

Perfectcents

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

Number 9

Tricks that our minds play with money

**When is \$10 not worth \$10?
Only when you think it isn't!**

Every Saturday morning during the school year, you spend three hours helping out with swim lessons at the community pool. You get \$8.50 an hour. You HATE not being able to sleep in on Saturday, but being an assistant swim instructor pays better than other jobs you could get. You feel you work hard for your money.

You need a new CD/alarm clock. You are all set to buy one in a nearby store for \$39.95, but you notice an ad in the paper for exactly the same brand and model across town for



\$29.95. It's no contest. You travel across town to make your purchase. You can save \$10. That's more than an hour's work.

You also need a new computer. You've been watching the newspapers, and the one you want goes on sale. SuperBuy, a nearby store, advertises the computer for \$1,099. BetterBuy, a competitor located 5 minutes further down the road than SuperBuy, is selling the computer for \$1,089. Where will you shop?

Interesting isn't it? In the second example, the \$10 doesn't seem so important. *Well, you say, as a percentage of the purchase price, it's not as big a number.* True, but was that \$10 any easier to earn than the \$10 you saved when you bought the alarm clock? Did you get to sleep any later to earn it? No. Yet if you were like most people, you were ready to spend it rather than save it.

Another Trick:

Easy money is more easily spent

You have two out-of-town aunts who send you money for your birthday. Each sends you \$30.

What do you do with each \$30 gift? Do you blow it? *Sure I do, you say. Why? Because I got it free. I shouldn't have to save it, right? They gave me a gift. I just turned their money into a "thing."*

So now the question becomes did you buy something you really wanted? Or, as often happens with gift money, **did you look for something to spend it on?** Somehow, gift money seems less real, less valuable, because you didn't work for it. So rather than hang onto it, people spend it. (Adults sometimes do this with income tax refunds. It's money they really worked for, but because they get it "back," it seems like a gift.)

Wait a minute. You're the same person who drove across town to save \$10 on a CD player/alarm clock. And now you are throwing away \$30 on something you could have easily lived without.

So here's a second trick our minds play: *gift money isn't as valuable as worked-for money.* The truth is that money has the same value no matter where it comes from. And here's an interesting question: if you didn't have to work for money, why isn't it even easier to save it? Why doesn't it just pass through your hands from the birthday card to your savings plan? It could be an effortless transfer.

Let's say that for 10 years, you used Aunt #1's check to buy something important to you. Sometimes you saved and added money to her gift to get something you



really wanted. But you always saved Aunt #2's check, so after 10 years you have \$300 you didn't work for! That's pretty darn cool. It came from respecting gift money.

Tom Gilovich, author of **Why Smart People Make Big Money Mistakes and How To Correct Them**, tells us, "We all tend to make better decisions about money when we consider the value of money all by itself, no matter where it came from or how we got it."



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Another Trick:

Small amounts aren't worth saving



The first year you worked at a neighborhood park, you earned \$6.75 an hour. The second year, you got a 75¢-an-hour raise. Doesn't sound like much, does it?

But if you do the math based on a 30-hour work week, you're earning \$22.50 more each week, or \$90 more each month. Over three months, that's \$270. If you look at it as only 75¢ an hour, you might not think about putting that 75¢ in your

savings plan rather than spending it. You could just say, 75¢ – *big deal. I may as well spend it.*

You'd be wrong. In fact, if you could live with the same amount of spending money during summer #2 as you did during summer #1, you could save all \$270. If you respect even small amounts of money, they can turn into large amounts.

Tips for parents

Just as a stone rolls down a hill, we all create our own momentum. Depending on the direction our stone was rolling in the first place, our momentum can speed up *saving* or *spending*. Some researchers find that in good economies, people who were already savers, saved more. People who were spenders, spent more.

How do you get spenders to save more? One way is to make saving easier, according to Tom Gilovich, a best-selling author and psychologist who studies why and how people make money decisions.

Tom's research finds that even with the best of intentions, we often can't turn

desire into action because we can't get over certain barriers. Removing the barriers helps. That's why some people save more successfully when their retirement contributions are directly deducted from their paychecks. If the entire paycheck were actually placed in their hands, *and then they had to write a check to their retirement fund*, their savings would suffer. Yet if the money is never placed in their hands, people get along without it.

Use this lesson to help your pre-teen/teen save. Sit down with your child and set up a savings plan which calls for setting aside a certain percent of ALL earnings/gifts and immediately putting

it in savings. Whether it's gift money, a babysitting check, or a paycheck, he/she must automatically remove the percentage. No exceptions.

By applying your parental influence, you can remove a savings barrier and help your son or daughter develop saving habits. The idea is to start your child's momentum rolling in the savings direction. Society has already introduced young people to the incentive to spend.



Learn more about handling money at themint.org

Beware of tricks – they're hocus pocus

Watching a magician pull a rabbit out of a hat is great fun. The tricks that fool you into making poor decisions about money are not. Play this *Perfectcents* word game to help you remember how to avoid these mistakes. Follow the clues and then use each letter in the word **MAKESCENTS** to spell a word you find in this newsletter.



M _____

A _____

K _____

E _____

S _____

C _____

E _____

N _____

T _____

S _____

M We create our own _____, either spending or saving.

A What money is worth, no matter where it comes from.

K A word that describes how our minds can fool us about understanding the real value of money.

E When the amount saved is only a small _____ of the purchase price, people don't seem to value the savings.

S Even when money is plentiful, these people resist spending.

C We should _____ even small amounts of money because they can grow to become larger amounts.

E We spend gift money more _____ than money we have worked for.

N A good place to look for sales to get the most for your money.

T Another word for pennies.

S If you understand your own _____ to savings, you can remove them.

Answers: momentum, value, trick, percentage, savers, respect, easily, newspaper, cents, barriers

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