



Perfectcents

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

Number 11

Where does the family money go?

Have you ever heard the phrase, *the cost of living*? People use it to mean how much money you need to live from day to day, month to month, and year to year. It's not something that concerns you much, but it concerns your family every day.

What affects the cost of living? The prices of things. If dairy farmers suddenly raise the price of milk, cheese, and butter, your grocery bills go up. If the oil producers in the Middle East raise the price of gasoline, it costs more to drive the family car. If for some reason there's less electricity being produced, its price will rise, which means it costs more to turn on a lamp.

You don't pay much attention to these items in the news because they don't affect you directly. Nobody asks you to use your allowance to chip in for the cost of your breakfast. Nobody tells you that you have to start paying for a ride to school because the cost of gasoline has risen 70¢ a gallon. Your parents may give you an allowance, but they let you spend it on things that are mostly non-necessities, like pizza, music, movies and video games.

When you are young, you are pretty much protected from the cost of living. In fact, you may not even be aware of all the expenses that go into the cost of living. Maybe it's time to find out. See *Where to start* on back.



For parents

The cost of living – “check” it out

While parents often say that their kids think *money grows on trees*, parents often don't sit down with their kids to show them what it takes “to live.” If your family is like most, the kids don't think much about gas, electric, and phone bills. They're even less likely to think about mortgages, taxes, health insurance, or auto loans.

However, they may be aware of more obvious costs, like paying for music lessons and groceries.

While some adults don't want kids to know the amount of the family mortgage payment, kids can learn about the cost of living by looking at lots of other bills. It's a slice of real life that will help teens and tweens appreciate where the money goes. Its also prepares them for life after the teen years. Kids whose parents teach them about money, grow up to be better savers – putting them on the road to financial security.

(see **Where to start** on back)



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Where to start *continued...*

Here's an eye-opening activity for the whole family. Everyone sits down at the kitchen table with the monthly bills, and the adults start paying them. As the parent introduces each bill, Mom or Dad should comment on it. Here are some points to discuss. (See **Take it a step further** for suggested bills)

- How some bills stay the same while others go up and down.
- That some bills come every month; some come quarterly.
- How some bills come unexpectedly – like the plumber's bill when the pipes burst – but you have to have the money on hand to pay them. That's why everyone needs a cushion fund!
- What happens if you don't pay your bills on time.
- How credit card accounts rise and fall from month to month, depending on how much you spend. (Just taking a credit card bill and looking at all the items on it and how they add up to a large bill is a great activity all by itself.)

If you really want to make your point, bring piles of cash to the table, and stack the currency on top of each bill you pay. When you're done, the family should use a calculator to total all the payments – cash or checks. Then add in the cost of a month's groceries. Let that total sink in. Then explain that you pay many of these same bills over and over every month.

Take it a step further

Involve teens in the cost of living

- 1) After one or two kitchen table meetings, change the agenda. Meet to simply talk about bills that have gotten out of hand and why. Or talk about upcoming bills – for example, the city will be working on the water pipes in your neighborhood, and now the family has an unexpected expense. What can you all do to spend less?
- 2) Let teens lick the envelopes and add stamps to payments. By handling the envelopes, kids see how many there are and where they go. It heightens kids' awareness of expenses.



- 3) Before you make a purchase, discuss it with the family. Talk about price and choice. For example, "if we buy this, we won't be able to buy that." Or "we could put off one purchase for a few months." **Show kids that you are saving up to buy, not charging the purchase.**

Some bills that families pay each month

Telephone
Electricity
Gas
Cell phone
Groceries
Health Insurance*
Auto Insurance*
Life Insurance*

Music lessons
Orthodontist
Auto loan
Prescriptions
Contact lenses
Gasoline credit card
Store credit cards
General credit card

Irregular bills

Lawn service
Electrical work
Auto repair
Auto license renewal
City assessments
New sports equipment
Field trips

*It may be taken out of your check, but still mention it.

Then there's taxes

You hear about taxes on the news, and you may have even studied their role in the American Revolution. But let's talk about them now as part of the cost of living.

Taxes raise money to run the country, the states, and the cities. Lots of things are taxed. Houses, land, gasoline, and the items you buy at the store, just to name a few. Then there is "income" tax. Everyone pays a part of the money they earn to the government in Washington and to the state they live in.

State and federal taxes are taken out of your paycheck before you ever get it! So that when you think about the cost of living, you have to think about taxes too.

Let's apply the idea of taxes to the money you earn for babysitting and yard work. What if you had to send the federal government **25%** of everything you earned – and then send the state another **5%**? That's a total of **30%**.

*Hey, wait a minute, you say, if I make **\$12.00** hauling soil, that means I have to pay **\$3.60** in taxes. That leaves me only **\$8.40**.*

True. Welcome to the real world.



Your parents pay these taxes every time they get a check. The money goes to things like building roads and bridges, paying people who work for the government, and building space shuttles. We couldn't run a society without taxes. Who would pay for the traffic lights? Baseball stadiums? The police and fire departments? The library? All of these things – and thousands of others – are paid for with taxes. It's the cost of living in America.

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19-0151-11 (1104)



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