Teen Financial Literacy

PTSA presentation – January 9, 2017

It's not what you make; it's what you spend.

Client comparisons:

- One client makes $45,000 per year. They own a beautiful home, have all the things they need, have no debt.
- Another client makes $1,000,000 per year, but are in significant debt, even with that high income.

The difference is not their income, it's how much they spend and what they spend their money on.

80 – 10 – 10

- Learn to think of your money in this breakdown.
  - 10% for savings
  - 10% to support causes you care about
  - 80% to spend for your needs and wants
- 10% for savings is the minimum amount an individual should save. It provides a cushion for emergencies. Many advisors say you should have 3 to 6 months salary in readily accessible savings (a savings account or money market, for example, that you can pull money from quickly if you need it). This 10% savings is something you should budget for – do not consider savings to be something you do if you have anything left over. It's the first "bill" you should pay.
  - In the teen years, a simple envelop system can work really well to manage this. Put three envelops in a safe place in the teen's room, one for saving, one for giving, and one for spending. When the teen gets a paycheck, gift money, or other money, they should divide it into these three envelopes on the 80-10-10 principal.
  - Savings is a matter of patience. If a teen has a regular income of $45-$50 per week, their savings portion is only $4.5 to $5. It is a challenge for them to see that as meaning much. As parents, you can encourage them to save by giving incentives: consider matching the teen's saving in some way. If they save $5 per week, that's $22 per month, or $65 quarterly. If the parent can match that amount either 1 dollar for every 2 they save, or even 100% match, and add the money to the teen's

savings account, it can help to build savings faster. Help your teen set a savings goal, and reward them for reaching that goal.

    - Learning to save is a habit, and a mindset. Instead of saying “it’s not much, why am I saving this?” say “it’s not a lot to spend, so why don’t I save it?”

- 10% for giving – a way for teens to understand the value of giving money is to look at their college decision. Most college students pursue scholarships to pay a portion of their college expenses. The more money they get in scholarships, the less their parents have to pay, or the less they have to work in college. Those scholarships come from people who decide they want to give money to the schools so that other people can attend.
    - Giving to causes you care about helps to make the type of community you want to live in. Many non-profits simply can’t exists without monetary gifts from individuals. Think of a Rochester community without hospitals, colleges, orchestras, museums, and libraries.
    - At PHS, giving impacts the students through scholarship funds through the school, grants given to teachers for classroom activities, and gifts to student organizations like Robotics or Mock Trial.
    - Giving returns value to you in ways that aren’t measured by amounts of money. You are committing to something bigger than yourself, and developing a spirit of generosity. It can also form the basis of relationships and connections that will help you in other ways.
- Saving and giving are examples of the ***responsibilities of money***. When your teen starts to make money, they need to understand that having money means taking responsibility to use it wisely.
- 80% for Spending – the world is designed to separate you from your money. Businesses don’t really care if you actually need something, or even if you can afford it. They only care about getting you to spend money. That’s their job. You have to become diligent about distinguishing “needs” from “wants”, and determining what makes financial sense when you make purchases.
    - Contentment marketing is designed to make you feel good about having something that you might not really need. America Runs on Dunkin’/Grande latte at Starbucks/Have it Your Way at BK.
    - Coffee is a great example. You want coffee. You don’t need coffee, and you definitely don’t need a $5 cup of a branded coffee beverage every day. A 12-cup programmable coffee maker costs about $25-$30 and will last for years. A bag of coffee to make 10-12 pots costs $12. For what some people spend on coffee in a week, you can have coffee for an entire month. K-cups are an incredible example of the need to personalize your coffee experience – WHAT? Branded coffee K-cups equate to 55 to 60 cents a cup. A cup of coffee maker brewed coffee costs approximately 7 to 10 cents a cup.

- Spending, debt and honesty – understanding these principles are the foundation of your future security, and sometimes happiness. You have to be honest with yourself about what you can afford, what you really need, and where you are in life.
    - Money is one of the most often fought over aspects of relationships and families.
    - It can be a source of tremendous stress when you don't have a good relationship with your spending and debt.
    - Debt and out-of-control spending can ruin your credit standing, and sometimes your life. Many people find themselves in a place where they desperately need money, or at least access to it, but can't get it because of their past spending habits.
    - It takes PRACTICE to learn financial intelligence, the same as most other skills, and you become money-wise over time.
    - Ultimately, there are two kinds of people: Savers and Spenders. The Spenders usually end up working for/indebted to the Savers

Parents – how not to be the ATM

- Teaching the value of money
    - Work on a cash basis first. Don't give teens credit or debit cards, and try to avoid a lot of electronic purchases. Examples –
        - do you do all your banking online? Actually go to the bank and take out cash weekly
        - are you using the (id badge swipe) online lunch system? Give you teen money for lunch
        - Do you only ever use your debit card when you go to the store? Try paying with cash if your teen is along
    - To learn the value of money, teens need to experience exchanging cash for goods or services. They learn that a bagel is worth $1, and cream cheese is extra. They get used to giving someone money, and getting something (and hopefully some change) in return.
    - They REALLY learn the value of money when it is limited. Don't just give money for everything they want. Reinstitute "allowances" on a monthly basis. Give them $30, $40, $50 a month to spend on their wants, but NO MORE. If they run out, that's it til next month. When they learn to wait to buy something, or better yet, save to buy something, they learn the value of money. When they have to choose between buying X or Y, based on the money they have available, they learn the value of money.

    - If your teen has a job, require them to follow the 80-10-10 rule. Either through the envelop system above, or if they have a savings account, allow them to only take out a percentage of their weekly paycheck for spending. If you can afford it, consider keeping the allowance system even if they're working, as an additional incentive. However, the same savings percentage applies to the money they get from you. 10% goes to savings, 10% goes to giving, no more than 80% to spend.

- Lead by example – are your household finances in order? Talk to your teen about your household income and expenses. Be honest about debt and the impact on your family. If you're bad at managing finances, get good at it. Show your teen that you're willing to learn and change, too.
- When you're looking at colleges, talk to them about the entire cost (tuition, room/board, expenses, travel), and what your family can afford to pay. Living on campus is often a really expensive financial decision – choose based on what you can afford, not on what you've always dreamed of. Overexplain the impact of student loans – colleges give financial aid, but study the package carefully and know what is a "grant" (no payback) vs. a "loan" (payback with interest).
- Launch for success – "but they might fail!" Teen years are a time when the cost of financial failure is usually relatively small. Give them the chance to figure it out, and enough leeway to mess up. Then teach what went wrong. The goal is for them to be financially independent by their 20s.