Northwest Youth Financial Education

Money Skills for Life

Pirate Loot – Article Short

By Tyler Lemke & Luke Erickson

In a recent study, Kahn (2015) found that 29% of American's have no "liquid" or emergency savings at all, and about 60% of those surveyed had less than the recommended three months-worth of expenses in savings. This lack of savings can create unneeded stress when emergencies arise. Like most habits, the act of saving regularly is likely to stick better if it is learned at a young age.

Premature Affluence

One of the problems facing today's youth is "premature affluence." According to University of Wisconsin-Extension professor, Linda Boelter, "premature affluence" occurs because teens are not responsible for their everyday living expenses such as food, rent, bills, and other typical costs of living and this allows them to make relatively large expenses on discretionary items like convenience foods, clothing, electronics, and other luxury items ("Getting a job", 2000). In her research on premature affluence, Jelks (2005) concluded that even though students understood that their spending would dramatically shift after moving out of their parents' homes, the actual transition was still very difficult due to their learned habits of affluent spending (Jelks, 2005).

Jelks' conclusions seem consistent with the spending patterns that are found among college age students. A recent Time Magazine article summarized several studies and concluded that, "about 40% of college student budgets go to discretionary purchases like clothes, gadgets, entertainment, and snacks" (Poppick, 2015). These habits are likely playing a role in the poor savings rates among college students. USA Today's Schramm (2015), found that only 39% of undergraduates use budgets, and another survey reported that 60% of students had less savings than they expected of themselves (Maciejewski, 2008). In short, less than optimal savings habits seem to be working against our youth, and those habits are following people into their college years and beyond.

Why Start Young?

Ashby, Schoon & Webly (2015) suggested that saving behavior at age 16 is closely linked with saving behavior at age 34. Otto & Webly (2015) found that children who are used to carefully managing money by age 11 are more likely to keep their spending under control in the future, and that learning savings habits in adolescence are very likely to carry through to adulthood. The research also shows that a turning point occurs around age 15 where youth consider saving their own money more effective for reaching their immediate goals than relying on help from parents. This allows for terrific teachable moments and meaningful discussions with parents on saving principles, but also indicates that learning should even begin at a younger age, between 8 and 11 years to build a foundation of great discussions. Parents are inherently important in this learning process (Otto & Webly).

Getting teens to start saving as soon as possible may help them in both school and in life. Jerald Bachmann, a research scientist at the University of Michigan said in a report, “college savers have consistently higher grades and college aspirations, and lower use of drugs” (Swanbrow, 2014). College savers refer to those high school seniors who save 41% or more of their money towards college savings (Bachman, Staff, O’Malley, & Freedman-Doan, 2014).

How Parents Can Help

Boetler (“Getting a job,” 2000) recommends that parents work with teens to improve their spending plans and habits. Steps to this process include:

1. Calculate expected income from all sources (jobs, allowances, gifts, etc.).
2. Help choose long-term savings goals (vacation or trip, a vehicle, electronics, or college savings).
3. Calculate the weekly amount that needs to be saved in order to achieve the goal.

In reality, a savings plan will do very little for teens unless the plan is executed. Parents are an essential part of that plan. Jim Heitman, owner of Compass Financial Planning, suggests that the main goal of a parent should be to help their teens stay focused, and clearly lay out consequences for success and failure (“Motivating Teenagers,” 2012).

Getting Started

To get started, first, you need a savings or spending plan. This plan will include a goal and the amount of money to spend each month (“Getting a job,” 2000). You may also want to include ideas for how to increase income. Next you will need a place to store the money. Bestselling author Ramit Sethi (2009) recommends using online banks to automatically store your savings, “You’re much less likely to dip into your savings if it's not immediately reachable through your normal banking” (p.68). Finally, you will need a traditional or online checking account in order to set up automatic withdrawals of a specified amount each month. These automatic withdrawals make it easier to save because you don’t have to think about it (Sethi, 2009). Saving money is easiest to do if you pay yourself first making your savings just as important as your expenses (Northwestern Mutual. n.d.).

Conclusion

It is apparent that many students will have higher expenses once they reach college age or move out of their homes (“Getting a job,” 2000). Important as those tech toys, trips, food, fashion, cars, and computers may seem, expenses like this may turn into debt once teens grow up due to “premature affluence” (Jelks, 2005). Youth can curb this type of overconsumption by saving now, before college, in order to develop a great life skill and help curb our current trend of consumer debt (Kimberly, 2015). And savings can be used later for worthwhile unforeseen and foreseen expenditures such as emergencies and college.

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