

Why your kids expect to be rich

Turns out most kids think they'll soon earn six-figure incomes. Here's why their expectations are so removed from reality and how you can help your offspring avoid the fallout.

By Liz Pulliam Weston

Plenty of adults are delusional about money, so it shouldn't come as too much of a shock that teenagers can be unrealistic when it comes to their future finances. Still, the extent to which teens misjudge their prospective earning power says something interesting -- about them and about the rest of us.

I refer to tidbits from the "Teens and Money" survey Charles Schwab released earlier this year. This poll of 1,000 Americans aged 13 to 18 from a variety of socio-economic backgrounds found that 73% believed they would earn "plenty of money" when they were adults.

In fact, the teenage boys expected to make an average \$174,000 annually. Teenage girls expected to earn \$114,200.

The reality check:

- Median earnings of men who worked full time, year round in 2005, the latest year for which Census Bureau statistics are available, was \$41,386.
- Women working full time made a median \$31,858.
- Fewer than 5% of the U.S. population makes more than \$100,000, according to the bureau. Only one household out of six report a six-figure income, according to the Federal Reserve's 2004 Survey of Consumer Finances.

Great expectations

You might expect teens to overestimate their potential earning power if they were planning to become professional athletes, actors or hip-hop recording artists.

But sports and entertainment ranked only in the middle of the 20 career options chosen by the surveyed teens. Far more popular were medicine (including jobs as doctors, nurses and medical technicians), technology (including jobs in programming, network operations and computer repair) and teaching, the three career fields that most interested the kids polled.

Yes, teaching. Now you begin to see how truly out of whack these kids' earnings estimates are.

So what, you might say. Let the kids have their fantasies. They'll find out the truth soon enough.

But that's the problem. These adolescents will soon be making decisions about money that will affect their lives for years, even decades, to come. Those who misjudge their earning power could:

Take on crippling student-loan debt. I hear from too many young graduates with six-figure student loans and salaries under \$50,000. These debts cut into their ability to save for retirement, buy a home or meet other financial goals. And you typically can't shake off student-loan debt in bankruptcy court or anywhere else; this is debt that can literally follow you to the grave.

Overspend on credit cards. Eight out of 10 college students have at least one credit card, and many graduate with significant balances. It's easy to justify paying only the minimum on your cards if you think a fat paycheck is just around the corner. But that bad habit can quickly snowball into huge debts that, at best, cost the borrowers thousands of dollars in interest and at worst lead them to bankruptcy.

Overspend on everything else. People who don't understand that there are limits to their financial resources, and that tough choices must be made, are suckers for a credit industry that's happy to let them overspend on cars ("The real reason you're broke") and homes ("Who's most at risk for foreclosure?"), among other expenses. Fail to take advantage of the time value of money. Once overcommitted, young people find it tough to come up with even the paltry amounts it would take to make them rich in their later years ("Young all but ignore 401(k)s, IRAs"). For example: Every dollar you tuck away in a Roth IRA when you're 21 could grow to nearly \$30 by the time you're 65, assuming 8% average annual returns. Wait 10 years to start funding your retirement, and that same dollar grows to less than \$14.

Dream all you want, but plan for reality

So clearly, there are serious potential consequences to overestimating future income, and in a minute I'll address what parents can do to help their kids avoid the worst fallout.

But to get there, we need to understand why teens assume they'll be rich -- or if not rich, at least very well off. There are several potential explanations, including:

It's the media's fault.

I usually disdain arguments that blame "the media" for anything. For one thing, "the media" isn't one big monolith, despite Rupert Murdoch's best efforts. For another, most media outlets are so chaotic and disorganized they have a tough time organizing

annual company picnics, let alone a vast conspiracy.

But there's no question we're bombarded with details of the lives of the rich and famous. Those who consume a steady diet of such pap can get a distorted idea of what's normal.

It's society's fault.

Our whole society, and our economy, is built on the idea that "money will make you happy," said attorney Jon Gallo, co-author with his wife, Eileen Gallo, of the book "The Financially Intelligent Parent." "It's part of our cultural ethos. . . . These teenagers are just epitomizing that."

In reality, money doesn't add much to people's happiness once they're raised above the subsistence or poverty level.

"Money does make a huge difference when you're talking about going from \$8,000 a year to \$30,000," said Gallo, citing the research of Harvard psychology professor Daniel Gilbert, who wrote "Stumbling on Happiness." "Between \$50,000 and \$500,000, though, the difference is scarcely measurable."

Many of the things that do make us happy, such as a sense of purpose and strong relationships with family and friends, don't necessarily add much to our nation's gross domestic product. In fact, Gallo joked that our economy "would grind to a halt" if people gave up the idea that happiness lies in more money and more stuff.

It's the parents' fault.

Have you ever traded in a perfectly good used car for a newer one? Bemoaned your financial state and wished out loud for a raise -- or a winning lottery ticket? Expressed envy about someone else's income or lifestyle?

And you're wondering why your *kids* are so darned materialistic?

Children are awfully good at picking up the messages we send them, consciously or otherwise, said Mary Hunt, author of several books including "Debt-Proof Your Kids." If we believe "more is better," they're likely to believe that, too -- and they often don't have the real-world experience to understand that money is a limited resource and that every expenditure has consequences.

"They watch their parents swiping plastic, living on credit, keeping up with the neighbors," Hunt said. "Kids learn through observation and emulation, and without allowing them to experience suffering, yearning and delayed gratification, they grow up with unrealistic ideas of what life is really about."

3 things parents can do

So what's the antidote? Most of us parents don't want to quash our children's

dreams, but there are ways to tune them into reality. For instance:

Talk with your kids about their career aspirations.

Once they get beyond the "I want to be a ballerina-veterinarian-astronaut" stage, you can start having real conversations about their interests and what jobs might suit them. Research together what those jobs actually pay, advised Kristine Dixon, Schwab's director of consumer education. You can get average hourly earnings for different professions from the U.S. Department of Labor's National Compensation Survey (this is a .pdf file; data for specific jobs start on Page 7) or see typical salaries across the country with Salary.com's Salary Wizard. Contrast that with what people typically spend on shelter, food, transportation and other living expenses in your area. (If you're comfortable revealing details of your family's finances, you can show them what you spend.)

Give your kids some hands-on experience with money.

If your children's only money skill is knowing how to successfully nag you into buying something, they will be woefully unprepared for the real world -- either that, or you'll still be supporting them when they're 50. Better to start turning chunks of cash over to them now, either in the form of an allowance or in payment for work around the house, and let them make decisions on how to spend it. As one poster on the Your Money message board put it, "Let them learn when a lesson is cheap." By the time they're in high school, they should be assuming more responsibility for their own living expenses, as I wrote in "Why allowances don't work."

Adjust your own attitudes about money.

Recognize that even if you do win that raise, or that lottery jackpot, you'd adjust pretty quickly to the improvement in your circumstances and would soon want even more. That's not to say you shouldn't be ambitious or want to improve your family's financial circumstances -- far from it. But expecting money to be the magic-ticket solution to all your problems is just as unrealistic for you as it is for your teenager.

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