Title A: Educating Your Adult Kids on the Responsible Use of Credit Cards

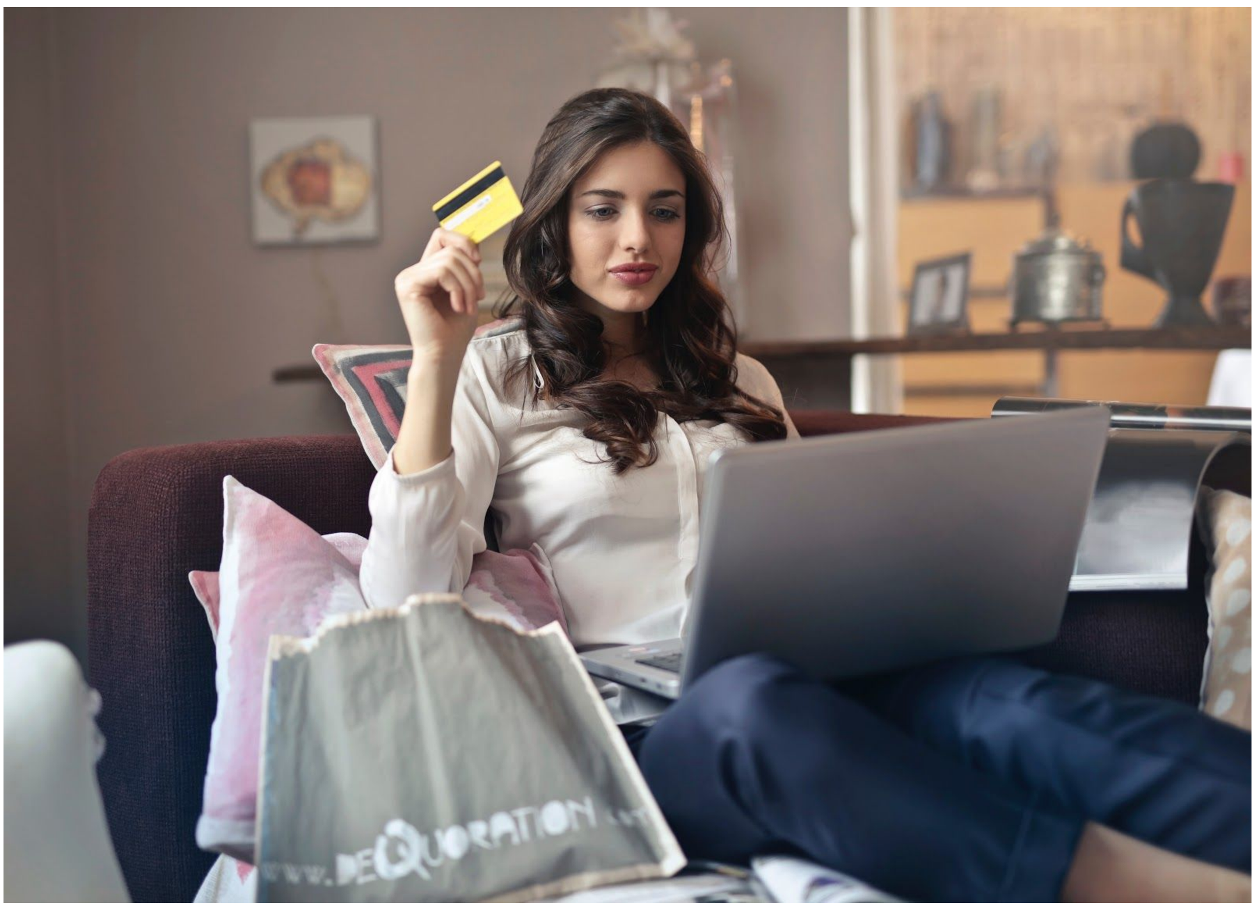
Subtitle A: How to help your adult children make good decisions about credit before they learn the hard way.

Title B: How to Help Your Adult Children Make Good Credit Decisions

Subtitle B: Learning to make decisions about credit early can help your kids avoid financial disaster later.

