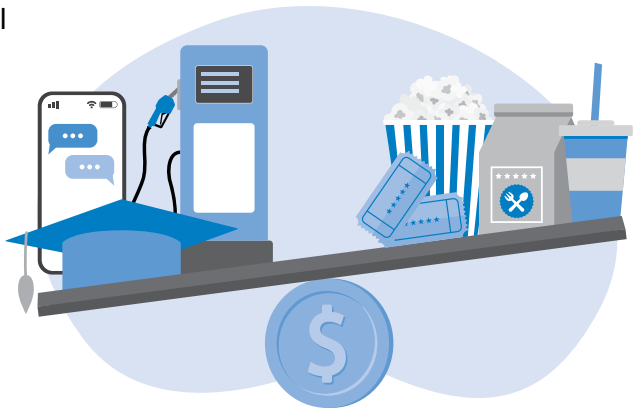
Create—and stick to—a budget

Your teen can do this on paper or use a budgeting app or create a spreadsheet. Be clear about what you will pay for and what your teen is responsible for. For instance, you might provide meals at home, but food out with friends will come out of your teen's budget. If your teen overspends, avoid providing more money—let the experience teach your teen the important lesson that money is limited.



Spend wisely

Teach your teen to consider needs (gas, regular bills) first, and then wants (fast food, movie tickets). Together, brainstorm ways to save money on wants. Your teen can eat at home before going out so there's less temptation to hit the drive-thru. Or, your teen might wait until a movie is available to stream instead of going to the theater. At the same time, help your teen make plans to save for wants. How much can your teen set aside each week for a special purchase? How long will it take to save the money, and will the purchase really be worth it?



Recognize scams and fraud

As teens become more independent with their finances, they will encounter offers and messages that may not be legitimate. It's crucial they learn to identify these red flags.

- **Phishing.** Explain that phishing is a scam where criminals try to trick people into giving up personal information like passwords or bank account details. They might send an email or text message that looks like it's from a trusted company, but it's fake. Tell your teen not to click on links or call telephone numbers in these communications. Instead, your teen should call the bank directly, using the number on real account documents.

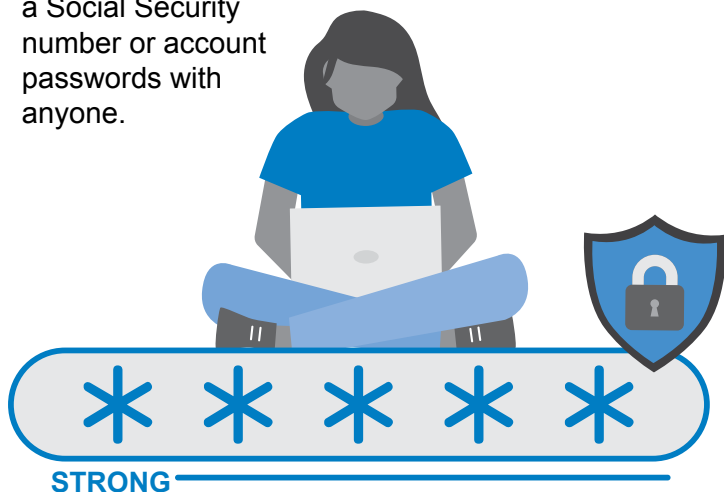


- **Too-Good-to-Be-True offers.** Remind your teen that legitimate opportunities or contests won't ask for banking information or a fee to claim a prize.

Protect passwords and identity

Your teen's digital identity is directly connected to financial security. Help your teen establish safe habits now to prevent future problems.

- **Create strong passwords.** A strong password is the first line of defense. Advise your teen to use a unique password for every financial account and to make them long and complex, using a mix of letters, numbers and symbols.
- **Don't share personal information.** Stress the importance of not sharing sensitive information like a Social Security number or account passwords with anyone.



Summary

Financial literacy fosters independence, promotes long-term stability and lays the foundation for teens to navigate the financial world confidently. Families can raise financially literate teens by discussing economic concepts like saving, budgeting, spending—and teaching them to think analytically about their choices now and in the future.



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