5 Money Lessons Teens Should Learn Before They Go to College

One expert suggests parents shouldn't rely on apps to teach finance management, as computer programs cannot help people distinguish between a want and a need.

School is back in session across the country, but there is something your teens may not be learning in the classroom. Only 20 states require high school students to take economics and even fewer – 17 states – require a personal finance class, according to the Council for Economic Education. That means many teens could graduate their senior year without understanding the basics of money and how to manage it.

Finance experts say it falls to parents to fill the gaps and make sure their children are prepared to be financially successful in life. "I think it comes down to three important elements, and the basic understanding of money, debt and compound interest," says Michael Martin, a financial advisor with Marius Wealth Management in New York City.

To help explore those three elements, here are five lessons parents should teach their teen before they leave the nest.

Money is earned, not given. The opinion from finance professionals seems unanimous. "As parents nowadays, we give our kids way too much without them earning it," says Chad Slagle, president of Slagle Financial in Edwardsville, Illinois, and a father of four. Parents may dole out cash for everything from cell phones to school activity fees to fun money for the weekends without asking for anything in return.

While busy schedules may prevent some teens from finding an outside job, Slagle says chores and an allowance can work just as well to teach this lesson. "We'll give our 15-year-old $100 a month," he says. "He does chores, and when that money is gone, he has to do without."

Thrifty living is to be embraced. Teens who are left to manage a set amount of money each month may naturally find ways to stretch their cash. However, parents can help reinforce this lesson by avoiding the temptation to always bestow their kids with the latest and greatest items. "They need to know an iPhone 5 is pretty good," Martin says. "They don't need an iPhone 7." Letting a teen make due with second-hand items, an older vehicle or earlier generations of technology can help them learn to be content with older goods in the future.

The dangers of credit cards. While the government has tightened rules regarding the marketing of credit cards on college campuses, 56 percent of college students carry a card, according to a survey by Sallie Mae of 800 students between ages 18 and 24. More than a third of those with a card don't pay off their balance each month either. These students, who may graduate with student loans as well as credit card debt, may discover they are already financially behind before they even start their career.

"Personally, I was handed a credit card when I went off to college," says Katharine Perry, as associate financial consultant at Fort Pitt Capital Group in Pittsburgh. As a result, she made financial decisions she came to regret. Now, she encourages parents to discourage their use. "From day one, stress the importance of no credit cards," she says. "Kids see it as free money."

How to budget and track spending. Balancing a checkbook register may seem old-fashioned to today's teens, but apps like Mint and PocketGuard make tracking money easy for digital natives. Plus, these programs may automatically analyze deposits and spending to suggest a personalized budget.

However, parents shouldn't rely on apps to teach their teens how to budget. A computer program can't teach a child to distinguish between a want and a need, something Slagle says is one of the most important components of creating a workable budget. Once a teen uses up his or her money, parents should resist the urge to lend or advance additional cash, especially to pay for a want. "When it's gone, it's gone," Slagle says.

Pay yourself first. When creating a budget, one of the very first categories to be funded is savings. Although it may seem like an abstract idea to teens, parents should explain the concept of compound interest and how a little saved now could add up to hundreds of thousands of dollars in the bank later.

Despite the importance of saving, "teens should not be forced to save," Martin says. "As soon as you control with a fist, you lose respect. Why not sweeten the pot instead?" In his family, Martin has used a method he calls COOL – Cash Out Of Love – that involves matching a child's savings toward a long-term goal.

Teaching these lessons may add one more thing to busy parents' to-do lists, but it could be worth it to create self-sufficient adults. "The bank of mom and dad should not be your emergency fund," Perry says, and with a little financial education during the teen years, it doesn't have to be.

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