

FDIC



Consumer News

Spring 2015



Teaching Young People About Money Tips for Parents and Caregivers

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FEDERAL DEPOSIT INSURANCE CORPORATION

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Teaching Young People About Money: Tips for Parents and Caregivers

It's never too early or too late to introduce everyday financial concepts to a young person. And, you don't have to be a financial expert. Here are tips from *FDIC Consumer News* to help parents, guardians and caregivers show a child — from a preschooler to a college kid — why and how to become responsible with money.

Engage in regular conversations about money-related topics:

That includes discussing with your child what you are doing, and why, when you manage money at home, around town or with the bank. For example, consider talking about similar products that have noticeably different prices at a store, and how you decide what is a good deal. And, you can explain that having a savings account at a bank has advantages such as income from interest, peace of mind of knowing the money will be there when you need it, and FDIC deposit insurance coverage for each customer up to at least \$250,000 if the bank fails.

"If you are using plastic to pay for purchases, consider explaining the difference between a debit card, which is like writing an electronic check, and a credit card, which requires the consumer to make a payment in the future," said Luke W. Reynolds, Chief of the FDIC's Outreach and Program Development Section. For more information about credit and debit cards, see the Summer 2012 *FDIC Consumer News* (www.fdic.gov/consumers/consumer/news/cnsum12/paymentcards.html).

Even with automatic transfers, such as direct deposit of your pay, consider using your bank statements to show how money can move in or out of your account.

And, special times of the year — like during tax time or your workplace's "open season" for selecting health insurance — present opportunities to explain financial decisions.

Consider giving an allowance as a teaching tool. It can be a positive way to teach kids, even those who are preschool age, about money management. But before you give the first allowance, help your child decide how much he or she will spend now and how much to save for future goals. Then, help your youngster see whether that target is being reached by looking at a bank statement online or a paper copy. Also talk through the tradeoffs involved with spending decisions, such as how buying one toy may mean forgoing going for the opportunity to purchase another item the child also wants.

"There are many approaches to how best to structure an allowance, particularly whether to tie it to work such as household chores, so each family will need to decide what is best for them," Reynolds added.

Think twice before giving a child more money if he or she runs out of funds before the next allowance payment. That's because part of the

purpose of an allowance is to teach savings skills, self-control and the benefits of waiting to enjoy a bigger reward.

And, for younger kids, consider paying an allowance in smaller denominations to make it easier to learn counting and saving skills.

Help your kids develop a healthy skepticism of advertising and unsolicited inquiries:

In general, teach children how to analyze advertisements; they need to know that "special offers" often are not the great deal they appear to be.

Even young consumers are targets for identity thieves and among the victims of scams and rip-offs. Information for parents on protecting children's personal information from identity theft is available at www.onguardonline.gov/topics/protect-kids-online.

The articles starting on the next page offer specific tips for different grade ranges. (Some of the tips may be helpful for slightly older or younger kids.) And for a list of resources for parents and caregivers, see Page 5. 📖

FDIC Publishes New Resources for Teaching Young People About Money

In April 2015, the FDIC launched Money Smart for Young People, a series of financial education curriculums for four age groups — Grades Pre-K-2, 3-5, 6-8, and 9-12 — including lesson plans for teachers and resources for parents and caregivers. The free resources are designed to improve financial education and decision-making skills among young people.

The FDIC worked in partnership with the Consumer Financial Protection Bureau (CFPB) to develop these new educational tools. The parent/caregiver guides are available in English and Spanish through www.consumerfinance.gov/parents, a Web site developed by the FDIC and the

CFPB. Educators can download the full curriculum, including lesson plans, at www.fdic.gov/consumers/education/torc/curriculumtools.html.

"It is important that financial education begin at a young age so that children can build long-term, positive financial habits," FDIC Chairman Martin J. Gruenberg said. He added that the new tools for parents and teachers will help kids "build financial capability and take advantage of the opportunities in the banking system to reach their financial goals."

Also available through the FDIC link above is more information on the FDIC's Money Smart program as a whole, which includes curriculums for people of all ages. 📖

For Pre-K to Grade 2

Earning and Saving Right From the Start

Children in this age group are naturally curious about the world around them, including money. By introducing several basic concepts — and being a good role model — you can help them gain financial skills that can last a lifetime.

