

Five Timeless Financial Lessons Money Lessons for Every Age

ONE DAY IS TODAY — FINANCIAL PREPARATION GUIDE

5 Timeless Financial Lessons

If you could travel back in time, even a year, what advice would you give your younger self about saving for retirement? That's the question this issue explores with five timeless lessons for a better financial future. And because parents are the number one influence on their children's financial behaviors, this issue also includes some simple tips to share with the younger people in your life.

If you want to be happy, set a goal that commands your thoughts, liberates your energy and inspires your hopes.

- *Andrew Carnegie*



**Money lessons for every age:
Learning by example**

Show the kids in your life that money can play a variety of roles, whether it's spending today or saving for tomorrow.

Preschool/Elementary school

- Label a set of jars or envelopes to separate money — one for saving, one for spending and one for giving. Any time the child receives an allowance, earns money for doing chores or receives a gift of money, encourage him/her to divide the cash equally among the jars/envelopes.

Middle school

- Consider opening a bank account for the child and discuss the concept of compounding and how the longer your money compounds, the faster it may grow.

High school and older

- If the child has a job, consider helping him/her to open a Roth IRA. Roth contributions grow tax-free, which gives them the potential to grow faster than they otherwise might.

Note: Weigh options carefully as Roth is not for everyone.

Lesson 1: Set your internal GPS

Imagine yourself 10, 20, 30, 40 years from now. What would you like your retirement to look like? If you don't quite have a clear picture of the life you want, consider this: The actions you take today can have a big impact on your ability to get where you want to go. That's why setting retirement goals is so important. When you have a specific purpose for your money and a direction forward, it becomes easier to take control of your spending, and how you save. Here's how to get started.

Start dreaming

Close your eyes and visualize your perfect retirement. Are you exploring a distant country? Gardening at home? Fly fishing in a pristine river? Thinking about the shape of your retirement can help you gauge how much savings you'll need to realize your dreams.

Picture yourself "there."

Housing is one of the biggest expenses in retirement. Where do you see yourself living as you age? Downsizing, renting, or owning your home when retirement comes could have an impact on the amount you'll need to save for the future.

Think about timing

Once you've decided what you'd like to do in retirement and where, consider how long you plan to keep working. The amount of retirement savings you'll need to retire at age 50 may be vastly different from what you'll need if you plan to keep working until you're 70, or beyond.

Build a spending plan

Experts suggest that you may need as much as 80 percent or more of your current annual salary each year to maintain your standard of living once you stop working. To get a more precise estimate, try using our [Retirement Income Calculator](#) to help you confirm that your retirement strategy is aligned with your retirement goals.

Put it in writing

A study by the Life Insurance and Market Research Association (LIMRA), a worldwide consulting and professional development organization, found that nearly seven out of 10 pre-retirees (67 percent) who have a written plan for when they retire said they felt well prepared, compared with just a third (34 percent) of those who did not have a formal written plan.

Four out of 10 American workers (41%) say they and/or their spouse have tried to calculate how much money they will need to live comfortably in retirement.

[2017 Retirement Confidence Survey, Employee Research Institute](#)

Money lessons for every age: Make it relevant

One way to teach children how to handle money could be to involve them in routine tasks, such as shopping online and in stores.

Preschool/Elementary school

- Next time you are grocery shopping with a young child, let the child hold your shopping list and help him/her tick off each item as you find it.

Middle school

- At the grocery, consider giving the child a few items from the list to find at the best price.

High school and older

- If the child has an interest in cooking, set a budget and make a meal plan together. Then, let the child shop for the needed items on his/her own.

Shopping alongside you and getting involved in the process can teach children of all ages important lessons about needs versus wants, the cost of different items, and what it means to take advantage of sales and coupons. This can help children feel responsible and makes shopping an adventure.



