USA TODAY Education

GREAT AMERICAN FINANCIAL RESOURCES

Special Reprint Edition
As seen in USA TODAY,
January 4, 2008

Bright ideas for bringing up smart savers

Rule #1: Don't buy kids everything they want

By Jayne O'Donnell

Chris Padgett, 13, has had to save up to buy every cool piece of apparel or technology he owns that wasn't a Christmas or birthday gift.

Using money from his allowance and gifts from relatives, Padgett bought a $200 Xbox when he was 9 and a $150 iPod Nano, $130 Nintendo DS and $200 longboard skateboard, all since he turned 12. He also has a separate long-term savings account.

"Basically, my philosophy is that just because parents have the money to buy their kids everything does not mean they should," says Chris' mother, Louisa Padgett of Denver. It "isn't doing the child any favor in helping them learn responsibility and grow up to be contributing adults in society."

Spending and saving habits are formed early, say financial experts and parents who have had both good and bad experiences with their children's finances. And with a barrage of credit card offers hitting college-age kids and the average outstanding balance topping $2,000, parents almost can't start too soon teaching their kids financial responsibility. Once kids are in grade school, they can usually grasp the concept of saving, says Georgia State business professor Conrad Ciccotello, but the concept will likely resonate more when they're about 10.

"This is one of my biggest regrets," says Darlene Staples, a mother of three grown sons in Menomonee Falls, Wis., one of whom piled up a lot of credit card debt in college. "Although my boys grew up witnessing my frugal habits, I did a lousy job of teaching them fiscal responsibility."

Many other members of USA TODAY's shopper panel with now-grown children say they taught them young that some portion of every dollar they got had to be saved. Christine Helsel of Charleston, Ill., says her two daughters both saved a portion of their allowances and gifts from a very young age and built up savings accounts that came in handy as spending money at college. It's probably the most important lesson young people can learn about money, says Laura Levine, executive director of the JumpStart Coalition, which teaches financial literacy to young people.

"It's not so much the percentage — whether it's 10 or 25% — but rather the thought of saving some portion for later," Levine says.

It's important to keep the explanation as simple as possible for young ones, says Ciccotello, who heads the Graduate Personal Financial Planning Programs at Georgia State's Robinson College of Business.

"You have some money come in; some money is spent in the present; and then there is some money left over to spend later," he says.

Kids often forget about the money once it's banked, but once they see how much they can accumulate, they learn the value of interest and saving, Ciccotello says.

Bill and Phyllis Swinford of Easley, S.C., didn't want to take any chances that their four kids would forget about the money they saved. Of money earned from working — which each of the children did once they were old enough — half had to be put into savings, which couldn't be touched until after college. (The couple didn't restrict how monetary gifts were used or whether they were saved.)

"We believed that each of our four children would learn quickly that once spent, it's gone," Bill Swinford says.

Another key to teaching kids good financial management, Ciccotello says, is not to err too much in either direction — either forcing them to save everything or buying them anything they want. The idea is to avoid the financial equivalent of binging while dieting. He also recommends a gradual progression toward (low-limit) credit cards once children have mastered the art of saving, balancing checkbooks and using debit cards and are at least 18.

Levine also recommends teaching kids how to comparison shop and make smart purchasing decisions. Sometimes, she says, it's best to let them learn for themselves whether an expensive pair of designer jeans is really worth the price of two pairs of generic ones.

"With older kids, be willing to stand back enough to let the financial experiment take hold," Levine says. "Parents have to be willing to both be involved and step back."

Like his 6- and 10-year-old brothers, Chris Padgett received an allowance in dollars equal to half his age, until he was 11. At that point, he cut a deal with his mother: He'd buy the gifts for his friends' birthdays himself, if he could receive an $11 allowance. She agreed. Louisa Padgett says the kids are all expected to do chores around the house, but she'll pay extra when they rake leaves or shovel snow.

Though he's not much of a shopper, Chris says he favors two board-sports stores, Zumiez and PacSun. If there are clothes or shoes he wants to get, his mother decides a price she's willing to pay — typically no more than $50 for footwear. Then Chris pays any amount over that, like the $30 extra he needed to buy skateboard shoes he wanted recently.

Chris says he's OK with the financial arrangement at his house.

"It teaches me I just can't ask for something and get it," he says.

Objectives

- Read the article “Bright ideas for bringing up smart savers.”
- Verbally list the benefits of saving a portion of money each month.
- Compare prices of an item on the Internet.
- Calculate how long it would take to buy that item at a consistent rate of savings.

Preparation

Each student will need:

- A copy of the article “Bright ideas for bringing up smart savers.”
- A copy of the lesson.
- Internet access to comparison shop for one “big-ticket” item.

1. Read the article and answer discussion questions. (25 minutes)

▸ What does Laura Levine say is more important - the percentage of your money that you put into savings or the habit of saving money? Which do you think is more important and why?

- Do you have a savings account? How often do you make deposits? What percent do you deposit?
- What have you been able to purchase by saving money instead of spending it all right away?
- Is it hard to save money? What would make it easier?
- What are some benefits of saving money?

2. Make a comparison shopping and savings plan. (25 minutes)
Chris Padgett, a 13-year-old, saved $480 when he was 12 to buy an iPod Nano, Nintendo DS and longboard skateboard. Pick one expensive item you'd like to get in the next year.

What is the item? ____

What is the suggested retail price? ____________________________________

Is this something that you have to buy new? Would a used or "pre-experienced" one work just as well?

____

The article mentions comparison shopping. Using the Internet, find at least three stores or websites that sell that item. Using the grid, fill in the information from each site. If a used item will work as well, investigate at least one site that offers used merchandise, like eBay.

Item:			
Suggested Retail Price:			
	Site One	**Site Two**	**Site Three**
Web Address			
Model			
New or Used			
Price			

In the grid above, circle the item/price you are most interested in purchasing.

A. How much do you earn in a month from allowance? _____

B. How much do you earn in a month from a job? _____

C. Add A and B together here: _____

D. What is 20% of that total (to find 20%, multiply the above number by 0.20). _____

If you save 20% a month, how long will it take you to save enough money to buy the item you want? (To calculate, take the price you circled in the grid above and divide by the number you have in letter D.) _____ months

3. Debrief and apply.
By saving 20% of your monthly earnings, you still have 80% of that money to use as you want; yet, you still get the big things in a few short months. What's your first step? Open a savings account at a local financial institution like a bank or credit union and start saving today!