Learn about how money is made and used:

Children can be introduced to money as soon as they learn to count. Even if you usually pay by credit or debit card, once in a while use bills and coins so your child can learn about the different values. Imaginary games, such as pretending to be at a store or restaurant, can help teach money concepts, too. Role playing with real coins can be especially advantageous because it can teach children the values of different coins, but remember that

coins are a choking hazard for younger kids. The U.S. Mint has resources for parents to use at www.usmint.gov/education.

Learn about how money is earned:

Getting paid for little chores will allow your child to learn the value of working and earning. Consider making a chart for jobs your child can perform and include the payment amount for each completed task.

Start to save: Consider separating spending money from savings. Begin with clearly labeled jars or piggy banks for your child to divide up his or her cash. This will show your child that spending and saving should go hand in hand.

Understand the difference between needs and wants:

For your child to make good spending decisions, he or

she will need to be able to identify and distinguish needs (things you cannot live without, like food and shelter) from wants (toys and candy). One game you can play involves singling out items in your house and asking your child if it's a need or a want...and why. You can try the same thing while shopping.

Borrow responsibly: Children at this age generally don't understand the difference between buying and borrowing — they have to be taught how to be responsible for borrowed items and to return them on time. Help your child create and maintain a list of items he or she has borrowed from friends or relatives, along with the date due. Doing so will support the concepts of responsible borrowing and personal accountability. 🏠

For Grades 3-5

The Creation of a Comparison Shopper

Kids in this age group are ready for meaningful lessons about saving and spending money wisely. Many also are ready to open their first savings account, if they haven't already. Here are key concepts to teach.

Think before you buy: Continue discussing with children how to separate their needs from their wishes. Also help them think how to prioritize how they use their money. Consider, for example, making a household shopping list and asking your child to number the items in the order of importance. Also use visits to the store to point out how advertisements can lead to unnecessary purchases or steer consumers toward products that are more expensive than alternatives.

Try to stick to a budget: Creating a simple spending plan at this age will teach him or her to set limits on expenditures, prioritize spending choices, and avoid running out of money. Younger kids may verbally agree to a spending plan, while older kids can write it down. You will likely need to help the child keep written track of spending so both of you can monitor the progress.

Consider opening a savings account with your child: Shop together for the account, and pay particular attention to the account balance needed to open the account and to maintain it without incurring fees. Also point out the interest rate, which will be expressed in advertisements as the “Annual Percentage Yield” (APY). Many banks offer special savings accounts for young people that can be opened and maintained for less money than a regular savings account.



Consider reviewing with your child one of the savings account statements that shows transactions. “If you also encourage your child to keep a log of the money in the account, that could be an opportunity for you to work together on a simple math exercise and learn the value of keeping track of money,” said Luke W. Reynolds, Chief of the FDIC’s Outreach and Program Development Section.

And when you’re at the bank to open or access an account, ask a customer service representative to talk about what the bank does (it takes deposits, makes loans, and so on) and that money kept in a bank is safe.

Know that there are different ways to pay for things: Children can benefit from understanding where the money is coming from when people pay for purchases by writing a check or swiping a credit or debit card. Use your bank and credit card statements and ATM withdrawal receipts to explain that actual cash is either deducted from an account or it must be paid back by a certain date. If you’d like useful information about how to pay for purchases safely in person or online, see our Spring 2014 article at www.fdic.gov/consumers/consumer/news/cnspr14/safeshopping.html. 🏠

For Grades 6-8

Tips for the Teen Years ... and Beyond

Middle-school children are more likely to begin earning money outside of the house, and their increasing “wealth” and independence can open the door to costly impulse purchases. What advice can parents and guardians pass along to them?

Work more, earn more: Create opportunities for your child to earn more money by performing additional chores around the house or working a summer job. You also can help your budding entrepreneur start a small business in the neighborhood, such as dog sitting for neighbors. Depending on your state’s labor laws, your child may be able to explore other opportunities, such as working

part-time year-round at a grocery store, once he or she turns 14.

