



Tips for Teens

By Sarah J. Kaelberer

CREDIT CREEP

You have supplies, new clothes, and if you are off to college, likely some cool new dorm or apartment furniture. Your parents have ensured that you are prepared with everything you need for school. Schools make sure you have math, science, and social sciences skills to prepare you for the world. There may be one big gap. Who has prepared you to manage your money, and more specifically, how to use credit cards?

Credit Cards: good or bad?

Credit card offers are mailed to students regularly, and bookstore purchases include them too. The promise of being able to have everything now and pay for it later is a dream come true to most teens and young adults. The offer to buy something for \$500 and pay \$20 per month, may seem like a great deal . . . that is, until the truth is apparent.

Let's use that \$500 example. Assume this credit card has the national average rate of 12% (1% per month). Your \$500 purchase, assuming you added no more to the card and always paid the \$20 minimum due, would take over two years to repay, costing almost \$80 in finance charges. That adds 16% to the original price. We are drawn to SALE signs when we shop. How drawn would we be to a sign that said, "Pay 15% More So You Can Have It Now?" But that is what many young people are responding to when they see they can buy now and pay later. The minimum payments on credit cards are designed to have you paying some, but not nearly enough of the balance. This keeps the balance on the card and the finance charges adding up.

Paying off the balance each month

Credit cards can be a great tool, as long as they are considered just that, a tool. Many offer no interest for a period of time. In today's economy, prices are creeping up. The two most obvious places are the increases at the gas pumps and at the grocery stores. As these prices creep, sometimes we continue our patterns, not realizing that with these creeping costs, if we are not paying off the balances each month, so too our credit card balances are creeping. And, these creeping balances almost always mean increasing finance charges paid to the credit card company. According to Reuters, Visa posted a 41% increase for the quarter from April to June of 2008. Where this company is missing in credit card finance charges, they are picking up in debit card transaction fees.

It is so easy to use that plastic, and with the perks in rewards we get from the cards, why wouldn't we? Credit instead of debit provides a little extra float in the checking or savings account. So how can you make sure you are using it well, but not allowing that balance to creep over the amount you are willing to pay when that dreaded window envelope arrives in your mailbox? Go ahead and use the card. Rack up the rewards. But if you have concern for being able to pay the balance, carry an extra checkbook register with you. Use that to log your purchases just as you would if you had written checks (or used that debit card). Then when your bill comes, you will have fewer surprises and be fully prepared to pay it in full, avoiding the finance charges.

Be mindful of this credit creep. Know what you're spending and that you can fully pay for it each month. Why give the credit card companies the added revenue? Better to keep it for yourself!

Quiz

Preparing for college is important. Choose the two most important skills that you will need:

- a. driving a motorcycle
- b. choosing the right clothes to wear
- c. managing your money
- d. making wise decisions about credit card offers

When a credit card offer comes along you should always:

- a. throw it away
- b. read it thoroughly
- c. sign up for several cards
- d. choose the company with the best graphic on the card

Before signing up for a credit card look for:

- a. rate of finance charges
- b. which other friends have this card
- c. what special deal the offer may give you
- d. how many months before you will have to pay for the purchased item

If you don't have enough in your checkbook to pay off the balance of the credit card, you should

- a. ask for a loan from a friend
- b. ignore the bill
- c. realize that charging on the credit card may be the wrong thing to do
- d. send the bill home to your parents

Avoid finance charges on a credit card by:

- a. recording purchases in a checkbook register and making only purchases that can be paid for
- b. refusing to pay the bill
- c. asking your parents to pay finance charges
- d. pleading ignorance

Credit Creep means:

- a. more and more credit card companies coming into the market
- b. additional information about credit cards on the Internet
- c. a slow growth in your investments
- d. accumulation of additional money needed to pay off the bill

*All correct quizzes will receive a prize! Please record your name, and mail/fax your Quiz page to:
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