

YOUNG MONEY

A special supplement for young individuals approaching financial independence



Advance to Go

TIPS FOR EARLY FINANCIAL EDUCATION

by Joan Hill, Financial Planning Associate

In 1934, Charles B. Darrow pitched his Monopoly game to Parker Brothers. They rejected the game due to “52 design errors.” The unemployed Mr. Darrow went on to sell 5,000 handmade sets to a Philadelphia department store, and the next year Parker Brothers picked up the game.

Today there are many versions of Monopoly: Elvis, James Bond 007, and a U.S. Air Force Edition to name a few. One of the newest is the Electronic Banking Edition that uses debit cards instead of cash. In addition, the player’s tokens have also changed over the years (the very first game came without any and asked players to use buttons or other household items). Today’s tokens include a Segway personal transporter, Altoids tin, space shuttle, flat-screen television, baseball cap or a dog in a handbag.

Although I take no great joy in playing Monopoly (for me it’s a long game and can be rather tedious), I play because my kids are drawn to its very organized way of thinking about cash flow. They enjoy starting off with a bunch of money and making decisions about purchases. They especially like to charge each other very high rent when they have properties with real estate. Along the way they learn something about limited funds, accumulating wealth, luck, looking for deals, timing, good and bad surprises, and economies of scale, concepts that don’t come

up often enough in routine conversation. Games and other tools that help kids think and ask about money can be a great help. I know they help me to take a more organized approach to teaching my children.

If you play Monopoly, you may want to visit the strategy guide on Monopoly.com to help explain some of the game’s concepts. While you are on the site also visit the section on conduct, which offers concise descriptions of good and bad sportsmanship, which can be applied to real-life situations.

Another game that is fun and useful in early financial education is Payday. Payday focuses on household finances and is played on a calendar board where something happens every day. Players receive bills in their mail, and at the end of each month have a payday.

Beyond board games, here are some fun online educational resources to explore with your kids:

The Federal Reserve Bank of New York offers free comic books on a variety of topics including inflation, the history of money, monetary policy, and the importance of saving. Go to www.newyorkfed.org and search “comics.”

Pricegrabber.com and other price comparison sites are a great way to learn about comparison shopping.

Teachbanzai.com is a free site that allows kids (13 and older) to track their own spending and savings. It uses virtual “jars” to teach the responsible handling of money.

Stocks-game.com (The Max’s Investment World Stock Market Challenge) is a free simulated stock market investment game that allows anyone (13 and older) to buy and sell stocks and mutual funds traded on the NYSE, AMEX, NASDAQ national market and NASDAQ small-cap stocks.



HOW TO:

Live Within Your Financial Means

by Shauna Mace, Communications Director

You've graduated, got a job and are preparing to move out of Mom and Dad's house — congratulations and welcome to the so called *real world*.

If you're anything like I was you probably have big plans for that first pay check. I promised myself that my first paycheck would go toward a pair of designer shoes (Manolo Blahniks to be specific). My college roommate agreed except she was getting Jimmy Choos. A few years later and still designer-shoeless, I wonder what happened? But I know exactly what happened: a school loan, car loan, rent, gas, and groceries. Then came the dog, bigger rent and eventually a mortgage.

In retrospect, I would give up my Manolo dreams all over again — financial freedom is so much better than a pair of fancy shoes.

Know Your Limits

To figure out what you can (or cannot) afford each month start with your net monthly income (income after taxes and retirement contributions). Subtract your fixed expenses, those expenses that you must pay every month (rent, loans, utilities, groceries, etc.). Then, a chunk for savings. Finally, the variable expenses, those expenses that are not necessary (entertainment, clothing, dining, etc.). If you have anything left over great, save up for a guilt-free pair of Manolos.

It's important to be honest about your expenses and to create a budget that you are comfortable with and understand. Rule of thumb: *Pay yourself first*. Save aggressively early on to take advantage of compound interest.

How Much is Too Much?

You can live off spaghetti and peanut butter but I wouldn't recommend it. When it comes time to make a big purchase or financial commitment, keep in mind that just because you have the money now doesn't mean you

can afford it. For example, if your gross monthly income is \$2,000 that does not mean you can afford the luxury apartment with a \$1,500 monthly rent. *Rule of thumb: spend no more than 40% of your gross monthly income (income before taxes) on debts and mortgage (or rent).*

Have a Plan

Write down your short-term and long-term goals and prioritize them. If you want to buy a house, start saving for the down payment and closing costs in advance, so you're ready to move when you find the house of your dreams.

Unexpected things will happen. Your car won't start, the dog needs emergency surgery to extract a sock or you must buy a \$350 bridesmaid dress. (Don't forget the matching shoes). Unless you have a money tree in your backyard it pays to be prepared. *Rule of thumb: set aside three to six months of your salary in cash reserve for emergency expenses.*

Set Yourself Up to Succeed

A budget only works if you stick to it. Here are a few tips to help implement your financial plan:

- Direct deposit your paycheck
- Automate payments and savings contributions
- Don't touch your savings (unless it's an emergency)
- Create separate savings accounts for specific purposes (i.e. a large purchase, vacation or downpayment)
- Take advantage of employer-sponsored savings plans
- Contribute at least 10% of your paycheck toward 401k
- Utilize pre-tax spending plans if available for transportation, medical expenses, childcare, etc.

Save more, spend less and take control of your financial future.

