



Perfectcents

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

Number 4

Savings – hitting the bull's eye

Why do any of us save? Because we're saving for something – we have a goal. It could be a night out at the movies, a new video game, a trip to some exotic place. When you come right down to it, we all save so we can spend. Saving and spending are linked. We pile up money until we've got enough to use it.

The secret to saving is to keep your goal in mind. Let's say you're saving to buy a used car. You begin saving your babysitting and yardwork money when you're in 7th grade. As you get older, you save your earnings from your part-time job. You could save quite a lot in 4 or 5 years. But only if you keep your goal in mind.

What happens if you treat yourself to a new CD or trendy clothes at the mall every weekend? Or if you're always the first one to get a group together to go out for pizza and a movie? That pile of money you need for the car is not going to grow the way it should.

But, you say, I've got to have some fun while I save for the car. I can't just stop enjoying myself for 4 or 5 years, can I? No, and you shouldn't have to. Here's the

trick. Think of saving your money in 5 different envelopes. Each envelope is labeled with a different savings target.

1. Everyday Stuff. The target could be trendy clothes, movies, athletic events, dances, etc.

2. Long-term purchases. The target could be a luxury item, like a CD burner, digital camera, etc.

3. Emergencies. The target is unknown. It's whenever some URGENT need arises that you didn't plan for. You forget to check the oil in the lawn mower, and you damage the engine while mowing the lawn. You must pay the repair bill. Or you lose your coat at a basketball game. You must replace it. Without an emergency fund, your other envelopes would be wiped out.

4. Giving/charity. Many adults think this is a responsibility we all share – finding a cure for a disease or helping a religious cause, the environment, or a homeless shelter.



5. College. This is a major expense for families, and often parents ask kids to help out. Your contributions emphasize the seriousness of your education. After you finish your schooling, this envelope becomes a House Fund and later a Retirement Fund. This envelope always contains a major target in your life.

You must choose a percentage of your income – made up of your paycheck, your odd-job money, gift checks, etc. – to go into each envelope. Then you must be strong and stick to your plan. And that's how you save for the car and still have fun on the weekends!

(Continued on back)

Credit cards are great... and dangerous!

Wait a minute. How can credit cards be both great and dangerous? It all depends on how you use them.

First of all, you should know that using a credit card is a way of borrowing money. When you charge an item, you are going into debt for the price of the item.

But when you look at the commercials on TV, you never get the feeling that having



Know how credit cards work before you use them.

all that fun with credit cards will actually put you in debt. The ads only show you the glamour of credit. Airplanes flying toward sunny beaches. Fancy dinners. Cool home entertainment systems. There's not a word about the 12-20% interest rate you're charged for borrowing money. No one mentions \$25-\$35 penalty fees for late monthly payments.

(Continued on back)



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Credit cards are great *continued...*

The advantages

Smart shoppers take advantage of the many benefits of credit cards:

- You don't have to carry lots of cash in your wallet, which might get lost or stolen.
- You have the power of money in an emergency. For example, you get a flat tire and have to call a tow truck.
- You may be able to use the credit system to get a free loan. Some credit card companies allow you to borrow money for about four weeks. And you pay nothing, not a cent for using this money **if you pay it all back on time.**
- By owning a credit card, you can build a good reputation for paying your debts on time. A good payment record will qualify you to take out loans for cars or borrow money to buy a house later in life.

The disadvantages

- Credit cards give you the freedom to buy things you really can't afford.
- Credit cards tempt you to buy on impulse because you always have the power to spend.
- Credit cards can fool you into spending money on "great deals."
(See "Don't clown around with credit.")
- Credit cards can tempt you to spend so much that most of your cash is going to pay your credit card bill. Then what happens? You begin charging everyday items because you don't have any money in your pocket. (Some adults have to charge their groceries.) It's like being caught on a merry-go-round – one that you can't get off. Each time you "go-round" you charge more and owe more.



Learn more about handling money at themint.org

Don't clown around with credit

You buy a jacket on sale. It's marked down from \$220 to \$180. That's a \$40 savings. You don't have the \$180, so you charge the jacket to take advantage of the savings. You decide that you can pay for it over time.



Because you only work one day a week, you can't afford large monthly payments. But you can pay \$15 a month and still have some money left over for other things. You faithfully pay \$15 every month, but the months seem to drag on forever. Plus, you pay late once, and you're charged a \$30 penalty.

Although you've bought the winter jacket in November, it takes you 16 months (that's two winters, a summer, and a spring) to pay off the purchase! At 17.9% interest, guess how much you paid for that "sale" jacket. Answer: \$228.26. Paying interest is no joke.

Smart enough to crack the code?

You're searching for solutions to 8 clues. Each solution has the same number of letters as the blanks. You'll find the solution to each clue is a word or idea in this newsletter. If a clue stumps you, scan the issue and hunt down the solution. After you've figured out what each clue means, **Crack the Code** by putting numbered letters in their proper boxes.

1. Credit cards can tempt you to buy ___ 5 M ___ 6 ___.
2. Credit cards can be handy lifesavers in an ___ 7 R ___.
3. Credit companies charge penalty ___ 2 E 9 ___ for late payments.
4. People save so that they can accumulate enough money to ___ 3 U 12 ___ an item they want.
5. Smart savers keep a ___ 8 A 11 ___ in mind.
6. By dividing the money you save, you can ___ 4 ___ T ___ your goals.
7. Paying in full what you owe the credit card company before your due date means that you can borrow money for ___ 10 H ___.
8. When you charge a purchase, you are going into ___ 1 B ___ for the price of the item.

1	2	3	4		5	6		7	8	9	10	11	12

ANSWERS: 1. ON IMPULSE 2. EMERGENCY 3. FEES 4. BUY 5. GOAL 6. TARGET 7. NOTHING 8. DEBT SOLUTION: DEBT IS COSTLY

Rising credit card debt of college seniors

- 96% have credit cards
- Average number of credit cards: 6 per student
- Average credit card balance: \$3,262

Source:
Nellie Mae, 2003 Credit Card Usage Analysis

Savings *continued...*

As Meridee Maynard, a Northwestern Mutual vice president and participant in the Governor's Task Force on Financial Education in Wisconsin says, "it's never too early to start saving and developing good saving habits. They can change your life. The sooner you begin saving, the more savings you'll have."

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