

**Teenage Consumers:**

# Teaching your children how to save & spend



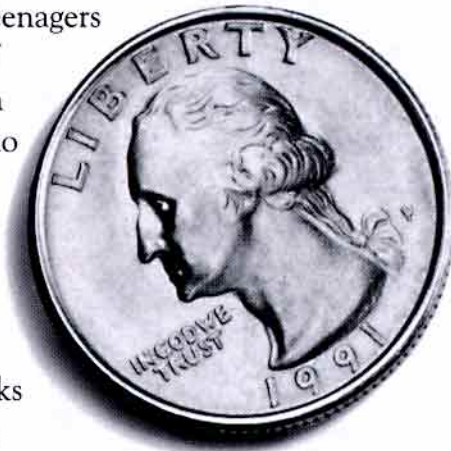
## What's at Stake

**A** typical teenager spends several thousand dollars a year, mainly on cars, clothes, food, and entertainment. This amounts to nearly \$80 billion annually nationwide.

When they leave high school, many teenagers will significantly increase their purchases. Those who move out of their family home, especially those who work full-time, will begin spending a great deal on housing, utilities, furniture and furnishings, appliances, and insurance.

But most teenagers are not well-prepared to make these purchases wisely. On a national test of teenage consumer knowledge, sponsored by the Consumer Federation of America and American Express, high school seniors received a failing grade. They answered correctly only 42% of questions about banking, insurance, housing, cars, and food. On a similar test, adults scored 58%.

The costs of this lack of knowledge are considerable. Teenagers waste billions of dollars a year on purchases that do not represent good value. Much of this money comes from the hard-earned paychecks of their parents.



When they leave home, young adults with poor consumer skills will continue to waste money. But because they are spending much more, the wasted sums will be much larger. And because few will have large incomes, the costs to their standard of living will be much greater.

So, teaching your teenagers how to save and spend is important to your present financial condition and to the future financial condition of your children. But it is valuable for another reason: Helping prepare your children to be wise consumers can bring your family closer together. It can provide an opportunity for you to do things with your teenagers that are interesting and fun, and will increase their appreciation for the financial challenges you face as a parent.

## What Your Children Need to Know

**T**he world of consumption is enormously complex, so what are the most important things you can teach your children about saving and spending? The following are particularly significant.

### The importance of saving

You should communicate to them the importance of saving a portion of income for future expenditures – a car, a trip, education, or an emergency. You should also inform them of the dangers of spending more than their income.



## How to budget

Developing and adhering to a budget is a method they can use to save and to avoid burdensome debt. You should explain to them the importance of budgeting and how to carry it out.

## General shopping strategies

There are several general strategies that help consumers maximize value on all purchases.

### ■ Buy only what you need or want.

You might urge your teenagers, for example, never to make an unplanned purchase of more than \$50 unless they think about it for at least 24 hours.

■ **Comparison shopping** is another useful strategy. There is a wide range of price and quality among products. Only by comparing these products can they find the best value.

■ **Negotiation** is another valuable strategy. Increasingly, sellers are willing to negotiate price on a wide range of products from cars to credit to housing and appliances. On major purchases, consumers should nearly always try to negotiate a better deal.

## Where to find information about products

Several information sources besides sellers help consumers purchase what they want at the right price. Most important is *Consumer Reports* magazine, available at almost all public libraries. Libraries and bookstores also carry other magazines and books with useful information about products.

Federal, state, and local government agencies frequently make available pamphlets to assist consumers. The Federal Consumer Information Center distributes many of these publications.

(A catalog of these publications can be obtained by sending a written request to: Consumer Information Catalog, Pueblo, CO 81009.) The Better Business Bureau, your state attorney general, or local consumer protection agency may also make available such information. These organizations are often listed in the Yellow Pages of your phone book.

## How to solve problems

Each year most consumers have a problem with some of the products they purchase. It is important to know how to communicate with sellers and, if this fails, how to complain to a government or nonprofit agency such as the Better Business Bureau, local or state consumer agency, or small claims court. Often these agencies are listed in the Yellow Pages.





## How to Teach Your Children

One of the best ways to teach your teenagers how to save and spend is to assist them in doing both. Create specific challenges for them to meet, such as:

■ **Budgeting:** Give your children an allowance. Tell them what it must cover, and do not help them out if they want to overspend. The scope of the purchases they must make can be narrow (for example, just entertainment), or broad (clothes, transportation, entertainment, and other items).

But you should not regularly supplement this amount, or your teenagers will not learn financial accountability.

■ **Saving:** Consider requiring your children to save a percentage of their allowance, but explain that these savings can be used for some future expenditure, such as a car or college tuition, that you cannot help them make. An alternative to requiring saving is providing incentives to do so, such as a dollar-for-dollar match.

■ **Credit:** If your credit card issuer permits you to do so, you can teach your children how to use a credit card by allowing them to use a supplementary card issued on your account. Set a limit on their spending and require them to pay related costs, including interest and the annual fee. Explain to them that these and other costs vary from card to card and that there are other payment options such as cash, checks, charge cards, and debit cards.

■ **Cars:** If your teenagers drive the family car, they may be interested in helping you purchase one. Involve them in the entire decision-making process. Discuss with them the general type of vehicle (for example, subcompact, fullsize, minivan), and the specific characteristics of a car (for example, cost, safety, optional features) that are most desirable for your family. Then urge them to consult sources such as *Consumer Reports*, *The Car Book*, and car magazines to find the model offering the best value. Take them with you to dealerships to test drive the model and to negotiate price.

■ **Car Insurance:** At a minimum, show them how much your insurance premiums rise once they start to drive. Explain that this cost will probably increase if they have moving violations or accidents. Consider requiring that they bear the expense of any increase in premiums because of their careless driving.

■ **Food Purchases:** Ask them to help you make food purchases, including preparing a shopping list of items that fit within the budget, selecting the store, and actually buying the items.

You might ask them to purchase all the food the family needs for a day or for several days. Provide them a limited amount of money to make these purchases and require that each day's diet must include certain types of foods such as cereals, fruits and vegetables, and protein sources. Make certain that they understand how to use open dates and unit prices to make the wisest purchases.



*This pamphlet  
was prepared by the  
Consumer Federation  
of America. Printing and  
distribution were made possible by the American  
Express Company Office of Public Responsibility.  
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