



# Perfectcents

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

Number 10

## How cushion money protects you

**C**ushions protect against shock. Shocks can be all kinds of things – from a low grade on a test, to someone stealing your backpack at a basketball game, to finding a flat tire on your bike.

The shock comes in two stages really: first, that it happened, and second, now what do you do?

You can study harder for the next test. But you'll have to pay to replace the missing backpack and fix the flat. *No problem, you say, my parents will take care of that.*

But you find out they won't. Your mom says that you were careless with your backpack and made it easy to steal. Now it's your problem to replace it – and its contents, including the calculator and the CD game you brought to school to show your friends. Your dad says that while he helped you buy the bike, taking care of it is your responsibility. *But, you wail, I haven't got any money!* Now there's shock number three.

### Why no cushion?

If you're like most kids, you spend most of your allowance or paycheck on movies,

eating out, CDs – things that entertain you. You don't plan for accidents. You don't expect them to happen. They do.

And as you get older, lots more things can happen. You need to have a cushion fund. You build the fund by promising yourself that you will keep part, a percentage, of your money for what your grandparents might call a "rainy day." That's a day when things go wrong. Is saving for a rainy day hard to do? Some kids find it very hard to do. Know why?

### Spending is huge

Right now, you are one of 32 million Americans age 8-19, the largest group of tweens and teens the nation has ever seen. What's more, you have money to spend, and advertisers want it.

They work hard thinking up ways to make you BUY. These advertisers are good at their job. In the last five years, teen spending shot up \$50 BILLION dollars, from \$122 billion to \$172 billion. That's a huge increase!

Advertisers make their products so cool, that you can't resist them. So you spend until you run out of money. Then your backpack and your calculator get stolen, and you have no money. The truth is that you *had* money. You just don't have it anymore. You spent it on an MP3 Player, new clothes, and video game systems. Spending has made you cushion-less.

Going without a calculator is not going to help your math grade. Living without a backpack for

*(continued on back)*



## How do parents cushion themselves?



You may have lost your backpack and calculator and that's plenty for you to handle right now. But as you get older, the losses get bigger. Cars get into accidents, basements flood, people go to the hospital. These events can cost thousands and thousands of dollars to "fix." Smart adults set aside money to build cushion funds – let's call it "just in case" money – and they buy insurance.

What's insurance? It's a protection. Here's how it works. You and lots of other people pay an insurance company money each month, and the company agrees that if you get in trouble, the company will give you money to help you out of it. *(continued on back)*



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## How cushion money softens your fall *continued...*

a while is going to be a big inconvenience. Maybe it's time to think about building up a cushion fund. Will it be hard to save 10% of all of your allowance and pay? Will you be tempted to spend it?

The answer to both questions is yes. But the first time your cushion fund saves you from a disaster, you'll be glad that you had the willpower to stash that money away. Check out our other story to learn more about how adults create cushions.

## How do parents cushion themselves? *continued...*

Let's say that a tornado tears the roof off your house. Your insurance company investigates the damage and then pays you some money to help you rebuild the house. How much the company gives you depends on how much protection you have bought. Most of the time, the company will not pay for the entire amount, so you use your cushion fund to pay the rest. You've been saving it "just in case" something like this happened.



Your parents buy insurance to protect them in many ways –

- to help them pay doctor and hospital bills
- to protect the car and the people in it in case of an accident
- to give them a paycheck if they get too sick to go to work
- to protect the house you live in
- to take care of you if they can't
- to take care of them when they get very old

But keep in mind that buying insurance doesn't get rid of the need for cushion money. There are lots of things that insurance doesn't cover. The dishwasher gives out. The furnace breaks down. The hot water heater starts to leak. Who thinks about a hot water heater? It's just there! You'd think about it in a hurry if you had to step into a cold shower.

So many things can go wrong that people just need to be prepared. Make putting money into a cushion fund a habit. As you earn more, your cushion money will grow, and you'll always be ready for a rainy day.

## Quick facts for parents

- **40%** of Americans live beyond their means<sup>1</sup>. Personal savings fell below a scant 2% of after-tax income in 2002<sup>2</sup>. No cushion here.
- Consumer debt is conservatively estimated at **\$9,000** per household.<sup>3</sup> What could be cushion money is going to pay down debt.
- Today's teens grew up in the boom years of the '90s, a time of lavish consumerism. Some analysts worry that these years have shaped a generation of spendthrifts,<sup>4</sup> foretelling a future of serious financial trouble for young people.
- The fastest growing group of people filing for bankruptcy is the under-25 set.<sup>5</sup>
- **50%** of parents admit they are "not good" role models for their children, nor do they feel "capable" of teaching their children to manage money.<sup>6</sup>

<sup>1</sup> *Financial Literacy Statistics*, Young Americans, Center for Financial Education, 2004

<sup>2</sup> U.S. Department of Commerce, Bureau of Economic Analysis, 2004

<sup>3</sup> William Branigin, *U.S. Consumer Debt Grows at Alarming Rate*, Washington Post, January 12, 2004.

<sup>4</sup> Rodriguez, *Teens with wads of cash flex spending muscle, Marketers focus on this huge consumer group*, Boston Globe, February 20, 2002.

<sup>6</sup> Northwestern Mutual's Perfectcents Kids & Money Survey, 2003

## Be smart – save for a rainy day

Having money "just in case" something happens is a smart move. Read the clues and fill in the blanks. You'll find the answers (if you don't know them already) by scanning the articles. Let's see if you can stay dry on rainy days – or if they leave you all wet.

### Clues

1. A thing that can soften your fall.
2. A kind of protection that pays you money when you're in trouble.
3. What you should do when advertisers try to get you to spend.
4. How much teens are spending each year.
5. Forgoing over money for goods.
6. A nasty surprise.
7. Adults know that \_\_\_\_\_ things happen.
8. People who want you to spend your money.
9. These things happen, and you have to be ready for them.

## How smart are you now?

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