Title C: Financial Education for Young Adults and Their Parents

Subtitle C: Teaching your adult children how to use credit responsibly can help ensure a successful financial future.



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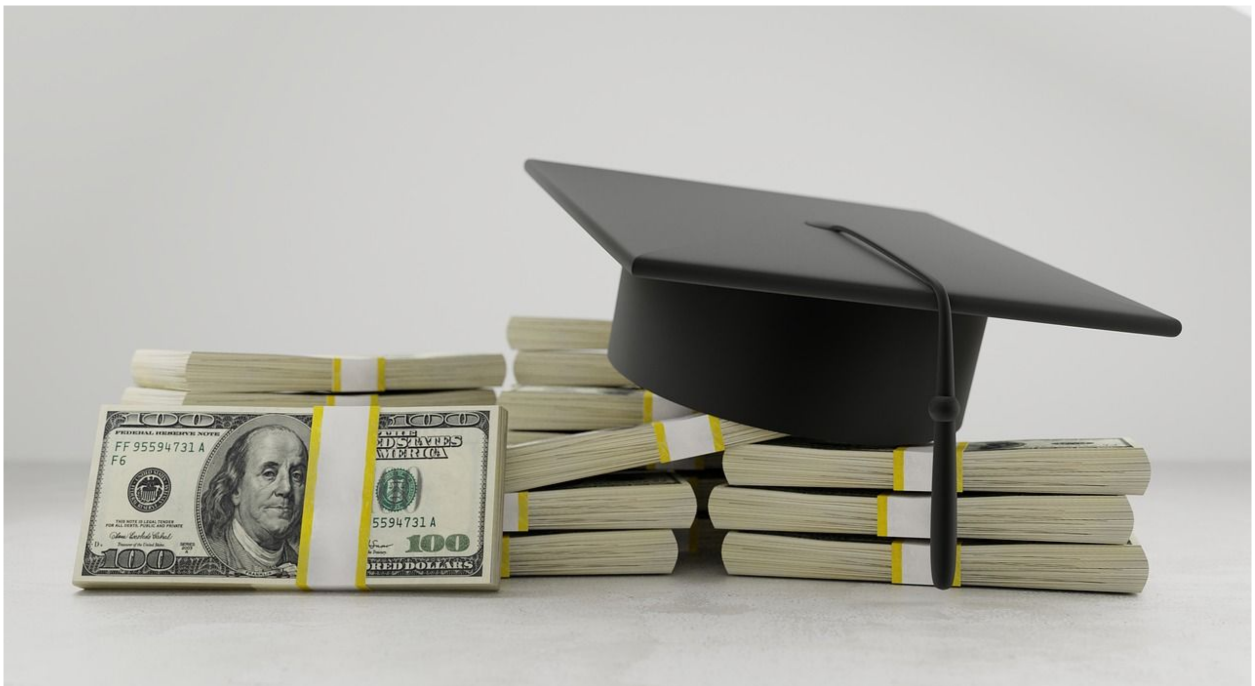
Your kids won't be young forever, and at some point, they'll need to start learning how adulthood works, particularly in the ways of money.

As a parent, you've taught them everything from tying their shoes through riding their bikes to asking out their crush. But once they reach adulthood, your role as a teacher doesn't stop. If you want to help your kids start life as a responsible adult, you should make time to educate them on the responsible use of credit cards and lines of credit to ensure their financial well-being.

This guide is designed to help parents start the financial conversation with their adult children and help them understand the responsibilities that come with using credit so they can make informed decisions.

Credit 101 for Young Adults: Exploring the Basics



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When they were younger, your kids probably saw you whip out a credit card to pay for groceries or clothing more than once. But they didn't see the dollar value behind that piece of plastic. They didn't see creditors, monthly statements, hours of work at your job, or interest rates when you used your credit card.

Once they're older, it's crucial for them to understand the concept of credit before they get involved with credit of their own.

Simply put, credit is like a loan. Your bank, lender, or creditor sets the amount, and you can spend up to that amount with the promise of repaying whatever you spend – for a price.

