



Should you give your teenager a credit card?

We live in a culture of smartphones, WIFI, home delivery, online shopping and online gaming, where most needs and wants can be met almost instantly. With so much temptation to spend, it's vital to teach your kids the money skills to help them enjoy financial wellbeing as adults. But should you give your teenager a credit card?

Pre-paid, debit or credit?

You might like to start with a pre-paid card or a debit card, so there's a limit on what they can spend. Set the rules on what it can be used for and how much they can spend. If they manage the process well, and if you're confident that they're responsible enough, you could give them a credit card (which would be a supplementary card connected to your own, as children under 18 cannot have their own card).

Before you give your teen a credit card, take the time to have a conversation about credit card fees, interest rates, and how spending irresponsibly can give you a bad credit rating, which is bad news for their future. Be clear that they will be responsible for all expenditure on the card - if they can't afford it with cash, they shouldn't put it on the credit card.

Rules, limits and know-how

Giving a teenager a credit card may seem risky or even irresponsible, but it can be a great teaching tool if the right conversations, rules and limits are put in place.

Before you give your teen a card, be sure to speak to them about how it works, how to be responsible with it and how to avoid financial trouble, including:

- How interest works - it's important that they understand that a credit card is like a loan and if they don't pay it back on time, they'll be charged interest.
- Paying it off in full every month - show your teen a credit card statement and explain that if they only pay the minimum amount, they'll still be charged interest.
- Paying on time - show them where they can find the due date for payments and help them to set up reminders to pay on time every month to avoid interest.
- Avoid overspending - teach your teen to keep track of their spending, and to never spend more than they earn. Use the credit card's app to keep a tally on spending.
- Start with a credit limit lower than they earn – it's a good idea to start with a credit limit that is not more than what they earn in a month. For example, setting a low limit for a teen may be \$500 maximum so they can consistently pay it off at the end of each month.

Understanding 'buy now, pay later' services

The growing popularity of 'buy now, pay later' services such as Afterpay, Openpay and zipPay means it pays to help your teen understand how they work, and what the risks are.

These services allow shoppers to buy a product, take it home and pay for it in instalments via an online 'buy now, pay later' account, which deducts your preferred debit or credit card. Added to that, while the buy now, pay later provider might not charge interest on your purchase, you may still have to pay interest to your credit card provider if you don't pay the full amount owing on your credit card by the due date.

Leading by example

While knowing the ins and outs of debt is important, one of the most powerful ways to help your kids develop healthy money habits is to lead by example. Our ideas about money are formed in our childhood, so if your kids see you living with healthy financial habits, they're more likely to form those habits themselves.

Source: AMP

We will guide you with a tailored approach that works for your circumstances. Give us a call on 4927 4588 (Rockhampton) or 4939 1766 (Yeppoon) to see how we can help.

