Perfectcents

A family's guide to teaching children to be money smart

Number 1

The college crunch – a real problem

Over the past 20 years, tuition has more than doubled at public and private schools, outpacing grants, loans, state appropriations, and financial aid.*

In 1996, Sallie Mae, the country's largest source of funds for higher education, reported that *only two in ten parents of high schoolers had saved at least half of the money needed to cover college expenses. One in five parents hadn't saved at all.*[1] Those numbers were gathered in the days of a robust stock market, far less expensive health care, and a nation without a huge federal deficit. At that time, the warning was clear: Parents who "wait" to start saving are fighting a losing battle. Today's situation is worse:

- The cost of a four-year public college/university has increased 202% since 1981.[2] Household incomes have grown only 82%.[3]
- In 1990, only 16% of the highest-income families borrowed for college. By 2000, the number had risen to 45%.[4]
- 64% of college seniors graduate in debt. That debt has doubled in the last 8 years.[5]

More bad news

- State support for public colleges and universities has dropped sharply.
- Tuition and fees have risen significantly in every state. *(See map.)*
- 17 states reduced student financial aid in 2002. Some by as much as 24%.[6]

Says Patrick M. Callan, President of the National Center for Public Policy and Higher Education, "*Most national and state observers agree that [this] is only the opening round of what is likely to be a series of painful adjustments to diminished state revenues.*"[7]

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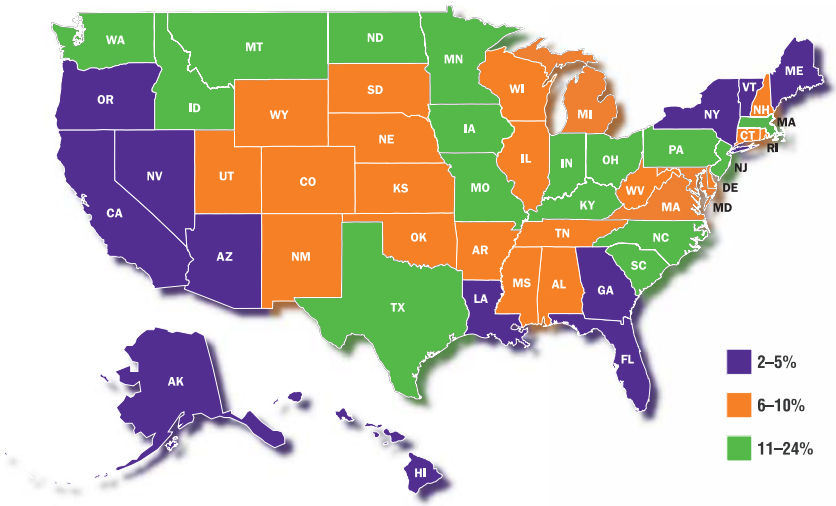
Percent Increase in Public Four-Year Tuition and Fees
2001-02 to 2002-03



Source: College Affordability in Jeopardy, A Special Supplement to National Crosstalk, The National Center for Public Policy and Higher Education, Winter 2003.

It makes sense

Allowances can teach financial responsibility

Your "chip-off-the-old-block" breezes in and asks for $15 for a movie with friends. Do you reach begrudgingly for your wallet? Or do you heat things up by using the "N" word (No)?

You can avoid either acquiescence or arguments by establishing an allowance for your child. An allowance gives your son or daughter real-life money management experience as it removes you from the role of money source.

How much is enough? Some experts propose a dollar for each year of your child's age. But handing a five-year-old $5 each week could be a bit much. Another option is to tie the allowance to a school year. One dollar a week for a first-grader, $2 a week for a second grader, and on up the line.

Some additional allowance guidelines:

1. **Decide what the allowance covers.** Snacks? Incidental weekly purchases? Entertainment? Instantly, you've introduced your child to budgeting – controlled spending over time. Just be sure you set clear rules.