Unless you have an introductory 0% APR, your credit card company will charge you interest on any balance that isn't paid off each month.

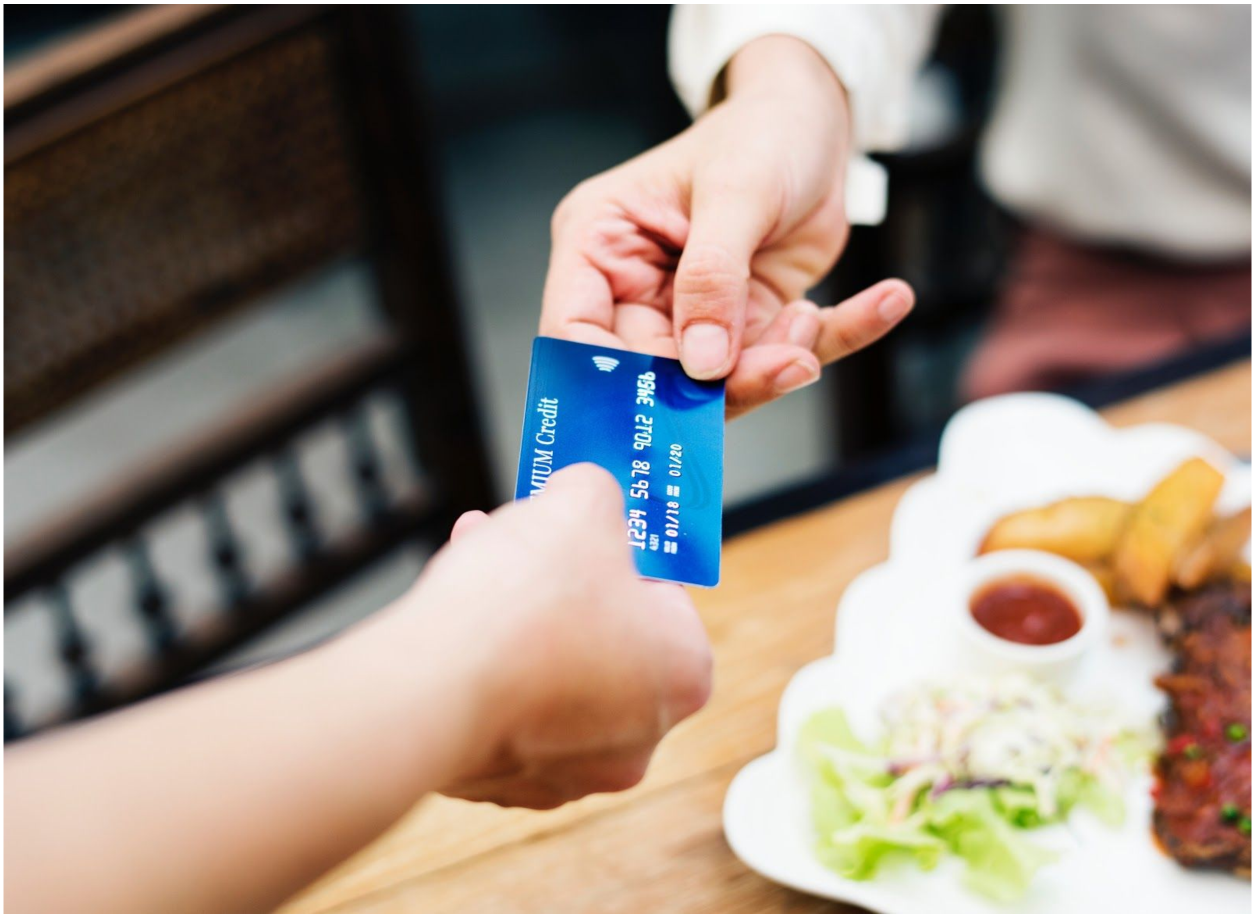
The average APR for all credit cards is 15.96%, and most credit card companies determine a minimum payment that barely covers the interest payments each month. Let's put this into perspective:

Your kids charge $100 a month eating out while at college. On the first bill, their total balance will be $100, but the minimum payment may only be $20. If they only make that minimum payment, their balance of $80 will be subjected to the 15.96% APR, which means their next bill will be $92.77.

