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Giving Your Kids a Head Start with Financial Planning

When it comes to their kids' financial independence, many parents don't give it much thought. Here are six steps to get you started.

Step 1: Start early — It's important to start talking with your kids about financial responsibility early. Once your children are old enough to have some responsibility and able to perform small tasks, give them a list of household responsibilities and pay them a weekly allowance for completing those chores.

Help your kids make decisions with the allowance money they earn: How much should go into savings? How much should they spend? Developing an understanding of these concepts gives kids the financial confidence that will eventually lead to financial independence.

As your kids grow, teach them by modeling financial responsibility. Have budget discussions around the kitchen table with your children present. Once your children are old enough to have some responsibility and able to complete small tasks, delegate some to them and consider rewarding them with an allowance for their help with completing the chores. It also helps them to know how much their help makes a positive difference for the family.

Step 2: Set goals — Encourage your kids to set goals; goals are, after all, the driving force behind any financial plan at any age. Whether they want a toy or a car when they turn 16, their financial plan will be driven by the goals they set. Teaching your kids to think ahead financially, to defer the instant gratification of spending today in order to achieve tomorrow's goal, will dramatically increase the likelihood that they will become financially independent adults.

Step 3: Develop a budget — When your children are ready (typically in the preteens), help them create and manage a budget. Whether they earn money from chores around their house or from work outside the home, give them the responsibility to pay for certain things. Help them understand the basic concept that expenses cannot

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Starting Is the Most Difficult Part

There is a long list of excuses many people use when asked why they don't save money. Some say they don't have enough to save. Others claim they are just procrastinating. Another remark is that they do not know which investments to use.

The bad habit of not saving is the underlying cause for all of these excuses. To reach your financial goals, grasp the good habit of regularly saving. The actual amount saved is not as critical as the actual act of saving.

There are several ways to make savings an automatic part of your financial plan. Automatic withdrawal from your account and payroll deductions are two common ways to begin a savings program. Once you begin saving, you may want to regularly review the amount you are investing, because your goals and income are likely to change. Thus, you will need to adjust your savings amount as needed.

Although regular investing does not assure a profit or protect against a loss, periodically increasing your regular savings amount may bring you closer to reaching your goals in a shorter amount of time.

Learning to save and invest over a long time takes patience, discipline, and commitment. Once you develop the good habit of regularly saving, it will become easier to do so. If you would like to review your current savings program or need help or information starting one, please call.

Giving Your Kids

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be greater than income. Help them live within their means, suggesting ways to tailor expenses.

Sit down with your children at least once a month to go over the budget. Look at where they spent their money in the previous month or week. How do they feel about those spending decisions in retrospect? Do they wish they would have done things differently? When you have these kinds of conversations with your children, you're showing them how to think about money and how to make decisions.

Step 4: Build credit — Developing credit is a very important part of financial planning. Good credit will enable your children to buy a car and a home at reasonable interest rates. Unfortunately, credit is one of the areas where young people tend to have the most trouble.

There are a number of ways to help your children prepare for the responsibility of a credit card:

- Prepaid credit cards function in much the same way as debit cards do — not letting the cardholder spend above the prepaid amount — but at the same time are reported to the credit bureaus like a true credit card, allowing the cardholder to build up credit.
- Once your children have mastered the science of living within their monthly budget, you may allow them to take out a low-limit credit card.

Step 5: Save — A savings account is a great way to get your children into the habit of saving (and it is a habit, as well as a mindset). As they get older, you might look into higher earning, low-risk investment accounts, money markets, or government bonds as ways for your children to save toward longer-term goals. These kinds of accounts do not require huge upfront investments and typically have higher rates of return than savings accounts. They're a great start to understanding the different types of investment vehicles and the trade-offs of each.

Step 6: Let go — In financial planning, if your kids never know what it's like to be truly self-reliant — if they never have the opportunity to make mistakes and fix them — they never will become financially independent.

Resist the temptation to bail your kids out every time they are in a financial crisis. When they run out of money before the end of the month, let them feel the consequences of having to eat a sack lunch while their friends go out. Next month, they'll think harder about spending more than their budget.

