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Teen Spending

Are teenagers learning to manage money wisely?

"How do these look?" asks a young shopper in Daly City, Calif. Teenage U.S. consumers spent $159 billion in 2005.

Teenage American consumers spent a mind-boggling $159 billion last year on everything from movies and French fries to clothes and iPods. Experts say teens are spending more than ever before because they have more to spend. About 10 percent of teens have credit cards, nearly twice that number have debit cards and about 20 percent get money simply by asking their parents for it. Consumer advocates — as well as rappers and professional football players — say kids aren't learning how to use "plastic" wisely. In fact, parents themselves are setting poor examples. Credit card loan delinquencies are at record levels, while Americans' saving rate is at an all-time low. Critics say the credit card industry is too aggressive in marketing to younger and younger kids. The Bush administration and some members of Congress are pushing for more financial-literacy courses earlier in schools. Meanwhile, only a few states require schools to teach personal finance.

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Cover: "How do these look?" asks a young shopper in Daly City, Calif. Teenage U.S. consumers spent $159 billion in 2005. (Getty Images/Justin Sullivan)

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Teen Spending

By Pamela M. Prah

The Issues

Eric Simmons' parents figured that giving him a debit card with a set limit was a good way for him to learn about managing money. So every month, the high school senior in Annandale, Va., gets $300 added to his debit card.

But Eric recently exceeded the limit on his debit card and then racked up hundreds of additional dollars on a credit card his mother got for him and his older sister for gas, school supplies and emergencies. And although Nancy Simmons discourages her son from buying online, he has spent hundreds of dollars on the Internet for shoes, clothes and accessories for his motorized scooter and remote-control car.

Simmons admits she "enables" her son's excessive spending by paying his bills and that she should have set stricter limits with him earlier. "I need to sit down and talk with him," she says.

Eric is part of the so-called Echo Baby Boomer Generation — the more than 75 million Americans, including at least 25 million teens, born between 1977 and 1994. Not since their baby boomer parents were teenagers themselves has a group of teens been so large and so coveted by product-pitching marketers. And they have an unprecedented amount of money to spend on whatever they want, from clothes to iPods to custom ring tones for their cell phones.

Many teens, like Eric, have access to debit and credit cards, a notion that just 20 years ago — when "plastic" was widely restricted to adults — was unimaginable. But critics say the industry has gone too far marketing to younger and younger kids, citing the Hello Kitty debit cards that Legend Credit Inc. launched in 2004 trying to attract the preteen set, often called the "tweens." (*See story, p. 468.*) "Don't think for a second the companies marketing these cards have our children's best interests in mind," wrote *Washington Post* financial columnist Michelle Singletary in a recent column condemning the use of credit cards among young people. "They have one goal — to hook a customer as early in life as possible." [1]

Unfortunately, say consumer advocates, parents aren't teaching their kids how to use credit or debit cards or manage money. The average teen owes about $230, and about one-in-four youths ages 16-18 already is more than $1,000 in the red, says an April 2006 study from the Charles Schwab Foundation, a private, nonprofit organization created by the financial-services company. [2]

Many experts also worry about the long-term ramifications of young people not learning to save and going into debt at an early age. When today's young generation retires, the experts say, many employers will no longer be offering workers pensions, which provide a set amount of money each month. And with Social Security coffers quickly depleting, they say it is crucial for people today to begin saving for their own retirement. [3]

Estimates of how much American teenagers spend vary. Teenage Research Unlimited (TRU), a Chicago-based teen-marketing company, estimates that teens spent $159 billion last year, which is about $20 billion more than the entire 2006-07 Texas state budget. [4] The figure is up from $122 billion in 1997, the first year the company did the survey, says TRU Vice President Michael Wood, but down 6 percent from 2004. Wood attributes the dip to parents being skittish about the economy, making them more tightfisted, and rising gas prices. "Teens who drive are watching an unprecedented amount of their budget flowing directly into their gas tanks," he says. But teens are optimistic about 2006, with nearly half of the teens surveyed (47 percent) saying they think they'll spend more in 2006 than they did last year.

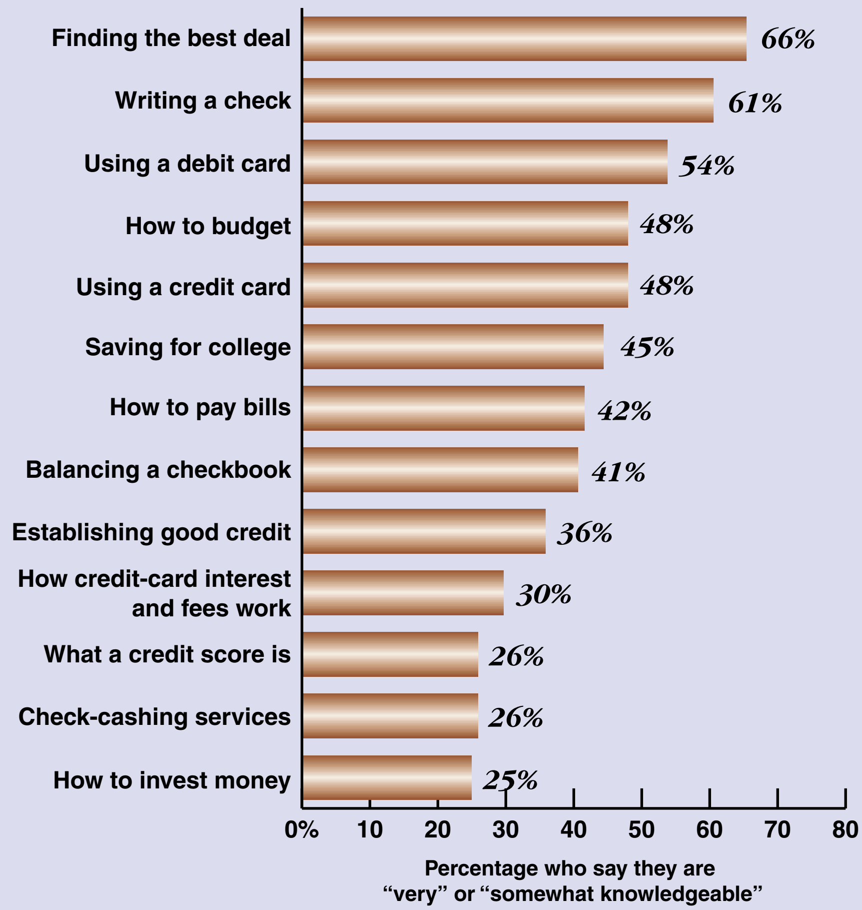
Joe Clark Photography

Running back Jerome Bettis of the Pittsburgh Steelers coaches a team of students in a game of "Financial Football" at Pittsburgh's Peabody High School. The animated money-management computer game incorporates lessons from Visa's Practical Money Skills for Life. *Experts say teens are spending more than ever before but aren't learning how to use credit wisely.*