Save for long-term goals: Start by discussing the costs of college and other larger expenses. Then you can explain the benefits of saving in a federally insured account and



investing for your most important future needs and wants instead of borrowing money and paying interest. Together, you can visit your bank or review product offers online and find a good savings account (if they don’t already have one). This also is a good time to introduce the topic of how, over time, investments in stocks, bonds or mutual funds can grow money more quickly than deposits in savings accounts. But also point out that investments such as these involve the risk of losing some or all of the money.

Learn about credit cards and borrowing costs: Help your child understand the pros and cons of making purchases with a credit card. Consider reviewing a card offer and discussing some of the commitments

continued on the next page

For Grades 9-12

It’s Like ... How to Speak to High School Kids About Money. Totally!

Here are key tips to help your high school students begin to connect the facts of personal financial education with real-life opportunities ... and then to begin implementing them.

Get to know what taxes are: If you haven’t already, review a pay stub together and explain that the taxes are used to pay for services that include roads, parks and libraries.

Help them think about career goals: Discuss career interests and dream jobs ... and what you both can do (beginning now) to help make them a reality. Consider talking about the jobs that members of the family, friends or mentors have held. If your employer offers a “take your child to work” day, it can be a great opportunity to describe what you and others do for a living.

For those younger than 18 who want to get a job, check what’s permissible under your state laws. To find out, start at the U.S. Department of Labor’s Web site at www.dol.gov/whd/state/state.htm.

“You can also plant seeds for entrepreneurial ambitions by talking about how successful businesses often

originated with an idea that started small; this can inspire perseverance and ambition,” noted Luke W. Reynolds, Chief of the FDIC’s Outreach and Program Development Section.

Explain that buying a car is a big commitment: If your teen wants to own a vehicle, help him or her determine whether it is a need (such as for going to school or work) or a want (maybe simply for convenience or because peers have one). Explain the financial responsibilities, such as insurance premiums, maintenance and repairs, and fuel costs. This can be a good time to decide on who will pay these expenses. If you will be sharing the responsibility, make sure you both agree how he or she will do so.

Reinforce the idea that money in a federally insured financial institution is safe: Remind your teenager that a checking, savings or other deposit account at a financial institution will carry protections related to theft and fraud, and that federal deposit insurance will prevent loss from a bank failure. If he or she doesn’t already have a deposit account, consider opening one. Learn more

about the FDIC and federal deposit insurance, including how to verify that one of your banks is FDIC-insured, by going to www.fdic.gov.

Examine the benefits and risks of non-deposit investments: Explain how investments such as stocks and bonds have the potential for higher returns over many years, but they also can lose money. If you have an investment account for or with your child, consider reviewing your brokerage statements together. Also talk about what can make a particular investment, such as a favorite company’s stock, worth buying.

To learn more, including ideas for teaching key concepts about investing, start at <http://investor.gov/outreach/> parents on the Web site of the U.S. Securities and Exchange Commission.

Stress the importance of keeping personal information secure: If your teen uses social media, discuss why sharing too much personal information can expose him or her to identity theft. For more information, read our tips for young adults in the Fall 2012 *FDIC Consumer News* (www.fdic.gov/consumers/consumer/news/cnfall12/avoidfraud.html). 📖

For College Students

Passing Big Tests on Money Management

With their new independence, college students often must make financial decisions that can have consequences for years. And getting a student loan or credit cards can influence long-term financial success. Here are ways to strengthen decision-making skills.

Choose a bank carefully: Help your young adult shop around for a bank account that can be accessed using ATMs on or near campus without paying a fee. Consider opening an account before the start of the semester so it is ready to use when your child needs it, which may be before classes start. If your child has a job, consider encouraging him or her to sign up for direct deposit, which is generally the fastest and safest way to receive money or other payments.

Do your research before applying for a student loan: If your student has to borrow to pay for some or all of a college education, jointly review

the different types of student loans. Choose one that's low-cost and has flexible repayment terms, which will generally be a federal student loan. The Consumer Financial Protection Bureau (CFPB) has a "Paying for College" Web page (www.consumerfinance.gov/paying-for-college) that includes a "shopping sheet" to help compare financial aid offers.