We are a financial resource for you and your family. Let us know how we can help. ❍❍❍

Teaching Children to Use Credit Cards

Credit cards can be a great convenience for both college students and their parents. They reduce the need to carry cash; enable students to purchase books, clothing, and other incidentals; and provide a ready source for emergency funds. There is another advantage — students who handle their credit cards responsibly have a head start on establishing a good credit history.

However, young adults can't always be counted on to exercise caution when it comes to spending money. For a student using a parent's card, the risk may come in the form of a hefty unexpected bill that cuts into monthly cash flow or reserves. But for a student with his/her own card, the risks are even more far reaching: over-limit fees, late fees, and missed payments that can damage the student's credit rating.

So what's a parent to do? While you probably can't stop your college student from getting a credit card, you can help teach him/her to use that card responsibly. Consider the following tips to help your child manage credit responsibly:

- **Help your child select a credit card.** Try to convince your child to use a debit card instead of a credit card, so he/she won't get into debt. If your child insists on using a credit card, go through several offers with him/her, comparing interest rates, annual fees, grace periods, and penalties.
- **Explain the basics of credit card debt.** Make sure your child understands that not paying the balance in full every month can result in a significant amount of interest. Low minimum payments mean it may take years to pay off credit card balances. Try to instill the concept of paying credit card balances in full every month.
- **Urge your child to only use credit cards for necessities, not to fund luxuries.** Credit cards can be used for items like book purchases and car repairs, but they should be avoided for clothing, dining out, and entertainment, unless your child can pay the balance in full every month.
- **Go over your child's credit card statement every month.** Show your child how to compare receipts to credit card statements. Go over all purchases and explain how credit cards can increase impulse purchases.

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The Facts about Rising College Costs

A report by Bloomberg.com in August 2012 indicated that college tuition and fees have soared by a total of 1,120%, or 7.2% per year, since 1978. The news organization said that health-care costs rose 601% (5.3% per year) and the cost of food rose 244% (2.6% per year) over the same period.

According to the nonprofit College Board, the average annual cost of college, including tuition, fees, room and board, books, transportation and other expenses in the 2012–13 academic year was:

Public, Two-Year Commuter	$15,584
Public, Four-Year In-State, On-Campus	$22,261
Public, Four-Year Out-of-State, On-Campus	$35,312
Private, Four-Year On-Campus	$43,289

For years, critics have been arguing that the widespread availability of federal grants and subsidized loans has enabled colleges and universities to raise the price of attendance, rewarding faculty and administrative staffs with ever-higher salaries. They also claim that elite colleges have been competing for the best students by raising their national rankings through increased spending-per-student ratios.

But a closer look at the numbers reveals that the averages are obscuring some finer points of major significance.

Public Versus Private Inflation

While public school costs — particularly those for in-state students — remain lower than nearly all private colleges, the sectors have switched places in regard to inflation. In the 10-year period from 1982–83 to 1992–93, the average annual growth in real (i.e., inflation-adjusted) total private school costs outpaced that for public colleges and universities 3.9% to 2.4%. Over the next 10 years, the real growth rates for both were equal, at 2.6% per year. But since 2002, public school inflation-adjusted price increases have surged ahead of that for private colleges, 3.8% compared to 2.3% (Source: College Board, 2012).

The most dramatic surge in public tuitions came over the past year. The Associated Press reported in June 2012 that the average tuition at public universities, unadjusted for inflation, soared 15% nationwide this year, double the average annual rate of inflation for all kinds of colleges over the past 30 years. Driving the trend has been a reduction in state aid to colleges and universities.

Earn More, Pay More

Despite the increases in college prices, offsetting increases in need-based grants, scholarships, subsidized college aid, and tax credits — resulting in a lower n*et price* than the published price of college — has protected lower- and moderate-income Americans. But that has left higher-income families to face the brunt of the most recent upticks in the cost of higher education.

Over the last 20 years, data from the College Board shows that students from families in the lower 40% of income experienced almost no inflation in college expenses. While there has been some increase in the inflation-adjusted cost of room and board, for families with below-average income, college costs have risen about 1% per year.

The richest of private American colleges and universities are leading this trend. For example, at Harvard,

most students receive financial aid, lowering the total cost of one year at the school from the published price of $55,500 to $14,550. Students attending the top 20 of Kiplinger's best value private colleges — including all the Ivy League schools and *near-Ivies* like Stanford, MIT, Chicago, and Duke — receive an average need-based aid package of more than $35,000, reducing the *sticker price* at these schools by as much as 60% to 70%.

