

Transcript

Helping your teen make spending trade-offs

How to help middle and high schooler make trade-offs

Learning to make smart spending decisions can be difficult for tweens and teens who are just learning the ropes of money management-- especially since their world is filled with enticing ads for countless cool things to buy.

Giving some guidance on how to identify needs from wants can help them learn to make smart spending decisions.

And learning to make trade-offs can help them figure out how they can afford to buy some of the things they really want without overspending.

While understanding needs and wants can be easy for you – the difference between, say, paying the electric bill... and a dinner out ... it might not be so easy for a teen who isn't used to having necessary expenses yet. To help your teen understand how to manage his money, he can build a budget. We look at teaching your teen how to build a budget in another video.

But the basic formula for any budget is to figure out your income...

and then, how much you need to spend on your necessities....

Subtract your necessities from your income and what's left over is discretionary - what you have to spend on things you want.

Using your own budget to show how you make spending trade-offs for the family can help your teen learn how to set his own financial priorities. It can also help him understand how you make decisions about what you can and can't afford.

For example, if he asks you for something you can't afford, rather than just telling him no, you can walk him through your budget- this might help him understand that it's not that you don't want him to have whatever it is he's asking for, but because you only have a certain amount of money for discretionary expenses.

Encourage your teen to make a list of all of her needs next to all of her wants.

Now, as her parent, you're probably already taking care of most of her needs. The necessary expenses she's responsible for, then, are going to be based on rules and expectations you've agreed on as a family. These "needs" could include things like: contributions toward her cell phone plan, a college savings account, car and gas expenses, or some of the costs for her extracurricular activities.

Her list of wants could include things like a new pair of jeans, a new smart phone, concert tickets, or spending money for trips to the movies with her friends.

Understanding that she needs to make sure she has money to pay for her needs first can help her avoid overspending on her wants.

But sometimes "wants" can be hard to navigate. This is when teaching your teen to make trade-offs can help—by cutting back on spending in one area, she can free up some money to spend on something she decides is more important.

So, let's say she has \$30 from a job or allowance and she typically spends \$20 going to the movies with friends each weekend. And she's been saving up for a bigger purchase she really wants like a new smart phone. But then she learns that her favorite band is coming to town and tickets cost \$60.

In this scenario, she'll have to decide where to get the extra money if she really wants to go to the concert. Encourage her to think of some trade-offs. For instance, one trade-off might be inviting her friends over to watch a movie on tv for a few weekends instead of going out to the movies.

Another trade-off might be delaying the purchase of the new smart phone she wants for a few more weeks so she can use some of that money to go to the concert.

And a third option might be to pick up an extra babysitting or tutoring job. Here the trade-off would be sacrificing her time and effort for some extra money.

Teaching your teen to look at her budget and make trade-offs can help her stay disciplined when managing her money.

But sometimes even a teen who works hard to stay in his budget can overspend by accident.

For example, it can be easy to follow his friends into overspending. Let's say your teen has \$30 and he is expected to contribute \$20 to his cell phone bill. But his friends decide to go to a movie and then out for pizza after—activities that could cost him \$20—It might be hard for him to say no and get left behind, even though it means he won't have enough left for his phone payment.

To help him avoid making spur-of-the-moment overspending decisions you could encourage him to leave the money that he needs for his necessities at home.

He could also set some money aside in a separate savings account that is dedicated to a larger purchase or any emergencies that might come up.

If your teen still has difficulty staying disciplined with his money, you can consider setting up a savings account that's harder to access - without transfers to his checking account, and without an ATM card, so he can avoid the temptation of dipping into his savings.

But there's probably going to be at least a few occasions when your teen comes to you hoping you'll open your wallet to help her avoid making a difficult spending decision or to cover her necessary expenses if she's overspent.

It's normal for teens to make a bad choice every once in awhile as they learn to manage their money. And it will probably be really tempting to hand over the money, especially if she is working hard to stick to her budget. But most experts agree that if you give your child more cash, she probably won't learn to make the tough spending choices that everyone faces sooner or later in order to stay within budget.

Instead, try sitting down together to figure out where she overspent and how she might find the money she needs by scaling back on other expenses. It may mean that she dips into the money she was saving toward a larger purchase she really wanted.

And while this might be disappointing, learning from overspending mistakes now can help your child avoid them later--and it can give him or her the confidence to make better financial decisions in the future when the stakes are higher.

