

Transcript

Helping Your Teen Manage A Checking Account

Opening a checking account is an important step in your teen's financial life and it's a great opportunity for you to talk to him or her about managing spending and setting savings goals.

When you think your teen is ready - it may be when he gets his first job, or when you feel he's mature enough - here are a few things to keep in mind as you choose the right account and teach him how to use it responsibly.

At most banks, you can open a teen checking account when your child is thirteen. And one parent is usually required to be a joint owner of the account until your child turns 18. As a joint owner, you'll have the ability to monitor and access this account if you wish.

Most banks offer online and mobile account access so your teen can check his account status at any time. Some accounts also have text and e-mail alerts that your teen can set up that will warn him of suspicious purchases or low balances which can be helpful for a teen who is just getting used to managing his own money.

As you do your research, take into account both the features and fees associated with each account to choose the right one for you and your child.

Once you and your teen sign up for an account, she will receive a checkbook and debit card in her name. Make sure she keeps these in a safe place and doesn't lend them to anyone- including her friends.

Encourage your child to keep track of her account and check her balance regularly. The convenience of modern banking has its downsides - especially for a teen who is learning how to manage her own money for the first time. If she doesn't keep track of her account, she might not realize the rate at which she's spending, which means she could run the risk of bounced checks, overdraft penalties, declined transactions, or minimum balance fees.

There are several ways your teen can keep track of her account.

First, suggest that she keep a transaction register. Some check books come with these booklets which your teen can use to record her deposits and withdrawals and keep a record of her balance. If your teen has a smart phone, she might find it easier to keep a transaction register using a checking app. It can be difficult to keep records on the go, so encourage her to save receipts from her transactions— like store purchases and ATM withdrawals—and have her record them in her transaction register later, when she's home.

Next, encourage her to log into her account every few days to view her balance and recent transaction history and to check this against her transaction register. Does her online account balance reflect her own records? If it doesn't, it may be because certain transactions haven't posted yet.

And, each month when her statement arrives she should sit down and review the charges and deposits. This is a great opportunity for her to recognize how much she's spending on what. It can also help when she's making a budget and deciding how much to set aside for a long-term savings goal.

Finally, suggest that she sets recurring reminders on her calendar or phone to sit down and look everything over.

Reviewing her transactions thoroughly can also help her notice any suspicious purchases. Unfortunately, account fraud is a rising concern, especially for teens. She should go through her statement item by item to verify each purchase is hers. If she notices any suspicious activity, be sure to contact her bank as soon as possible.

Almost all checking accounts have fees. Even a “free” checking account which might not have a monthly fee, will likely have other fees. Teaching your teen about the fees associated with his account can help him avoid them.

The three most common fees are monthly account fees, overdraft fees, and fees for using out of network ATMs.

Many checking accounts will have a monthly account fee, or a monthly maintenance fee if the account drops below a minimum balance.

Overdraft fees can be charged if your teen tries to withdraw more money than he has in his account. It can happen as a result of a check, a debit card purchase, or an ATM withdrawal.

If your teen writes a check for more than he has in his account, there’s generally a fee. But a few different things can happen if your teen overdraws with a debit or ATM card.

By default, your teen's debit transactions won't be covered by any overdraft services, so any overdraft he makes with his debit card is typically declined and he simply won't be able to make the transaction

But some parents opt in to an overdraft service so, if your teen is in an emergency, he'll be able to use his card to pay for whatever he needs and he won't be declined, however these services usually come with fees.

There are two common overdraft services: overdraft coverage where the bank might authorize an overdraft...

but charge a fee...

if enough money isn't deposited back into the account in the same business day.

And overdraft protection, which can allow your teen to overdraw his account...

and transfer money in from another linked account...

generally, for a lower fee.

While these can be good options in case of an emergency, if your teen makes a mistake and overdraws his account – even by a dollar, its likely to result in a fee.

Now the account you set up may not have fees for overdraft services, or you may decide to pay the overdraft fees yourself- regardless, consider setting some penalty so he understands that there are consequences for overdrawing his account and he can learn that avoiding overdrafts is important.

The best way your teen can avoid an overdraft is to routinely keep track of her balance in a transaction register and regularly confirm her balance online. She might also be able to sign up for text alerts from her bank that warn her when her balance is getting low.

As she checks her account balance online, she should be very aware that what she sees as available in her balance might not be how much she really has to spend.

For example, she might not realize that a check she wrote can take a long time to clear if the other person doesn't deposit it immediately.

Or, if she uses her debit card to pay for gas at the pump, the next time she logs into her account online, she might see a pending transaction for more or less than the actual cost of the gas she just bought.

While the transaction is pending, the funds on hold won't be available for her to use. And it might take a few days for the final amount of the transaction to post to her account.

This is one of the reasons why it is important for her to keep a transaction register that she can check against her account balance.

She should also be aware of when money deposited into her account becomes available. She might not understand that only a portion of her deposit could be immediately available for use. Many banks show in their online transaction page when funds from deposits will be available. Have her consider signing up for direct deposit if she has a job and her employer offers it— direct deposits are usually available immediately, which could mean her paycheck posts to her account quicker.

ATM fees are another frequent charge that your teen might not be aware of. Most banks allow customers to withdraw money from their own ATMs without a fee. But if he uses ATMs at other banks, or privately-owned ATMs like the ones you find in stores and gas stations, he will likely be charged a fee. And his own bank might charge an additional fee for an out of network transaction. Your teen can avoid these fees by only withdrawing money from his own bank's ATM. Most banks also list their ATM locations online and have mobile apps that can show your teen where their closest ATM is.

Your teen might also avoid ATM fees by getting cash back when he buys something at some stores.

One other thing to be aware of with ATM fees: most banks will allow an unlimited number of withdrawals per month, but some accounts might have a fee after a certain number of withdrawals have been made.

Getting a first checking account is a big step towards financial independence for teenagers. Helping them understand how their accounts work and encouraging them to get in the habit of regularly monitoring their accounts can help them learn how to manage their money responsibly. Doing so will help set the foundation for good money habits in their future.