Many Teens Clueless About Money Matters

Two-thirds of teenagers consider themselves knowledgeable about shopping for a good deal, but less than half say they know about money matters ranging from credit cards to balancing a checkbook.

Financial Knowledge of Teens Ages 13-18



Source: "Teens and Money," Charles Schwab Foundation, April 19, 2006

Today's teens are spending more because they have more money at their disposal, says Diane Crispell, executive editor of GfK Roper Consulting in New York, which has provided snapshots of U.S. teen spending habits since 1990 in the *Roper Youth Report.*

Traditionally, teens have received money for doing household chores (37 percent) or from their allowance (29 percent), says Crispell. Katy and Jenny Burgess, 14-year-old twins from Indianapolis, Ind., get most of their spending money from chores. "If we want something, we have to work for it," says eighth-grader Katy, whose family operates a farm.

But in recent years a growing number of teens — about one-in-five today, and mainly girls — have been getting spending money simply by asking for it, Crispell says.

"If I need something, I ask for it," says Brittany Guenther, a ninth-grader at Bishop Ireton High School in Alexandria, Va. She typically garners about $50 per shopping spree.

Her friend Liz Guttman, on the other hand, negotiates. "I try to strike a deal; whatever they're willing to give, I take," she says. Both 15-year-olds recently were shopping for clothes — the most common item on a teen girl's shopping list — at Pentagon City Mall, outside Washington.

For boys, food and video games rank high, while CDs and personal-care products are popular among both boys and girls, the Roper survey shows. TRU's Wood says the technology category "has exploded" of late, with more teens buying video games and consoles, cell phones, wireless products and iPods.

Another new wrinkle on the teen-buying scene: Teenagers often don't have to wait until they have the money or their parents take them to the mall — They buy online with credit cards. Today's teen generation is the first to grow up shopping via the Internet.

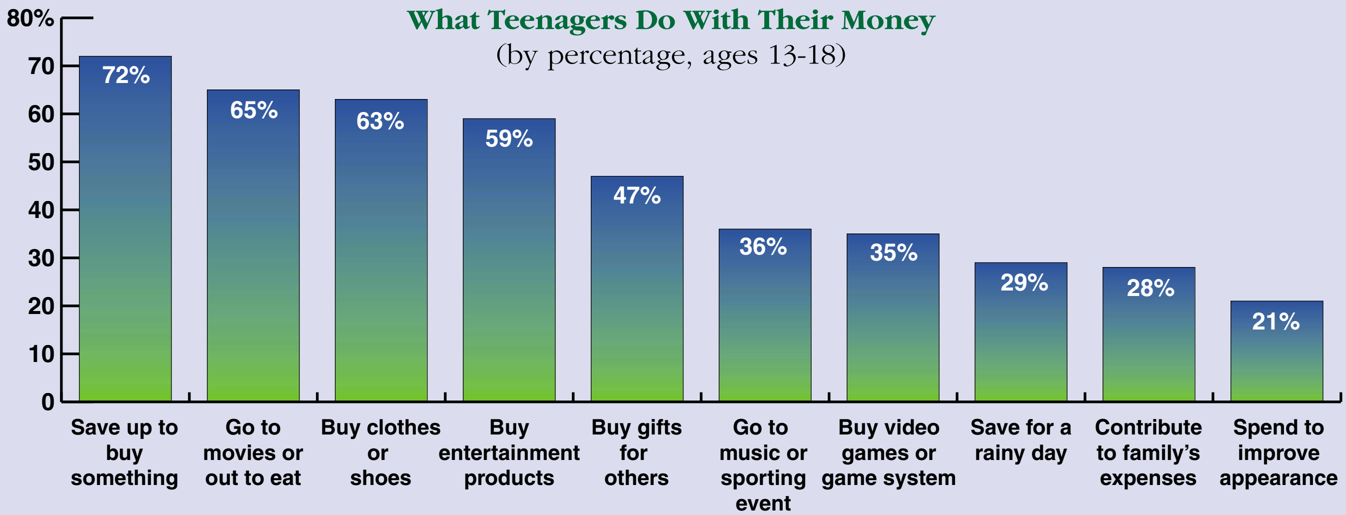
"Everything has to be instantaneous," says Don Montuori, publisher of *Packaged Facts*, published by MarketResearch.com, a market research firm in New York City.

About 10 percent of teens have credit cards, and nearly twice that number have debit cards, says Wood. Visa USA, which has dubbed this younger set Generation Plastic or Gen P, estimated last year that payments via plastic — including online commerce — now account for about 53 percent of spending among 18-24-year-olds. [5]

While teens under 18 must have a parent co-sign for a credit card, there is no minimum age for debit or prepaid cards, explains Rhonda Bentz, vice president, Visa USA. Visa is among the companies that have developed cards especially for young people that parents can load with cash. Another is Payjr, which this summer plans to launch its version of a prepaid spending card exclusively for

Most Teens Save to Buy Personal Items

A majority of teenagers spend their money on movies, food and other personal items. Less than a third save for the future or to help with family expenses.



Source: "Teens and Money," Charles Schwab Foundation, April 19, 2006

teens. Payjr President and Chief Executive Officer David Jones says the company is considering calling the card "scrilla," the rap term for money, in order to attract teens.

