

Source: Teaching Financial Literacy To Teens: Making Money By [Jean Folger /http://www.investopedia.com](http://www.investopedia.com)

## Financial Literacy

Financial literacy is the ability to use knowledge and skills to make effective and informed money management decisions. Gaining the knowledge and developing the skills to become financially literate is **a lifelong process** that begins with something as simple as putting a few pennies in a **piggy bank**, and evolves to more advanced subjects such as **risk and asset allocation**.

Most kids lack the necessary knowledge and skills **to become financially responsible** adults. The President's Advisory Council on Financial Literacy wrote in its [2008 Annual Report to the President](#): "By almost any measure, today's schoolchildren are **ill-equipped** to understand **personal finance** and make their way in the modern financial world. Their **rising debt** and debt problems, along with their **poor inclination to save**, substantiate what the test scores show. Meanwhile, most students still graduate from high school without any formal classroom education in personal finance."

There is now - especially following the global financial crisis that began in 2008 - a growing interest in requiring more personal finance classes. Ben Bernanke, Chairman of the Federal Reserve System has stated that, "One of the key lessons of the recent financial crisis is the importance of personal financial literacy. Besides improving their personal financial decision making, teaching students economic principles will **help them as citizens** understand and make choices about many of the critical issues confronting our nation."

## Making Money

Your teenager may be interested in earning more money than is possible through an allowance and the occasional odd job. There are **many benefits** to having a job. Part-time work can provide a teenager with:

- A source of income
- Career guidance
- Independence
- Real-life experiences
- Responsibility
- The chance to develop interpersonal skills in the workplace
- The opportunity to learn new skills
- Time management experience

It should be noted that there are also drawbacks to working. Teenagers who work - especially those who work more than 20 hours per week -

- may have a harder time completing their school work,
- may have lower grades in school (often due to fatigue and lack of preparation),
- may have increased stress (trying to "fit it all in") and
- may develop a negative view of work.

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Naturally, the negative aspects of working are **not one-size-fits-all**, and while one teenager may suffer in school because of a job, another might thrive because of a growing sense of independence and accomplishment.

If a child has difficulty balancing school and work, summer employment provides an excellent alternative since it will not interfere with education. **Popular summer jobs** include:

- Amusement park jobs
- Babysitting
- Certain food service jobs
- Dog walking and pet sitting
- Jobs at summer camps (such as a camp counselor)
- Landscaping
- Lifeguard
- Movie theaters
- Newspaper delivery
- Office intern
- Retail jobs (such as grocery, clothing and electronics stores)
- Tutor

### **Fair Labor Standards Act (FLSA)**

Before beginning any job, it is important to understand what an employer can and cannot expect from your child. In the United States, the **Fair Labor Standards Act (FLSA)** of 1938 ensures that "**when young people work, the work is safe and does not jeopardize their health, well-being or educational opportunities.**"

The Department of Labor has set forth these guidelines for permitted jobs, by age group:

<http://www.investopedia.com/university/teaching-financial-literacy-teens/teaching-financial-literacy-teens-making-money.asp>

### **What Parents Can Do**

Getting a job may be a big step for your teenager, and it can be a learning experience for everyone involved. You can help your child have a positive experience by:

- Discussing a job's advantages and disadvantages
- Identifying the job's responsibilities and what the employer may expect
- Helping **prepare a budget** (where will his or her money go?)
- Creating a daily and/or weekly schedule to promote **effective time management**, allowing for some family time in the schedule
- Teaching practical ways to handle tough situations at work and school (often, these teaching moments are the result of something that has already happened)
- Supporting your child - if things are going well, or if the job needs to be rethought because your child is having trouble **balancing work and school**

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## Taxes

Explain to your teen that when people earn wages for working, they **don't receive all the money they earned**. Some of the earnings go to the federal and state governments as taxes that will be used to pay for roads, public schools and other programs. Review your child's pay stub, which is attached to his or her paycheck, and point out:

- Gross pay (the total amount earned)
- Federal taxes
- State taxes
- Social Security and Medicare taxes
- Net pay (the "take home pay")

Depending on your teen's earnings, he or she may have to **file an annual income tax return with the IRS**. Keep in mind, tax returns are driven by income, not age, so even young people may be required to file.

When does a teen have to file? According to IRS Publication 929 (view at [www.irs.gov](http://www.irs.gov); enter "Pub 929" in the search box) a dependent who has only **earned income** (such as wages from a job) must file if they earned \$5,950 or more. The figure is much lower for **unearned income** (such as from interest): your teen will have to file if he or she had \$950 or more in unearned income.

Note: The IRS states: "A parent of a child under age 19 (or under age 24 if a full-time student) may be able to elect to include the child's interest and dividend income on the parent's return. If the parent makes this election, the child does not have to file a return."

Comprehension check:

01. What's the importance of money literacy?
02. What are the benefits of working teenagers?
03. What are the drawbacks of working teenagers?
04. What sort of jobs can teenagers do?
05. What do teenagers need to know before they get a job?
06. How can parents prepare their kids for the world of work?
07. Should teenagers pay taxes?