Lesson 2: Don't confuse “wants” with “needs”

When it comes to spending, we can all be tempted to splurge at times. Perhaps yours involves taking a big vacation each year, getting the latest electronics, or dining out regularly with friends. But what if these purchases are preventing you from reaching important goals, like saving for a down payment on a house, contributing to a child's college fund or funding retirement?

Making conscious decisions about saving and spending can be an essential part of building financial security for the future. To help you prioritize what matters most, consider dividing your monthly spending into these three categories:

Essential (non-discretionary) expenses

This can include “needs” such as food, housing, clothing, health care, utilities, and transportation. It may also include insurance and taxes.

Desired (discretionary) expenses

This category can include your “wants;” in other words, expenses that are nice to have but may not be essential, such as travel, entertainment and purchases like a vacation or a new car.

Unexpected (emergency) expenses

Whether it's a leaking roof, flat tire or a health or dental issue, unforeseen events could hinder your retirement planning. That's why experts suggest that you could allocate a portion of your income to building an emergency fund to cover at least three to six months of living expenses.

When you take a critical look at your spending, you may uncover opportunities to redirect some of the money you spend on non-essentials to saving. This may empower you to reach for the goals and objectives that could provide the rewarding lifestyle you envision for the future. Try our [Small Changes, Big Savings Calculator](#) and explore ways you can make small changes today to help move you closer to your future financial goals.

Lesson 3: Pay yourself first

Money lessons for every age: Reaching goals

As children grow, consider talking to them about larger goals beyond the inexpensive items they typically spend money on.

Preschool/Elementary school

- Younger children typically enjoy planting seeds in a flowerpot or garden. This provides a good opportunity to show the child that it takes water and time for the seeds to grow and sometimes we have to wait for something we want.

Middle school

- Introduce the concept of opportunity cost — the tradeoffs we make today to have something tomorrow. For example, if the child likes to buy a snack after school every day, discuss how putting that money into a savings jar may enable them to buy something higher in value, like an iPod, instead.

High school and older

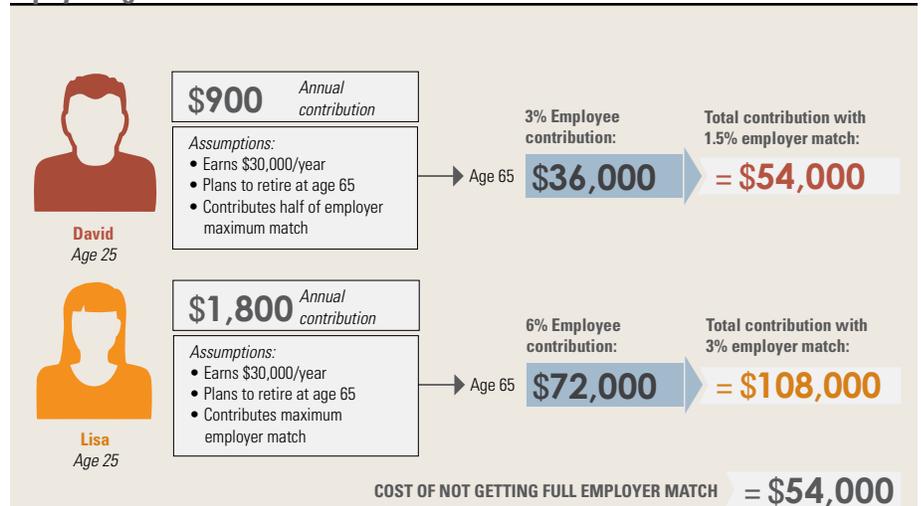
- If a child is considering going to college, explore together how much different schools cost. Discussing this early gives the opportunity to learn what's most important to them and what they can do to make their dreams happen.

By treating contributions to your retirement plan like a bill and paying into that account first, you could have an impact on your ability to spend less, contribute more and reach your retirement planning goals faster. Not only can contributions to your plan be made on a pretax basis, that money comes out of your paycheck before you even see it — or get a chance to spend it.