Many teens get their first credit card just as they arrive at college or during their freshman year, and many run up credit card debt on top of their student loans. Some put their tuition on plastic, with the intention of paying it off, and spend their student loans and other financial aid on books, pizzas and daily living expenses. Today's typical undergraduate has four credit cards and owes more than $2,000, according to the Nellie Mae Corp., an education lender in Braintree, Mass. [6]

In fact, parents themselves are setting a poor example. The nation's credit car loan delinquencies have reached a record high, the savings rate is among the lowest in the industrialized world and the average family has $9,000 in credit card debt. [7]

"I don't think a lot of adults should have credit cards, let alone teens," says Dallas Salisbury, chairman of the American Savings Education Council, which sponsors the national "Choose to Save" campaign. Credit cards "lead people to overspend and run up debt."

Unless young people start to save more, "the end result will continue to be inadequate savings, overuse of credit and high rates of personal bankruptcies," says Salisbury who also is president and CEO of the Employee Benefit Research Institute.

About a dozen states now require schools to teach personal finance, but the Bush administration and some members of Congress are pushing for more financial literacy earlier in schools.

As policymakers, educators and parents debate the issues, here are some questions people are asking:

Are teens being taught to manage their money?

Many states today require students to take money-management courses. Seven states — Alabama, Georgia, Idaho, Illinois, Kentucky, New York and Utah — require students to take a personal-finance course before graduating from high school, up from two states in 2002, according to the National Council on Economic Education (NCEE). Nine states require that students be tested on personal finance. [8]

It is unclear, however, whether the courses change spending behavior, says NCEE President and CEO Robert F. Duvall. "We've only just begun to address that," he says.

In addition, the curriculum quality and difficulty of the financial-education requirements varies from state to state. Many of the state mandates are "relatively weak," says Stephen Brobeck, executive director of the Consumer Federation of America. For instance, some of the requirements can be met simply by attending three of four class sessions. Other states lack financial-education classes but cover some of the concepts in math, economics and social-studies classes, says Laura Levine, executive director of the Jump$tart Coalition for Personal Financial Literacy, a

Financial Tips for Students

A money-management program co-founded by the U.S. Bankruptcy Court in Western New York offers 10 tips on staying out of debt, managing your finances and establishing a good credit rating.

1. Create a Budget: A realistic budget will identify exactly how you are spending your money — including your "needs" vs. your "wants" — and will help you budget the repayment of any debt you incur and how much you can spend on your "wants."

2. Open a Savings Account: You will need savings for both emergencies and for future large expenses. You will go broke relying on high-interest-rate credit-card loans to pay for these.

3. Look for Ways to Save Money: Buying at shopping clubs and with coupons, looking for the cheapest gas price, going to discount movie theaters and utilizing student discounts will help you save money.

4. Use Cash, Debit Card or Checking Account Instead of a Credit Card: People who use cash for their purchases spend less, so use cash if a purchase is under $20 or if you can eat it or drink it.

5. Avoid Credit Card Debt: Credit cards have high interest fees and often lead to late payments and over-limit fees. This means you will pay significantly more for everything you purchase. Remember, if you don't have any extra money in your budget to repay it within a reasonable amount of time with interest, you can't afford the purchase.

6. Pay Your Bills on Time: Paying your bills late, including credit card, rent, telephone, utility and cell-phone bills, hurts your credit rating.

7. Always Pay Debts Off as Quickly as Possible: Research the best credit card for rates and fees, and don't charge anything on it that you can't pay for at the end of the month. If you can't pay your credit card balance off in full, pay at least 10 percent of the balance. Never make just the minimum payment, and stop charging until you have paid off your balance.

8. Minimize Your Student-Loan Debt: Keep it to a minimum. Before choosing a college, ask yourself if the job you are likely to get after college justifies the loan debt you will incur at that institution.

9. Other Things to Avoid: Impulse shopping on the Internet, expensive behaviors like gambling and drugs, opening multiple store charge accounts, more than three-year car loans and pawn shops, rent-to-own and payday loan establishments. Also, don't open credit card accounts to get "free stuff." Those accounts will hurt your credit rating, even if you don't use them.

10. Remember the Consequences of Consumer Debt: Credit card and other consumer debt could hurt your future chances for a job, student loan, admission to graduate school, apartment or car loan. Today, everyone is pulling credit checks and using them to make decisions about your future.

Source: Credit Abuse Resistance Education (CARE), www.careprogram.us

group of public and private organizations that promotes development of personal money skills. "Every state is so vastly different" in how it teaches teens to manage money, she says.

John Parfrey, director of the High School Financial Planning Program sponsored by the Colorado-based National Endowment for Financial Education (NEFE), speaks frequently with teachers and students who have participated in NEFE courses in financial planning, budgeting, savings, credit and insurance. Today's teens "have a lot of spending power but not a lot of sophistication about the basics," he says. For instance, they often are surprised to learn how setting aside a small amount when they are young can grow over time through compounding, and that the longer one waits to save, the harder it is to catch up.

"That's a real eye-opener" for teens, he says.

Parfrey says students who have participated in the NEFE financial-planning course appear to have changed the way they save and spend money. For example, three months after completing the course, about 60 percent said they were more focused on buying only things that they really need and trying to save more. [9]

Judge John C. Ninfro II, chief judge of the U.S. Bankruptcy Court for the Western District of New York, has been visiting local schools since 1997, when he realized that many of the people in financial trouble who end up in his courtroom had never received financial-literacy education. "That is still true today," says Ninfro, who in 2002 formed the Credit Abuse Resistance Education (CARE) program (www.careprogram.us), which arranges visits by bankruptcy experts to high schools and colleges in 31 states to help students avoid credit problems.

"Our nation's high-school students are financially illiterate in too many ways, especially about credit cards," Ninfro says. For instance, kids are always shocked to discover that an $80 pair of running shoes can end up costing $120 if they are bought on credit and not quickly paid off in full, he says.

