

Spending and saving

Wants and needs. Explaining the difference between wants and needs is an important lesson to help young people develop wise money management and spending habits.

Wants are items you'd like to have but can easily do without, like a new video game or a \$4 smoothie. Needs are items you can't live without, like food, housing and getting to work.

You can save money by doing without some of the things you want but don't really need.

Setting limits. If your children have credit cards on your account, agree on a spending limit before you hand over the card. Consider asking your kids to pay their own charges—or maybe ask them to pay just for special items.

Talking money. There are many opportunities to teach children about money.

- Give younger children a piggy bank to save for a toy they want. This illustrates that you can't always get things immediately—you have to save the money to buy them.
- When you go to the store, make a game of comparison shopping by asking your kids to find the products that are on sale.
- Next time your kids demand a costly item, talk about how many hours it takes to earn the money to buy it.

This brochure was created in partnership by
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Free information and advice on choosing and using credit cards. Counselors speak English, Spanish and Chinese. 415-777-9635 and 213-624-8327, TTY: 415-777-9456; e-mail: hotline@consumer-action.org.

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Find tips on using credit cards, money management, fraud protection, travel, shopping online and more, on the American Express website (www.americanexpress.com). Click on "About American Express" and then on "Consumer Resources."

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Families and Credit Cards

• **Youth and credit cards**

• **Adding cardholders to your account**

• **Secondary cardholder policies**

• **Building credit**

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It's your call

Give your child a credit card? It's a decision only parents can make.

Consider age, maturity, life needs and your family's spending style.

While cards are available for even the youngest children, many parents postpone the decision until their children become teenagers.

Ask yourself:

- Am I comfortable with the idea of my child using a credit card?
- What would my child use a credit card for?

For example:

A credit/charge card could come in handy for emergencies.

If your child's school goes on a field trip, she could use a credit card to pay for lunch.

If your child likes to choose his own clothes, you could let him go shopping by himself.

- Is my child responsible enough to control the use of a credit card?
- Would giving my child a credit card help instill financial responsibility?

If you decide that you want to give your child a credit card, it's important to understand the ways cards are issued to minors.

Parents usually are the best people to teach their kids about credit, and since even young children can use credit cards, it's never too early to begin this education.

Many parents believe that giving children a credit card is like giving them training wheels to a lifetime of good credit management. However, bad credit decisions can haunt you for many years.

Early discussions about how to use credit wisely can help kids steer clear of trouble when they become adults, and show them how to get the most out of credit.

Minors and credit cards

Most U.S. credit card companies do not provide individual credit card accounts to minors, because children are not able to enter into legal contracts. Parents who want their minor children to have a credit card can get them a card that is linked to the parent's card account. The minor holding an additional card is called an additional cardholder, authorized user or secondary account holder.

Only the primary account holders are legally responsible for making payments. If the primary account holders fail to make payments, their credit history will be damaged. Depending on the issuer, the additional cardholder's credit may suffer, too.

Additional cardholders

Credit card policies for secondary accounts vary widely depending on the issuer:

- **Minimum age.** Some card issuers have a minimum age for secondary cardholders, while others have no age limit.
- **Account numbers.** Depending on the issuer, secondary cardholders might be issued a card with the same account number as the primary cardholder, or one with a different number. A separate number can be a benefit if the card is lost or stolen.
- **Billing statements.** Depending on the issuer, charges may or may not be grouped by user on the billing statement. When transactions are listed in sepa-

rate sections on the statement, it is easier to keep track of spending by card.

- **Credit reporting.** Most companies report the primary cardholder's payment history on the secondary user's credit report. A few companies do not report this information for additional cardholders under 18.
- **Responsibility.** Most card companies do not inquire about additional cardholders' credit histories or income levels. The primary cardholder agrees to be responsible for all purchases and cash withdrawals made by the secondary cardholder.
- **Marketing.** Practices targeting secondary cardholders vary by issuer. Secondary cardholders might receive credit solicitations if information about the user is being reported to major credit reporting bureaus. Some companies voluntarily suppress credit reporting information on minors' accounts in order to avoid sending solicitations.
- **Debt collection.** If the primary cardholder defaults on the credit card, debt collectors may contact the secondary cardholder but cannot hold the secondary cardholder liable for payment on the account. Negative information about the primary cardholder may be reported to credit bureaus under the secondary cardholders' names. Some companies do not report credit data on minors. Secondary cardholders should dispute credit report information on debts for which they are not liable, and resist the pressure to pay.