Understand the pros, cons and costs of debit and prepaid cards: Debit cards enable consumers to withdraw money from their checking accounts for purchases or cash. Prepaid cards are used to access money that has been loaded (added) onto the card, which is not connected to a bank account. Many colleges recommend or offer specific cards, often to disburse financial aid or other related funds. However, these school-affiliated

cards are not necessarily the best deal for all students. To research and compare debit or prepaid cards and learn how to avoid overdraft fees, start at the CFPB's home page (www.consumerfinance.gov).

Use credit cards responsibly: While credit cards are a convenient way for young people to establish a credit history, they can make it easier to spend money. Purchases that cannot be paid in full by the due date will incur interest. Some young people end up carrying balances on their credit cards and pay significant interest costs for years. And, running a balance that is close to the credit limit can hurt a young adult's credit score. This makes borrowing more expensive and counts against them when they apply for a job, an insurance policy or an apartment. For tips on using credit cards wisely, see the Winter 2013/2014 *FDIC Consumer News* (www.fdic.gov/consumers/consumer/news/cnwin1314/creditcards.html). 📖

For Grades 6-8

continued from the previous page

you'd make if you were to sign up. Be sure to point out how you would owe interest if you made a purchase with the credit card and didn't pay off the balance in full. And, explain the consequences of not making credit card payments on time. You might introduce your child to the concept of personal credit scores and how a low credit score can mean you'll pay more in interest costs than someone with a higher score. For tips for young adults on building a good credit record, see our Fall 2012 issue at www.fdic.gov/consumers/consumer/news/cnfall12/goodcredit.html.

Protect yourself from financial crimes: Young people need to know that they are vulnerable to identity theft, fraud and other risks. See the resources in the box on the right for tips on how to teach them to protect themselves online and when they use social media, particularly for shopping and banking. 📖

How to Learn More

The Federal Deposit Insurance Corporation has a variety of free resources that parents and caregivers can use to teach young people about money management. These include:

- *Money Smart for Young People*, a new series of lesson plans for teachers and resources for parents helping youths ranging from Pre-K through age 20 (see Page 2 and <https://www.fdic.gov/consumers/education/torc/curriculumtools.html>);
- *The Learning Bank*, the FDIC's Web page for students, teachers and parents that includes information about using money wisely and avoiding scams (www.fdic.gov/about/learn/learning/index.html); and
- *FDIC Consumer News*, our quarterly newsletter featuring tips and information about financial matters, including articles aimed at different age groups (www.fdic.gov/consumernews).

Kids.gov, the official U.S. government Web site with information, games and

videos for children and resources for parents and teachers, has a money page at <http://kids.usa.gov/money/index.shtml>.

The Consumer Financial Protection Bureau (CFPB) has a Web page with information for children and parents, including resources developed in partnership with the FDIC, at www.consumerfinance.gov/parents.

MyMoney.gov, the federal government's Web site for information on handling personal finances, offers helpful resources from more than 20 federal agencies at www.mymoney.gov.

The JumpStart Coalition for Personal Financial Literacy, which consists of about 150 national partners including the FDIC, has an online library of resources for teaching pre-school through college-age youth at www.jumpstart.org/jumpstart-clearinghouse.html. For a parents' guide called "How to Raise a Money Smart Child," go to www.jumpstart.org/assets/files/MoneySmart%20Child.pdf. 📖

Computer Security Tips for Bank Customers: A Basic Checklist

Computer-related crimes affecting businesses or consumers are frequently in the news. While federally insured financial institutions are required to have vigorous information security programs to safeguard financial data, consumers also need to know how to protect and maintain their computer systems so they can steer clear of fraudsters. Here is a short checklist.

1. Protect your computer. Install anti-virus software that scans your computer for malicious software (“malware”) that can steal login IDs, passwords and account information (including credit or debit card numbers). Also use a firewall program to guard against unauthorized access to your computer. “Anti-virus protection and firewall options vary, and some are free,” said Michael Benardo, Manager of the FDIC’s Cyber Fraud and Financial Crimes Section. “Choose one, install it, and then set the software to update automatically.”

2. Safeguard your smartphone, tablet and similar mobile devices, especially when using them for banking or shopping. Reduce your risk of downloading “apps” (applications) that contain malware by using well-known app stores, such as those established by your phone manufacturer or cellular service provider, or from the official Web site of the bank.