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Northwestern Mutual
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ABCs of finance

You are your child's financial role model

Family is the greatest influence in shaping Americans' financial attitudes and behaviors, according to *Money Maladies*, a 2003 national survey commissioned by Northwestern Mutual Financial Network and conducted by Harris Interactive.

Sadly, the survey found that most of today's adults did not discuss money matters with their parents when growing up. Do you talk to your children about money – spending, saving, borrowing, earning, and giving?

Take note of these ABCs for financial role models:

A. Talk about where your money goes.

Help your kids understand family expenses. Talk about the percentages of your monthly income that go to pay for specific items. Encourage saving. Let kids know the percentage you tuck away in savings so you can meet future needs like college expenses, "rainy days," and retirement.

B. Teach your kids about debt.

Explain that not all debt is bad – financing a home is usually a good investment, and the interest is tax-deductible.

But credit card debt is another story. Do your monthly bills include multiple credit card statements? Do you always pull out the plastic to pay for purchases in stores? Your kids are sure to notice. Begin to pay for some things in cash if you can, and try to clean up old debts. Explain to your kids the additional cost of revolving credit.

C. Involve your kids.

Kids love to learn by doing, so give them hands-on financial experience. Going to the store? Take them along and discuss the purchase. Paying bills? Have them prepare the envelopes. Checking your investments in the newspaper? Maybe your kids would like to help you monitor prices monthly or quarterly.

Start building an awareness of money in your children. At home is a good place to start.

To learn more about the *Money Maladies* survey, visit – ***northwesternmutual.com*** and search under *Money Maladies*.

The connection between earning & learning

Does school pay off? **YOU BET!** The more school you complete, the higher your average annual salary. How much more? Click on *Earning* at **themint.org** – Northwestern Mutual's web site that helps teens manage money. You'll find fun facts, games, trivia, and a whole bunch of stuff you can do as a family.

The college crunch *continued...*

How about four-year *private* schools? For the 2001-2002 year, tuition and fees alone averaged $17,123. The figure does not include room and board, which have risen 33% and 40% respectively over the last 10 years – and risen 5.5% and 7.7% over the previous year.[8]

There's no time like the present to start a savings plan. If you start early enough, investing as little as $100 a month will add up over time. In 20 years, with a return of 8%, you'll have $56,900 for your child's education.

* Committee on Governmental Affairs, US Senate, Press Statement, February 2000.

[1] College Affordability, Sallie Mae.

[2] Bill aims to manage rising college cost, USA TODAY.com, October 16, 2003.

[3] National Commission on the Cost of Higher Education, Citizens for Responsible Education Reform, 1999.

[4] College costs outpace family income, inflation, www.cnn.com, May 2, 2002.

[5] College costs outpace family income, inflation, www.cnn.com, May 2, 2002.

[6] A special report from the National Center for Public Policy and Higher Education, College Affordability in Jeopardy, Winter 2003.

[7] A Different Kind of Recession, (Editorial), A special report from the National Center for Public Policy and Higher Education, Winter 2003.

[8] Phillipp Harper, Saving for College? Put all your tools to work, moneycentral.msn.com/content/Collegeand Family/Savingforcollege/P36740.

It makes sense *continued...*

And don't "cave" the first time your child runs out of money.

2. **Make it large enough to encourage saving, or possibly giving.** An allowance should enable your child to set aside money for a rainy day – or to save for a future purchase. If you are trying to instill the idea of "giving" in your child, Neale S. Godfrey, author of ***Money Doesn't Grow on Trees***, suggests that a child sets aside 10-15% for charitable contributions.
3. **Check "community standards."** Know what kids of the same age and means are getting, making sure to compare apples to apples. While another boy may receive a substantially larger allowance than your son, the other boy's allowance may cover clothing, for instance, and your son's doesn't.
4. **Be sure it's affordable and sustainable.** Don't go out on a limb. The allowance shouldn't be a burden on your family budget.

401(kids)

Use the 401(k) concept to teach your kids the value of saving. "Match" in whole or in part the amount your child saves.

the mint

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