Credit & spending management tools

Many card issuers offer controls and tools to help you manage your family's spending.

Online access. Set up online access to credit cards and bank accounts, so you and your kids can track your spending. If you know your balance you'll be less likely to go over budget, incur over-the-limit penalties or face unexpectedly steep bills at the end of the billing cycle.

Statements. Credit, charge and debit cards (and some prepaid cards) list all purchases on each monthly statement, and many allow you to track unbilled activity online between statements. Some companies provide a year-end statement featuring purchase and payment history to illustrate where you have spent your money. Some companies allow you to track transactions by category across your cards.

Alerts. Many card issuers offer alerts to notify you when you are near your credit limit or when you have spent a certain amount on a card. You might be able to set up reminders or warnings for due dates, automatic payments, low balances, withdrawals or out-of-pattern activity. Alerts may be available by e-mail, phone or PDA (personal digital assistant).

Financial calculators. Online calculators make great interactive teaching tools. Show your kids how long it takes to pay off a certain credit card balance or compare how much interest you'll owe according to a loan's term and interest rate.

Charge cards. Some people find that charge cards are easier to control, as they require full payment each month. Since they don't have a pre-set spending limit, they might be a good option for travelers or for making important purchases.

Credit card balancing act

To pay off a credit card balance of \$1,000 on a 15% card by making monthly minimum payments of 3% of the balance takes approximately 106 months (almost nine years).

Interest charges can add up to \$576 to the original \$1,000 balance.

Instead, if you pay \$40 every month, it will take less than three years to pay off, at a cost of \$206 in interest. Source: Bankrate.com

Credit for the 18-plus set

In order to open a credit card account, young people between 18 and 21 must show that they are able to make payments, or they will need a co-signer. Card companies allow adults with good credit to co-sign accounts for young adults.

When you co-sign a card account or loan, you are legally responsible for the debt. Your credit record could be damaged if payments are not made on the account.

As a co-signer, you must agree in writing before the young cardholder can obtain a credit limit increase. Ask the young person to share the account information with you, so that you can monitor the account and limit any negative impact to your credit history by making payments.

Alternatives to credit cards

Credit cards are not the only convenient plastic payment method:

Charge cards, like credit cards, allow you to charge purchases. You must pay your bill in full each month, which avoids interest payments and helps you manage spending. Unlike credit cards, you can't carry a balance on a charge card.

Debit cards look like credit cards but the money spent is withdrawn from your checking account. Debit cards can be used to make purchases or to withdraw cash. If you are interested in this option, look for youth checking accounts that come with a debit card.

Prepaid cards, also called stored value cards, look like credit or debit cards but contain only the money you choose to load on it. The card can also be used to withdraw funds at ATMs or make purchases at stores that accept credit cards.

Secured cards are a way for people without a credit history to build credit. These are credit cards backed by money you deposit with the issuer. If you default on your card, you forfeit the amount deposited.

Tips to share with kids

- Review bank account statements and credit card bills closely. Dispute unauthorized purchases within 60 days. Keep receipts and match them against statements.
- Don't lend your credit, charge or debit card to anyone. You can be held responsible for any purchases made.
- Pay more than the minimum monthly payment; even a few dollars more helps. Making minimum payments means it will take longer to pay off your balance and will increase the amount of interest you pay.
- Pay on time, since late payments can raise your interest rate and have a negative effect on your credit history.
- A damaged credit history can affect your life. It can make it difficult to get a loan, apartment or even a job.

Kids away from home

On school trips, European tours or excursions to the mall, parents want to know that their children have enough money to get by.

Credit, charge and debit cards. Widely accepted, they can be used to get cash and can be replaced quickly if lost or stolen. Before international trips, check that ATMs will accept your assigned PIN numbers. Caution young people not to write PINs on the cards or carry them in their wallets.

Prepaid cards. Several companies offer prepaid cards for purchases or to withdraw cash at ATMs. You can load and reload cash onto the cards using your bank account or a credit card. Before you buy a prepaid travel card, make sure the balance can be replaced if the card is lost or stolen.

Traveler's checks. For extended trips, traveler's checks can be an option. Ask your card company or auto club if they offer any special deals on traveler's checks. Traveler's checks now come as either paper or a plastic card.