Recent surveys suggest that Scott Murray, a 16-year-old junior at Fairmount Heights High School in Prince George's County, Md., and his friends are typical teenagers when it comes to money matters. Although his mother talks to him about finances, he says he's not sure whether he has a credit or debit card. His friend Chris Grant, also 16 and a student at nearby Largo High School, says he thinks he has a savings account but is not sure. Neither of them is trying to save money.

"Most people I know don't save," says Murray.

Most teens say they recognize the importance of good money habits, including how to shop for deals and write a check, but less than half know how to budget money, use a credit card or save for college, according to the Charles Schwab Foundation's April survey. [10] And while one-third of teens owe money, only half say they are concerned about paying it back, the foundation found.

In the latest Jump$tart Coalition survey, the average high-school senior scored only 52 percent on a test of their knowledge of credit cards, saving and retirement. [11] The results were actually slightly worse than in 1997, when seniors scored 57 — an all-time high. "Our survey is fairly consistent in depicting the insufficient knowledge that young people have about money matters," says Levine.

A 2005 NCEE study gave high-school students an "F" on their understanding of basic financial concepts, such as annual percentage rates, inflation and interest. [12] Most didn't know, for example, that keeping cash in a piggy bank or under the mattress held a greater risk of losing value than investing the money in the stock market or mutual funds.

Many teens enter college without understanding the basics or the long-term consequences of poor money management. Researchers from Ohio State University found, for example, that 45 percent of college freshmen incorrectly thought their parents would be responsible for their credit card debts until age 21, and few were aware that late credit card payments could mean higher interest rates on car loans and mortgages. [13] The Government Accountability Office (GAO) found in 2005 that less than 20 percent of youths ages 18-24 knew their credit history could affect employment. [14]

Linda Sherry, who tracks credit and debit card issues for Consumer Action, a San Francisco-based consumer advocacy group, says many adults — not to mention teens — don't realize that a single late payment can allow a credit card company to impose much higher interest rates on the account. Even worse, some card companies routinely use credit reports to track customers' credit behavior on other credit cards. Here too, a single late payment on another credit card can lead a company to double or triple interest rates on their own card, even if the customer's payments on their card have been paid on time, she says. "People are always shocked" when they learn that, she says, and "most teens don't know about it."

Boston Bar Association

Students from South High School in Worcester, Mass., went to bankruptcy court to hear bankruptcy lawyer M. Ellen Carpenter, above, and Judge Joel B. Rosenthal discuss what happens when people spend beyond their means. The courtroom visit capped a financial-literacy program sponsored by the U.S. Bankruptcy Court for Massachusetts and the Boston Bar Association.

Nancy Simmons says her son Eric thought his debit card simply would not work if his account ran out of money. He didn't realize he was racking up a slew of overdrawn penalties. She says the bank waved all but one $35 late fee after she and her son went in and talked with bank officials, but they made clear the bank wouldn't be as understanding the next time.

Should teens have credit cards?

Do credit cards teach teens about managing money or create the next generation of overspenders? Laura Fisher, a spokeswoman for the American Bankers Association (ABA), says teens can learn important lessons about budgeting and managing their money by using credit cards. They not only help teens establish credit but also give parents a sense of security from knowing their child has enough money during emergencies, she says.

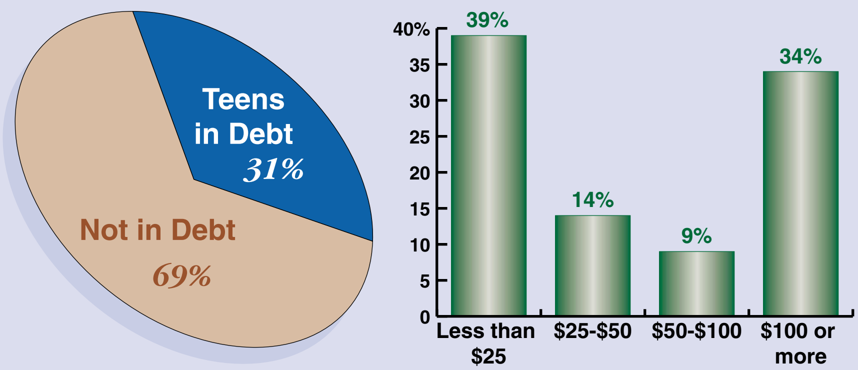
"A secure card with set, low limits is a good way to get started," she says, suggesting a card with a $300 limit, the lowest that many credit card companies and banks offer.

But most card companies don't publicize their lowest-limit cards. When Nan Mead, a spokeswoman for the National Endowment for Financial Education, was shopping for a credit card for her son, she had to specifically ask for a

Nearly One-Third of Teenagers Owe Money

Nearly one-third of teens ages 13-18 owe money either to a person or a company (graph at left), and 34 percent of them owe more than $100 (graph at right). On average, older teens (16-18) owe $351 while younger teens (13-15) owe $84.

Amounts Owed by Teenagers Ages 13-18
(by percentage of teens in each category)



Source: "Teens and Money," Charles Schwab Foundation, April 19, 2006

lower limit on the card. "The credit card companies don't advertise that. Parents have to be proactive."

And giving a credit card to a teen is a double-edged sword, she says. A credit card can help develop a teen's credit, but if a parent doesn't provide the proper "context" youths often don't learn the dangers of running up high bills and paying only the minimum amount, she says.

Fisher agrees. "Education is key," she says. "Kids have to understand credit isn't magic money. They have to pay it back."

Banks and credit card companies have kicked off a credit education program that included, for example, 39,000 presentations by ABA members to 1.5 million teens in the past four years as part of the association's "Get Smart About Credit" program, Fisher says.

Pamela Erwin, senior vice president of the Wells Fargo Foundation, says credit cards are a good idea for teens but only if teens receive direction. Otherwise it is akin to handing over the car keys to a teen without any driving lessons. Cards are a way of life, she says, but "whether you are a teen or an adult, you still need a roadmap."