- If you're not able to contribute the maximum amount allowed to your plan, start with an amount you feel comfortable contributing and then build from there. To see the difference a higher contribution amount will have on your take-home pay, try our [Payroll Deduction Calculator](#).
- Considering contributing at least enough to get the full benefit of any matching contribution, if one is available (to understand why, see the chart below).
- Whenever you get a raise or a bonus, consider taking a percentage of your increase to boost your contributions further. You'll still take home a higher salary while your retirement account could benefit from increased contributions.

Of course, paying yourself first doesn't mean abandoning your other financial obligations. Rather, it can mean creating financial planning habits that your older self may thank you for.

It pays to get the full match



Note: All numeric examples are hypothetical. These hypothetical investment returns are for educational purposes only and are not indicative of any particular investment or performance. Hypothetical returns assume reinvestment of earnings. Actual returns or principal value will vary. Balances shown are before reduction for taxes.

Good for you

The concept behind compounding is simple: It's when the money you earn from your investments is reinvested for the opportunity to earn even more.

When you contribute through your retirement plan at work, your money has the potential to grow even faster because the taxes you would have paid on your earnings each year stays in your account, where it can earn additional money.



Lesson 4: You'll never be younger than you are today

Saving for retirement may feel like something you can put off until later. But the sooner you get started, the better off you may be. That's because the longer your money has to grow, the greater the impact that compounding may have — and the more likely it is that you may achieve the financial independence you want for your life.

To understand the power of long-term compounding in your life, try our [Cost of Waiting Calculator](#). It shows how contributing to your retirement plan sooner — rather than later — may be the easiest way to hit your retirement goals.

Contribute today, thank yourself later

Starting a retirement savings plan now can give you an advantage thanks to the magic of compounding.

Money lessons for every age: Spending limits

To help children understand the importance of credit cards and spending limits, you could explain when you can afford a purchase, and when you can't.

Preschool/Elementary school

- Helping children understand the impact of their choices is a healthy part of their growth and development. Next time you shop together, consider giving the child some money and have him/her decide what cereal/fruit/treats to buy.

Middle school

- Consider engaging the child in your decision-making process when it comes to spending money. Questions such as: "Is this something we really need? Or would it cost less someplace else?" "If we get this, what can we skip this time so that it fits in our budget?" "Is it worth it?"

High school and older

- If you feel the child is ready, consider looking together for a credit card. This is a good opportunity to discuss the differences between credit cards and their costs. It's also an important time to reinforce the dangers of borrowing and paying interest.

Lesson 5: Kick debt in the butt

Saving for retirement can sometimes feel like a balancing act between meeting future goals and current needs. Some people use credit cards to manage their spending. Credit cards offer convenience, security and the opportunity to earn points for travel and other rewards.

But there can be a downside to using your favorite piece of plastic if the cost of credit card debt is keeping you from planning for retirement. To avoid falling into the debt trap, consider the following:

Avoid credit card debt

Just because you can charge something doesn't mean you should. Instead, consider charging only what you can afford to pay for in cash. Remember that carrying credit card debt could be compared to taking out a mortgage on your future.

Be timely

Contrary to what many people believe, you don't necessarily have to carry a credit card balance to build a credit history. Pay your bill in full each month, be sure to read and understand your cardholder agreement and you could earn a solid credit card score — and sleep better at night.

Do more than required

Emergencies can happen and you may find yourself unable to pay your credit card bill in full. If that occurs, consider paying as much as you can beyond the required minimum on time. You may want to stop using your card until you can reduce your balance to a manageable level.

Track your spending

Many credit cards allow you to organize your transactions by type, such as groceries, restaurants, travel and entertainment. This can make it easy to track and manage your budget, especially if you set a monthly spending limit.

The average American household with credit card debt owes \$16,061 and pays an average of nearly \$1,300 in interest on it each year.

The interest on credit card debt can increase the cost of the items you buy, rather than helping you save. Read [this article](#) to learn more about the impact of debt on your financial future.

Source: NerdWallet's 2016 Annual American Household Credit Card Debt Study.



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