Also, to ensure that you have the latest fixes to software problems affecting mobile devices, opt for automatic updates for your operating system and apps or manually download updates as soon as you receive notice that they are available. Some banks provide customers with anti-malware software that can be loaded on a smartphone. You can also purchase the software from a reputable vendor.

And, don’t leave your mobile device unattended. In case your device does get lost or stolen, use a password or other security feature to restrict access. You should enable the “time-out” or “auto-lock” feature on your mobile device to secure it when it’s not used for a period of time. “Some phones have a remote feature that will allow you to

erase all the personal information on your phone or disable it in the event that your phone is lost or stolen,” said Jeff Kopchik, a Senior Policy Analyst with the FDIC.

3. Understand your Internet safety features. When you are buying something online or filling out an application that contains sensitive personal information, you can have greater confidence in a Web site that encrypts or scrambles the information as it travels to and from your computer. Look for a padlock symbol on the page and a Web address that starts with “https://.” The “s” stands for “secure.”

4. Be careful where and how you connect to the Internet. A public computer, such as at an Internet café or hotel business center, may not have up-to-date security software and could be infected with malware. Also, for online banking or shopping, avoid connecting your computer, tablet or smartphone to a wireless network at a public “hotspot” (such as a coffee shop, hotel or airport).

5. Be suspicious of unsolicited e-mails and text messages asking you to click on a link or download an attachment. It’s easy for fraudsters to copy corporate or government logos into fake e-mails that can install malware on your computer.

“Your best bet is to ignore any unsolicited request for immediate action or personal information, no matter how genuine it looks,” Benardo said. “If you decide to validate the request by contacting the party that it is supposedly from, use a phone number or e-mail address that you have used before or otherwise know to be correct. Don’t rely on the one provided in the e-mail.”

6. Use “strong” IDs and passwords and keep them secret. Choose combinations of upper- and lower-case letters, numbers and symbols that are hard for a hacker to guess. Don’t, for example, use your birthdate or address. Also don’t use the same password for different accounts because a criminal who obtains one password can log in

to other accounts. Finally, make sure to change your passwords on a regular basis.

7. Take precautions on social networking sites. Criminals can go there to gather details such as someone’s date or place of birth, mother’s maiden name or favorite pet and use that information to figure out and reset passwords. Fraudsters also may pretend to be your “friend” to persuade you to send money or divulge personal information. More tips on avoiding fraud on social media sites are available from the FBI and the Internet Crime Complaint Center at www.ic3.gov/media/2009/091001.aspx.

For more tips on computer and Internet security for bank customers, including how to protect yourself from data breaches, see back issues of *FDIC Consumer News* online at www.fdic.gov/consumernews. Also watch the FDIC’s multimedia presentation “Don’t Be an Online Victim” at www.fdic.gov/consumers/consumer/guard/index.html.

Also visit www.onguardonline.gov for a variety of information from the federal government on how to be safe online. The site includes new videos from the Federal Trade Commission on what to do if your e-mail is hacked or malware attacks your computer. 📧



Changes Could Help Boost Credit Scores

Your credit score, which is mainly based on your history of repaying loans, can determine your ability to borrow money and how much you will pay for it. Here is good news for some consumers: Your score may improve as a result of changes in how credit reports and scores are compiled.

In one development, FICO, a company that provides software used to produce many consumer credit scores, announced in August 2014 that unpaid medical debt will not have as big an impact on the new version of its most popular credit score.

And in December 2014, the Consumer Financial Protection Bureau (CFPB) announced that it will require the major consumer reporting agencies to provide regular accuracy reports to the Bureau on how disputes from consumers are being handled. The CFPB said medical debt in particular is a source of numerous complaints because the billing process can be complicated and confusing to consumers. The CFPB noted that the accuracy reports will help hold credit reporting companies accountable for ensuring that erroneous information does not damage a consumer's credit score.

Separately, as part of an agreement in March 2015 with the New York Attorney General's Office, the nation's three major credit reporting agencies — Equifax, Experian, and TransUnion — are taking steps that could help some consumers raise their scores. For example, they committed to conduct a more thorough review of documents provided by a consumer who is disputing information in a credit report. Also, they are clarifying how consumers can appeal the decision that the credit reporting company makes. In addition, medical debts will not appear on credit reports until they are at least 180 days past due.