No federal agency tracks how many teens have credit cards, and estimates from lenders and others vary widely, but as teens get older, clearly more get plastic. Only 5 percent of 13-14-year-olds have their own credit cards; by age 17, the percentage climbs to 9.8 percent and then doubles to 19.6 percent for teens 18 and older, according to an April poll by Junior Achievement, a Colorado organization that teaches young people about business. [15]

The poll found that more than 15 percent of teens with credit cards make only the minimum payment, which some teens don't realize means taking months or years longer to pay off the debt. The report notes it would take a teen making minimum payments more than nine years and almost $2,000 in interest fees to pay off a credit card with a $1,000 balance and 18 percent interest rate.

Teens who want and get their own credit card should also then have to pay the balance, says Mead. "Otherwise, they see no consequence of overspending, and that can lead to significant problems down the line."

"We do not encourage parents to give their children credit cards," says Brobeck of the Consumer Federation of America. The argument that they can help teens learn to handle money doesn't hold water, he says, because "most parents bail out their children, and the children don't learn the responsibility" of having and using credit cards.

Levine of the Jump$tart Coalition says there is no magic age for giving a teen a credit card; it depends on a teen's level of maturity. "There are a lot of young adults not mature enough to handle a credit card," she says.

Some consumer advocates argue that the credit card industry is more interested in roping in new customers at an early age than in teaching good financial skills.

Many teens get their first credit card as they head off to college. The latest Nellie Mae survey found that of the 76 percent of undergraduates in 2004 who had their own credit cards, 43 percent got it during their freshman year, and less than a quarter had the card before entering college. [16]

Marie O'Malley, vice president of marketing for Nellie Mae, said undergraduates are becoming more responsible in their use of credit. Five years ago, typical undergraduates owed nearly $3,000 on their credit cards; today it's just over $2,000, according to Nellie Mae. "The message of using credit responsibly is getting out," says O'Malley. Only 4 percent of students with credit cards said their parents paid their card bills, the survey found. [17]

But data from the federal government suggest many more parents are bailing out their kids' card debts. Jacqueline King, director of the American Council on Education's Center for Policy Analysis, says Department of Education data show that 56 percent of undergraduates

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Rappers, Contests Tout Wise Spending

In an effort to grab teenagers' attention, financial-literacy advocates are using online games, contests and celebrities to promote wise spending habits.

Visa USA, for instance, has recruited National Football League players — including the Denver Broncos' Jake Plummer, Atlanta Falcons' Warrick Dunn and Jerome Bettis of the Super Bowl champion Pittsburgh Steelers — to help get teenagers' attention. They visited classrooms in 17 cities last season to play an animated computer game called "Financial Football" with students that combines the structure and rules of the NFL with financial-education questions. [1]

Visa also offers two online games — "Smart Money Quiz Show" and "Road Trip to Savings" — geared to young, cyber-savvy teens (www.practicalmoneyskills.com).

Getty Images/Paul Hawthorne

Rapper Doug E. Fresh urges youths to be financially responsible.

Outside the classroom, rappers like LL Cool J, Alicia Keyes and Nas plug financial literacy through the Hip-Hop Summit Action Network (HSAN), created by hip-hop pioneer Russell Simmons and veteran civil rights activist Benjamin Chavis Muhammad. The network in March kicked off the Hip-Hop Summit on Financial Empowerment's "Get Your Money Right" nationwide tour in Detroit, followed by shows in New York in April. The tour planned to open in Miami Gardens, Fla., in May where rappers Remy Ma, MC Lyte, Pitbull and Doug E. Fresh were scheduled to join experts from Chrysler Financial in urging fans to be financially responsible. Other hip-hop artists will be on hand this fall when the tour moves to Atlanta, Los Angeles and Dallas.

"The biggest misconception probably comes from the hip-hop community itself . . . that the money lasts forever," LL Cool J said at the New York summit. "You have to do the right thing with it." [2] HSAN offers a "Get Your Money Right" workbook on its Web site (http://hsan.org/).

A team of seniors from Blackman High School in Murfreesboro, Tenn., won a free trip to Washington, D.C., by turning a hypothetical $100,000 into $150,263 over 10 weeks as part of the "Capitol Hill Stock Market Game Challenge." Students nationwide played The Stock Market Game (www.stockmarketgame.org) developed by the Foundation for Investor Education. Teachers have used the game in classrooms since 1977 to teach young people about saving and investing and how the capital markets work.

Other financial companies and nonprofits offer various games and materials online, but the information is often difficult to find unless teens and parents know where to look. Here are links to some online resources:

- **Merrill Lynch —** Since launching its free "Investing Pays Off" program in 2001, the big financial-services company estimates it has provided its curriculum, which is broken down into courses for various age groups, to at least 1 million students, including many who are home-schooled. The company also has teamed up with "Sesame Street's" Elmo to teach younger children about the basics of saving, spending and planning. (www.ml.com/philanthropy/ipo/volunteer/curriculumletter.html).
- **National Endowment for Financial Education —** The nonprofit's online games and puzzles can be found at www.nefe.org/hsfppportal/index.html.
- **Wells Fargo —** The bank's "Hands on Banking" Web site (www.handsonbanking.org) has received 16 million visitors since it was launched in January 2004; at least 10 percent of the visitors clicked on the Spanish version. The company also has distributed more than 400,000 CDs and trained more than 5,000 Wells Fargo volunteers to assist in money-skill instruction for age groups ranging from fourth grade to adulthood.
- **U.S. Treasury Department —** The federal agency says it will soon add a youth link to its www.mymoney.gov Web site, which provides personal-finance information, including how to choose and use credit cards, get out of debt, protect credit records, start a savings-and-investment plan and understand Social Security benefits. In 2001 the government developed the Money Smart financial education program (www.fdic.gov/consumers/consumer/moneysmart/index.html), endorsed last year by the National School Boards Association and available in six languages.

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[1] Visa/NFL press release, Dec. 6, 2005; www.practicalmoneyskills.com./english/presscenter/releases/120605.php.

[2] "Rappers urge financial responsibility," The Associated Press, April 23, 2006, and statement from Hip-Hop Summit Action Network at http://hsan.org/.

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had a credit card during the 2003-2004 school year, and 25 percent said parents helped pay the bill. The students polled included those at four-year universities as well as community and trade schools.

