



Kiplinger Financial Services' COMMON CENTS MATTERS

NOVEMBER, 2004

TEACHING CHILDREN ABOUT MONEY (Part 1 of 2)

More people filed for bankruptcy than graduated from college in 2002, according to the U.S. Department of the Treasury. What a shocking statistic! Alan Greenspan, Chairman of the Federal Reserve Board, stated that: "Improving basic financial education at the elementary and secondary school level is essential to providing a foundation of financial literacy that can prevent younger people from making poor financial decisions that can take years to overcome."

Helping young people learn the fundamentals of saving, spending, credit, investing, entrepreneurship and free markets is not usually included as part of a regular school curriculum.

Often parents have to take the initiative to improve the financial literacy of their children. However, others may wish to impart values of stewardship to grandchildren, family members, friends and/or neighbors. The National Endowment for Financial Education (NEFE) has put together a financial planning program for students. There are six units emphasized in the program:

- Unit 1 - Financial Planning: Your Roadmap,
- Unit 2 - Career: Labor You Love,
- Unit 3 - Budget: Don't Go Broke,
- Unit 4 - Savings and Investments: Your Money at Work,
- Unit 5 - Credit: Buy Now, Pay Later, and
- Unit 6 - Insurance: Your Protection.

It is our hope that you can share this information with a young person to increase his/her financial knowledge.

FINANCIAL PLANNING: YOUR ROADMAP

The first unit highlights the five steps to financial planning. **STEP 1 - GOAL SETTING** In setting financial goals, students evaluate the differences between needs and wants as well as identify their values. Students also learn to set meaningful goals by applying **SMART** characteristics:

- Specific
- Measurable
- Attainable
- Realistic
- Time Line

This section defines short-term and long-term goals as well as delayed gratification. Short-term goals are within the next three months. An intermediate goal may be between three months and a year. Then, a long-term goal would occur in more than a year from now. A few examples of **SMART** goals might be:

- ❖ Save \$35 by the middle of next month to take a friend out for pizza and a movie (short-term goal).
- ❖ Save \$10 a week for the next 20 weeks to buy a new outfit for prom (intermediate goal).
- ❖ Save \$2,000 per year from summer jobs for the next four years for a down payment on a car (long-term goal).

STEP 2 - ANALYZE FINANCIAL INFORMATION This is a self-evaluation of how you get money and how you spend money. This process involves keeping track on paper of not only the money coming in from an allowance or a job, but also money being spent for loans or money borrowed from parents, for example.

STEP 3 - CREATE A PLAN This step involves looking at the resources available and the amounts identified for spending. If you have money left over, that's great. However, if don't have enough money left over to cover the goals established, you go through a decision-making process. This process includes analyzing the information you have collected and assessing whether you need to adjust your goals by evaluating the pros and cons of your decisions. There is no right or wrong answer, but your decisions should be based on the values you have identified and accepting the tradeoffs you make.

STEP 4 - IMPLEMENT THE PLAN Using the 3 Rs of Money, *Reality, Responsibility and Restraint*, put your plan into action.

- ❖ The *Reality* is that unless you strike it rich, you will have limited amounts of time and money to use.
- ❖ By using *Responsibility* in the way you handle your money, you can accomplish good things for yourself and others.
- ❖ Apply *Restraint* by having self-control in saving your money for a goal instead of spending it now.

While implementing your plan, it is important to realize that you don't have to go it alone. Find someone, like Mom, Dad or a teacher, who will encourage you to stick to your plan and be accountable for your goals.

STEP 5 – MONITOR AND MODIFY THE

PLAN Life holds unexpected obstacles and opportunities. Thus, your plan may need to be altered for changes in your income or unanticipated expenses. Therefore, you want to keep your eye on your plan and keep it flexible. Your values and goals may change. Ask yourself the following questions when monitoring your plan:

- Are your existing goals still worth doing?
- Is there a new goal to add?
- Is there an existing goal you want to eliminate or change?

Keep in mind that your financial plan is a roadmap that takes you to your destination and you get to pick the route! Money is not the goal—money is the tool to help you achieve your goals, meet challenges, and grasp opportunities.

CAREER: LABOR YOU LOVE

Sadly, many people find themselves doing work that is not challenging or enjoyable and also does not pay well. How much you earn in a lifetime can be affected by your choices about education and/or training. It is important to make the most of your working life.

JOB VERSUS CAREER A job is short-term work that generally “pays the bills”. A career is usually a long-term chosen profession or occupation that provides income. It is important to note that there is often a planned sequence of jobs as you build a career. You will find that lessons and habits you form during work at seemingly unimportant jobs, such as at a fast-food restaurant, will translate directly into success (or failure) in your future career.

In general, employers reward employees with more money and/or increased benefits for the following basic reasons:

- ❖ Dependability
- ❖ Working well with others
- ❖ Good problem-solving skills
- ❖ Deliver high-quality work
- ❖ Have high productivity
- ❖ Ability to conduct increasingly complex and unique activities
- ❖ Having a great attitude

WHAT TO DO AFTER HIGH SCHOOL?

The additional education and training choices you make will have a positive impact on the money you earn in the future. In evaluating the benefits of education, it is important to be aware of the costs of attending college such as tuition, dorm room, meals, fees, books, and

spending money. The average college costs in 2000, including all of the above-mentioned expenses, were \$24,946 for private school, \$16,848 for a state (non resident) school, and \$11,338 for a state (resident) school. Even though you are giving up an average of four years of earnings to attend college, the benefits are clear. The average earnings in 2002 by educational attainment were obtained from the U.S. Census Bureau:

| | |
|---------------------------------|----------|
| No High School Diploma | \$18,826 |
| High School Graduate | 27,280 |
| Some College/Associate's Degree | 31,046 |
| Bachelor's Degree | 51,194 |
| Advanced Degree | 72,824 |

No matter what the job choice, you will increase your worth in the workplace by obtaining relevant training.

Another potential employer who values your financial future is you. You may wish to be in business for yourself, or an entrepreneur. An entrepreneur is a person who starts a business from scratch based on a need or person's expertise, and puts creativity and ingenuity into action to provide either a service or product. An entrepreneur also assumes a great deal of risk since there are no guarantees, no regular paycheck, etc. This typically self-employed person usually enjoys this type of arrangement because they are their own boss, they have a strong sense of discipline, and they are able to keep a higher percentage of profits from their efforts. Before going into business for yourself, there are some important steps you will want to take.

- Envision an opportunity to provide a good or service that you can provide better than any existing business.
- Learn all you can about existing competitors and investigate what customers really want from your product or service.
- Develop plans to market your business, analyze your potential profit or losses, and then how to produce your product or service.

YOUR CAREER AND YOUR FINANCIAL

FUTURE Job satisfaction is more important than money. However, beyond these reasons to work here are employee benefits that are important to consider in your career such as paid vacation, health-plan benefits, retirement-plan contributions, tuition reimbursement. As you work for different employers during your lifetime, you can decide which benefits are most important at that stage in your life. It is important to consider benefits as well as salary when you're thinking about accepting a position with a particular company.

We have summarized the five basic steps in financial planning as well as the impact of career choices in this edition. In *Teaching Children About Money, Part 2 of 2*, we will discuss budgeting, saving and investing, credit and insurance.