These changes may help raise some consumers' credit scores and reduce their borrowing costs. In general, though, to build or maintain a good credit score, consumers need to manage their money carefully, and that includes using caution when taking on additional debt.

Here are reminders from *FDIC Consumer News* about how to achieve and maintain good credit scores:

Be cautious with how much you borrow: Credit scores are generally higher for consumers who do not “max out” or otherwise use a large share of their available credit. Being careless about borrowing money can lead to debt overload. “Keep in mind that filing for bankruptcy harms your credit score and can remain on your credit report for 10 years,” noted Elizabeth Khalil, a Senior Policy Analyst at the FDIC.

Always make your payments on time: “Whether it's your phone bill, utility bill, car loan or credit card, pay at least the minimum due, and pay it on time, because payments that are 30 days late may start lowering your credit score,” said Heather St. Germain, an FDIC Senior Consumer Affairs Specialist. “Setting up automatic payments can help you make the due dates.”

Check your credit report regularly: Erroneous or outdated information on your report or fraudulent information can hurt your credit score. “The Fair Credit Reporting Act gives you the right to dispute information on your credit report and have corrections made,” St. Germain said. “However, many people don't check their credit reports. It's better to find errors and get them corrected, since your credit report is used for many decisions, such as when an employer is making hiring decisions or when you are applying to rent an apartment.”

By law, consumers are entitled to receive a free credit report every 12 months. To request your free credit reports from each of the three major credit reporting agencies, go to www.annualcreditreport.com or call toll-free 1-877-322-8228.

For more information, including tips for avoiding credit repair scams, see previous articles in *FDIC Consumer News* (start at www.fdic.gov/consumernews/) or search by topic at the CFPB's Web site (www.consumerfinance.gov). Also check back for future updates on significant changes in credit scoring. ■

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A New Way to Save for Children With Disabilities

Parents and guardians of children with disabilities have a new, tax-advantaged savings option to help pay for expenses such as education, housing, transportation and health care not covered by insurance.

Under the Achieving a Better Life Experience Act (the ABLÉ Act), which President Obama signed into law in December 2014, certain accounts for individuals with special needs will grow tax-free if the money is used for qualified expenses. To be eligible for an account, the beneficiary can be any age, but the disabilities must have been documented before age 26.

The law directs the U. S. Treasury Department to issue regulations or other guidance to implement the ABLÉ Act. The new accounts could become available on a state-by-state basis later this year. For more information, one place to start is the Internal Revenue Service Web site at www.irs.gov.

The new accounts are somewhat similar to “529 plans” for college savings that are administered by individual state governments and they provide the same favorable tax treatment. But unlike the education savings plans, if your state does not have its own program for ABLÉ accounts (also called “529A” accounts), it may contract with another state to provide them to its residents. You cannot obtain an ABLÉ account from just any state’s program.

Generally speaking, ABLÉ account investments and earnings also will not disqualify an eligible individual’s entitlement to federal benefits that are subject to income limits, such as Medicaid.

The new accounts offer an alternative to “special-needs trusts,” which also can help families save for disabled children without risking federal assistance. While annual contributions to ABLÉ accounts are limited (unlike special-needs trusts, which have no dollar limits), they may

have certain tax advantages. Please consult with your tax adviser.

How will deposits in an ABLÉ account be covered by federal insurance? “Funds owned by an eligible disabled individual and deposited at an insured institution will be insured up to \$250,000 as single-ownership funds along with any other individually owned deposits the person may have at the same FDIC-insured institution,” said Martin Becker, Chief of the FDIC’s Deposit Insurance Section. He also noted that deposits in special-needs trust accounts are separately insured up to \$250,000 in a different insurance category for irrevocable trust accounts.

Stay tuned to *FDIC Consumer News* for future updates. To learn more about ABLÉ and special-needs accounts, contact your attorney or financial adviser. For more help or guidance on the deposit insurance of this new account or any other accounts you have at an insured bank, you can speak with an expert by calling 1-877-ASK-FDIC (1-877-275-3342). 🏠