Salisbury of the American Savings Education Council says teens and credit cards are not a good mix. "A credit card doesn't teach you about money. It doesn't develop a sense of living within your means," he says. When he was in college, he says, he had $15 for food each week, "and when that cash was gone, it was gone." With credit cards, however, while there is a point in which card companies will stop approving purchases, that limit is typically thousands of dollars.

Janet Bodnar, a columnist for *Kiplinger's Personal Finance* magazine and author of *Raising Money Smart Kids*, advocates teaching money management a step at a time, first with cash, then with a checking account linked to a debit card and finally a credit card.

"Giving kids credit cards too early does more harm than good," she warned recently. [18]

Should teens be given prepaid credit cards?

Teens who don't have their own credit cards and can't use their parents' can still make purchases using prepaid cards, which some financial experts say teach teens how to manage their money. But critics say that many of these products come with high hidden fees.

Prepaid cards differ from regular credit or debit cards because they contain a set amount. Special prepaid cards for teens enable parents to determine how much money is on the card, track the teen's spending at anytime and "reload" the card with additional funds online or through an 800 number.

Bentz of Visa USA says parents love the prepaid cards because they teach their teens how to manage money, and teens love them because they give teens freedom, make them feel like adults and are easy to use for online purchases. Visa launched the program after parents asked for an alternative to other cards and because the company recognized that "the teen market is significant," says Bentz.

Visa estimates that "hundreds of thousands" of teens use the "Visa Buxx Cash Card," a prepaid card designed specifically for teens, says Bentz, who tracks teen issues for Visa.

But Sherry of Consumer Action prefers debit cards linked to a teen's checking account, because many prepaid products come with unusually high transaction fees or hidden charges. "I don't like them at all," she says.

Bentz says the terms of using a Buxx Cash Card vary among the five banks that issue the cards. "We encourage parents to do the research," she says. Based on the banks' online disclosure notices, National City Visa Buxx cards have a $15 annual fee, a $1 fee for each ATM withdrawal and a $2.50 charge for loading the card if the money comes from a bank other than National City. Sandy Spring Bank's Visa Buxx card has a monthly service fee of $2, a $1 "inactivity fee" if the card is not used and a $15 penalty for overdrafts. Wachovia has a $12 one-time account-setup fee and a $1.50 charge if the teen withdraws cash from an ATM more than twice a month.

In July, Payjr plans to launch its version of a prepaid spending card that the company thinks may boost teen online shopping. "Until now, most teen spending was always done at the mall," says CEO Jones. Unlike other prepaid cards, he says, Payjr won't have excessive penalties if a teen spends more money than is in the account. "That is not teaching kids how to manage money, but taking advantage of them. We won't have abusive fees."

The company is still working on the details for its cards but says it envisions teaming up with MTV, Nickelodeon, Yahoo, Abercrombie & Fitch and other companies that Jones says are popular among teens. They're even considering allowing teens to upload their own photos and design their own cards. Payjr already offers a free online program that allows parents to manage their children's chores and allowances online, using instant messaging, e-mail and text messaging, for example, to notify teens when money has been deposited.

NEFE's Mead says prepaid cards can be a great way for parents to teach teens about fiscal responsibility, particularly if it is their first experience with "plastic." Teens can learn how to pace themselves and make sure they don't run out of money. And if the teen is responsible, she argues, buying online with a debit card is not much different from buying in a store. But if the parent is simply "pouring money into the debit account" without the teen tracking expenses or paying for it, then the lesson is lost.

Some critics, however, say allowing teens to buy online with plastic encourages overspending.

Clearly, teens today are not reluctant to purchase online, whether it's with their own credit card, their parents' card or a prepaid card. The April Junior Achievement survey found that nearly 60 percent of teens who have their own credit cards had bought items online with their cards. [19] Teenage Research Unlimited found that 42 percent of teens have made an online purchase, most commonly using their parents' credit cards. And 46 percent used other payment methods, such as prepaid cards and PayPal, an affiliate of eBay that lets anyone with an e-mail address send and receive online payments using a credit card or bank account.

Sherry says parents need to discuss the pros and cons of shopping at the mall vs. on the Internet and to make sure teens are aware of the penalties if they overspend. Levine of Jump$tart agrees. "It's not shopping online that is a problem, it's when it's unsupervised," she says. A debit card is a great tool for shopping online, "but with any tool, parental supervision and involvement are key." ■

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Chronology

1940s-90s

Teenagers in the 1950s become the first generation to show economic and cultural clout. Over the decades, music, clothes and snacks top the list of "must-haves" for teens.

1941
The word "teenager" is first cited in an article in *Popular Science* magazine to describe an age group that would soon became of keen interest to marketers.

1949
The Diners' Club card — the first universal credit card — is introduced, aimed at middle-class American adults.

1965
A survey by *Seventeen* indicates teenage girls spend $450 million a year for cosmetics and toiletries.

1980
Teenage shoppers pump $39 billion into the U.S. economy.

1990s

Credit companies begin to drop the requirement that anyone under 21 must have an adult co-signer to get a credit card. Teens begin getting their own cards.

March 10, 1994
Aggressive marketing to college students by credit card companies prompts a House Banking, Finance and Urban Affairs panel to hold hearings on "kiddie" credit cards.

May 1997
The newly formed Jump$tart Coalition for Personal Finance Literacy tests high-school seniors, who correctly answer only 57 percent of financial questions. The coalition finds no improvement in students' scores over the next nine years.

June 1999
A controversial study by the Consumer Federation of America linking college students' debt with suicides draws widespread attention.

2000s

Rising levels of personal bankruptcies and concerns about easy access to credit cards prompt new education campaigns.

2001
Treasury Department develops money-based math curriculum for use by schools to teach young people about personal finance.

May 2002
Nearly a third of youths ages 12-17 admit to feeling pressure to buy clothes and other products because their friends have them.

April 2003
Congress declares April as Financial Literacy Month.

December 2003
President George W. Bush signs the Fair and Accurate Credit Transactions Act into law, mandating creation of a Web site, toll-free hotline and national financial-literacy strategy.