If they make no more charges on their credit card and only pay $20 at a time, it will take them six months just to cut their debt in half – even though they've paid $120 to the credit card company.

Knowing this, it's easy to see how debt can begin to spiral out of control. To get out of debt, you need to make more than the minimum payment. To stay out of debt, you need to either not use credit or pay off your entire balance at the end of each month.

When Should Young Adults Apply for Their Own Credit Card?



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Once your kids turn 18, they are eligible to apply for their own credit card and start building a credit history. But age doesn’t reflect responsibility, and you may want to encourage them to hold off on a credit card until they can fully understand their decision to use one.

Make sure they are familiar with the terms, APR, minimum payments, late payments, and the effect that these items have on their future credit history.

Because they’re technically adults, there’s nothing you can do to stop them. But ideally, you’ll have had financial education sessions with them before they turn 18 and become vulnerable to credit card companies’ attractive marketing and free gifts.

Setting Goals for Credit Use

There are two main reasons why your adult kids would need a credit card: to build credit and to learn how to manage their money responsibly.

If they plan to buy a car or a house one day, they're going to need good credit. Take time to discuss what good credit looks like and why it matters. For example, they can get lower interest rates for loans, which will save them money in the long run.

Also, talk to them about what determines their credit score:

- Making payments on time.
- Paying more than the minimum.
- Staying out of debt collections.
- Maintaining a low revolving debt.
- Avoiding opening new lines of credit or too many lines of credit.

The ultimate goal shouldn't be to avoid paying for things up front, but rather to make sound financial decisions that will have a positive effect on their future.

Exploring Different Types of Credit Cards

Some credit cards are better than others, especially for young adults trying to build credit for the first time.

Student credit cards are designed for young adults going to college who don't have credit. The biggest benefit of a student card is that the cardholder can establish credit before leaving school and entering "the real world."

Another option is a secured credit card. This type of card is similar to a debit card in that it requires a deposit (your cash deposit is usually your credit limit), but the company reports activity to the credit bureaus to help establish a credit history.

Setting a Credit Limit for a Daily Use Card

It’s a good idea to talk to your kids about setting a credit limit. Think about how much money they’d need to access in a given month: groceries, gas, a potential emergency, clothes, and a little for discretionary use.

There’s no set number of credit cards that anyone should own, regardless of age. However, ideally, young adults will start with one credit card and ensure they can manage it well.

The more credit they have, the more they might be tempted to rely on it. But with limits, they’re forced to get creative with how they spend that money and are more likely to pay more than the minimum each month.

When to Have the Credit Conversation with Your Kids

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Given the current financial state of affairs among young people in the United States, it’s never too early to start building good financial habits. Even kids as young as elementary school age can start to understand what it means to save and spend money responsibly. The more you practice great financial health, the better the chance your children have of putting their knowledge to good use when the opportunity arises.

Have questions on how to prepare your kids for financial wellness? We're here to help. Reach out to Brighton Jones today with your financial questions.

Resources:

https://www.consumerreports.org/banking-credit/best-way-to-help-your-kid-build-credit/
https://www.nerdwallet.com/blog/credit-cards/credit-cards-101/?trk=nw_gn1_4.0
https://www.cbsnews.com/news/4-ways-to-help-kids-establish-credit/
https://money.usnews.com/money/blogs/my-money/articles/2017-06-28/5-steps-to-help-your-children-build-good-credit
https://creditcritics.com/credit-guide/
https://blog.equifax.com/credit/how-to-help-your-teen-develop-a-solid-understanding-of-credit-before-college/
https://www.cnbc.com/2018/08/15/millennials-have-42000-in-debt.html
https://www.creditkarma.com/credit-cards/i/average-apr-on-credit-card/
https://www.nerdwallet.com/blog/credit-cards/credit-card-issuer-minimum-payment/
https://www.thebalance.com/should-teens-and-college-students-have-credit-cards-1289626
https://www.whatsmyscore.org/break/howdetermined.php