The flip side of this is that if your family income puts you in the top 20% of Americans — starting around $100,000 — you'll probably be expected to find a way to cover the full cost.

Perhaps more than ever, trends in college costs are difficult to forecast. For low- and middle-income families, some of the most expensive private schools by *sticker price* can carry a net price that is less than that of some state schools. Families counting on the lower cost of state schools are suddenly facing much steeper costs and continued weakness in state government finances. But if you're fortunate enough to be among those in the upper reaches of the income spectrum, you're facing the full force of cost increases in either sector.

Please call if you'd like more information on college planning There are strategies designed to support affordable college planning.

Source: Jamrisko, M. and Kolet, I. "Cost of College Degree in U.S. Soars 12 Fold: Chart of the Day." *Bloomberg*. August 15, 2012.

Pistachio Kale Leaf Chips

Are you looking for a replacement for potato chips? These are surprisingly easy, affordable, and even the "vegetable adverse" really like these, if you can get them to try them. These are similar to Lay's chips with that salty, crunchy feeling you get, but you are getting the phytonutrients and fiber that your body actually needs.

A bunch of Kale, washed and chopped into small bits

Extra Virgin Olive Oil (to taste, approx 1–1.5 Tablespoons)

Salt & Pepper (optional)

20–40 Pistachios, shelled and chopped into small bits (We recommend Wonderful brand)

Directions: Wash your kale leaves and dry them. These must be dried very well. They cannot be wet or they won't crisp up. I usually wash and dry them, let them sit awhile and go do some other things. I come back and redry them one last time with towels.

Chop the kale into bits. You can use only the leaves, or the leaves and stems. The smaller you chop it, the crispier they become.

Preheat your oven to 350. Sprinkle the kale on a flat baking pan, drizzle with extra virgin olive oil, and toss the leaves with your fingers so they are completely covered in oil. Sprinkle salt and pepper to taste. We use less salt since the pistachios are salted.

Chop up your shelled pistachios into tiny bits and sprinkle them all over the leaves so they are evenly distributed. Bake 8–15 minutes. I usually check them at 8 minutes. I've baked them as long as 12 minutes. They should be brown in color and feel dry to the touch. If you're not sure if they're done, you'll have to sneak in a taste test to be sure.

Investment Answers News

You may have noticed something different when you received your quarterly newsletter this spring. We know you love to receive the information from the newsletters and that you SHARE them with your friends and family. We also know you are looking forward to the Event Season being in full swing.

Included with your newsletter is a quarterly Schedule of Events so you can mark in your calendar the events we have scheduled.

We recommend checking our website's Calendar of Events at **www.InvestmentAnswers.net**. As we are able to book more events, we add the most up-to-date information on the website calendar. Dates, locations, directions, and details about each event are included.

Another fun perk about our website calendar is that we have a history of many holidays and events. If you're ever wondering about the history of Easter, or what the difference between The Oaks and The Derby is, just go onto our website and astound your friends and family with your knowledge.

For many of you who have Assets Under Management, you will also notice your quarterly statement included in each upcoming newsletter. As always, if you have any questions, we are here for you.

Are Your Debts Growing Too Fast?

How much debt can you safely handle without jeopardizing your financial security? To find out:

- Total all of your Net Income (after tax). Include your take-home pay, interest, and investment income (less taxes taken), bonuses, etc.
- Estimate your Total Expenses (car payments, credit cards, home-equity loans, account fees and over draft fees, student loans, etc. Do not include your mortgage payments.)
- Divide your Total Expenses by your Net Income. The difference is your Debt Burden, in percentage terms.

If your debt burden is in the range of 15–20% or more, you should take steps to reduce your debt to keep it to a comfortable minimum. How can you do this? By establishing a pattern of disciplined budgeting, reducing your borrowing, living within your means, and working out repayment schedules with creditors. It's important to minimize your debt so that you don't find yourself in financial trouble.

However, there's another reason to reduce your debt. Debt, particularly expensive credit card debt, robs you of money that could be better used investing in future needs, such as your child's college education or your retirement.

Please call if you need help getting your debt under control.