October 2004
Treasury Department's Financial Literacy and Education Commission launches www.mymoney.gov and 1-888-mymoney to provide the public with information on personal-finance matters. . . . Hello Kitty debit cards are unveiled in a bid to attract preteens.

April 2005
President Bush signs Bankruptcy Abuse Prevention and Consumer Protection Act into law, which requires anyone filing for bankruptcy to get credit counseling. It also urges states to develop financial-literacy programs for elementary and secondary schools . . . . National Council on Economic Education (NCEE) gives high-school students an "F" grade for their poor understanding of basic financial concepts.

January 2006
For the first time since the Great Depression, Americans' personal-savings rate dips below zero into negative territory.

April 2006
Bush administration unveils National Strategy for Financial Literacy, a blueprint for improving Americans' understanding of issues such as credit management, retirement savings and home ownership.

May 2006
U.S. Senate Banking Committee holds hearing on financial literacy. Some senators express concern that the Bush administration's blueprint for financial literacy fails to provide a coherent strategy for getting more Americans financially savvy. Federal Reserve Chairman Ben Bernanke calls financial literacy vital for consumers and U.S. financial markets. He also promises to encourage banks that offer credit cards to include on consumers' monthly statements how many months or years it would take to pay off the full balance if a consumer only makes the minimum payment, a common practice for young people . . . . Securities and Exchange Commission launches podcasts to teach young people about investing and stocks on its Web site (www.sec.gov/investor).

How Marketers Woo Tweenagers

Audrey Sorensen celebrated her birthday with her "tween" friends, getting the Tutti-Frutti Manicure Delight at the CapeCodder Resort's spa in Hyannis, Mass. Meanwhile, in Washington, D.C., two 11-year-olds received pre-paid credit cards for their birthdays. [1]

Some 29 million 8-12-year-olds — the so-called tweens — have emerged as a potentially lucrative consumer group that marketers are aggressively wooing. But critics worry the trend is encouraging young children to grow up too fast.

The tween market is far from being monolithic, says Don Montuori, publisher of *Packaged Facts*, published by Market Research.com, a market research firm in New York City. "There are nuanced differences," he says. He estimates that today's tween market includes 16.4 million 8-to-11-year-olds and nearly 13 million 12-to-14-year-olds and that their buying power totals $39 billion. But regardless of their chronological age, "everyone is trying to 'age up,' " he says. "The 12-year-olds want to be 14, and the 16-year-olds want to be 21."

Tweens generally have less money ($10 a week) than their older teenage siblings ($30), according to the 2005 *Roper Youth Market* report, published by GfK Roper Consulting. The 8-to-12-year-old set is more likely to plan for their "teen-type" purchases, such as video games for boys and clothing for girls, while buying snack foods is still the most popular way tweens spend their money on impulse, according to the report. [2]

According to Montuori's *Market Research* report, tweens say they get to choose "some or most" of the movies they see, the toys and dolls they buy, the brands of jeans and sneakers they wear and the fast-food restaurants they frequent. [3] "And when it comes to providing leeway to their kids as consumers, parents generally trust girls more than they do boys," Monturori says.

Tweens also spend more time playing video games and wanting the various accessories that go with them, such as lights, magnifiers, vibrating buttons, speakers, headphones and carrying cases. Kids in the 8-to-10-year-old age group spend about an hour and 25 minutes every day playing a video or computer game, while the slightly older 11-to-14-year-olds spend only an hour and nine minutes, according to a March 2005 Kaiser Family Foundation study. [4] Older teens ages 15-18 spend less than an hour playing video games.

Michele Stockwell, director of social and family policy for the Progressive Policy Institute, a liberal think tank, says marketers most often exploit tweens' strong desire to be older. Tween girls can now buy padded push-up bras, midriff-baring tops and high-heeled shoes in their sizes, she writes in a 2005 paper, "Childhood for Sale: Consumer Culture's Bid for Our Kids." [5]

By the time they're 12, both boys and girls are big consumers of hair-styling products, moisturizers and cologne to help them look and feel older. Most girls 12-14 are already using lipstick and lip-gloss (86 percent), nail polish (82 percent), eyebrow pencils (66 percent), eye shadow (80 percent) and mascara (53 percent), according to Marketresearch.com. In Hyannis, CapeCodder owner Deb Catania said she started offering manicure and spa treatments for tweens and teens because there was a demand. [6]

Tweens also are paying big bucks to redecorate their bedrooms, fueled in part, experts say, by the popularity of home-makeover TV shows. The average parent spent $76 over a three-month period on room decor and accessories for their tweenaged child, according to the New York market research firm NPD Group. [7] Jumping on the tween room-makeover bandwagon, movie stars Mary-Kate and Ashley Olsen — who have been acting since they were infants — now offer their own line of furniture and rugs.

Tweens also have clear brand preferences. "Today's tweens are the most brand-conscious generation in history," writes Juliet B. Schor, a sociology professor at Boston College, in her 2004

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BACKGROUND

Teen Market Emerges

While references to "teens" have been around for centuries, the word "teenager" was first cited in a 1941 article in *Popular Science* magazine to describe an age group that quickly became of keen interest to marketers. [20]

Until the Great Depression, many young Americans worked instead of attending high school. The Depression forced young Americans into schools so farm and factory jobs could go to adults. This shift created the first "teenage" generation.

"Teenagers occupy a special place in American life," journalist Thomas Hine writes in *The Rise & Fall of the American Teenager*. "They are envied and sold to, studied and deplored. . . . Some see these young people as barbarians at the gates, and others look forward greedily to large numbers of new consumers." [21]

Teen power began to grow in the 1950s — both culturally and economically — when marketers feared that adult demand for big-ticket items like cars, washing machines and other goods, which had been pent up during World War II, had been met and was coming to an end. But clean-cut '50s-era teenage girls clad in bobbysocks and poodle skirts were eager to buy, kicking off a teen spending spree.

Journalist Landon Y. Jones contends that youths born during the postwar baby boom were the "first generation of children to be isolated by Madison book *Born to Buy: The Commercialized Child and the New Consumer Culture.* [8] When 8-to-14-year-olds ask for something, more than 90 percent of their requests include a particular brand, according to Schor.

Marketers have discovered they must go where the kids are in order to tap into the tween market. Television outlets such as Viacom's Nickelodeon and Time Warner's Cartoon Network are trying to reach tweens with ads at theme parks, on Web sites and in magazines such as *CosmoGirl* and *Teen People*. "If we are really going to be a part of kids' lives, we've got to be with them wherever they go," a Nickelodeon executive told *Advertising Age* last year. [9]

Getty Images/Paul J. Richards

Youngsters take a dance lesson at Club Libby Lu at the Tysons Corner Mall in McLean, Va.

Marketers say they must expand into non-traditional media because 60 percent of 12-to-14-year-olds say they fast-forward or skip commercials whenever possible. This indifference to traditional media requires new tactics, says Montuori, such as e-mail marketing, cell phone text-messaging, mall tours and Web-based sweepstakes. Data also suggest movie theaters are an effective way to reach this market: More than 40 percent of young teens say they notice ads when they are in the theater, according to Marketresearch.com.

Stockwell warns of the "unwelcome and unhealthy consequences for the children and families on the receiving end of all that marketing and consumerism." [10] Youths as young as 11 no longer consider themselves "children," according to Media Awareness Network, a Canadian nonprofit that says the Toy Manufacturers of America have changed their target market of birth to 14, to birth to 10 years of age. [11] Twenty years ago, the publisher of *Seventeen* magazine said its target audience was 16 years old, but now it caters to 11- and 12-year-olds. [12]

Schor says that too much consumerism at a young age can lead to major problems, including depression, anxiety and low self-esteem. "Day by day, marketers are growing bolder," she says, and year by year, "the harmful effects" mount.

[1] Marie Ewald, "Facials for 13-year-olds? Spas target teens," *The Christian Science Monitor*, May 14, 2004; and Michelle Singletary, "Credit Cards for Kids? Not in My House," *The Washington Post*, April 2, 2006, p. F1.

[2] "Roper Youth Report," GfK Roper Consulting, September 2005.

[3] "The U.S. Tween Market," *Packaged Facts*, MarketResearch.com, May 2005.

[4] "Generation M: Media in the Lives of 8-18-Year-Olds," Kaiser Family Foundation, 2005; www.kff.org/entmedia/7251.cfm

[5] Michelle Stockwell, "Childhood for Sale: Consumer Culture's Bid for Our Kids," Progressive Policy Institute, August 2005.

[6] Ewald, *op. cit.*

[7] Erin Clark, "What a Tween Wants . . . Now," *Children's Business*, April 1, 2004.

[8] Juliet B. Schor, *Born to Buy: The Commercialized Child and the New Consumer Culture* (2004), p. 25.

[9] *Packaged Facts, op. cit.*

[10] Stockwell, *op. cit.*

[11] www.media-awareness.ca/english/parents/marketing/issues_teens_marketing.cfm.

[12] Robin Rauzi, "The Teen Factor: Today's Media-Savvy Youths Influence What Others are Saying and Hearing," *Los Angeles Times*, June 9, 1998, p. F1.

Avenue as an identifiable market. . . . From the cradle, the baby boomers [were] surrounded by products created especially for them." [22]

It didn't take long for advertisers to notice. Ever since, they have been trying to woo the 13-19 set, the vast group that has determined what is popular in music, movies, snack food and clothing — from the "flower children" of the 1960s to the disco and punk cultures of the '70s and '80s to rap of the '90s. [23]

Ad companies have tried various tactics to lure teens to spend, including using sex. But in the 1980s they began to pitch their appeal to younger markets, including the controversial Calvin Klein jean ads in 1980 featuring 15-year-old actress and model Brooke Shields, asking: "What comes between me and my Calvins? Nothing." [24]

That year teenage shoppers pumped an estimated $39 billion into the U.S. economy, according to a Rand Youth Poll, which also found that nearly 70 percent of young people surveyed said they spent money on things they later realized they did not want. [25] Calvin Klein, meanwhile, continued to push the envelope with controversial, sex-oriented ads.

Banking Deregulation

Deregulation of the banking industry in the 1980s and the prosperity of the '90s ushered in new ways for teens to spend money. [26] At the same time, credit card companies in the early 1990s dropped the requirement that youths under 21 needed a co-signer to get a credit card, explains Robert Manning, a finance professor at the Rochester

Institute of Technology, in his 2000 book *Credit Card Nation.* [27]

When they were introduced in the 1950s, credit cards were typically geared for the middle class and — until the late 1970s — state usury laws prevented banks from charging excessive interest on the accounts. A 1978 U.S Supreme Court decision and banking deregulation in the 1980s, however, changed all that, allowing the banks to charge high interest rates. [28] The high court followed up in 1996 with another decision lifting restrictions on the amount of late fees a card company could charge. [29]

Manning and other critics say the rulings encouraged card companies to specifically seek out high-risk, low-income customers, such as college students. Some companies charged interest rates as high as 30 percent to cover the risk of giving cards to young customers with little income or credit history. The campaigns often included offers of free gifts for college students and showed up unsolicited in their campus mailboxes.

The aggressive marketing to college students prompted Rep. Joseph P. Kennedy II, D-Mass., in 1994 to ask the House Subcommittee on Consumer Credit to hold hearings on "kiddie" credit cards. Officials from MasterCard and Visa defended their practices and detailed various programs they had instituted to educate young consumers.

"College students are adults and are treated as such by the bankcard industry," said Visa Senior Vice President and General Counsel Paul Allen, noting the average student used a credit card responsibly. [30]

Some of those students, however, were running up staggering debts with heartbreaking consequences. A 1999 study conducted by Manning and the Consumer Federation of America linked college students' suicides with their anxiety over high credit card debt, drawing widespread attention from the media and policymakers. [31] Among the students was Mitzi Pool, an 18-year-old University of Oklahoma freshman who hanged herself after calling her mother and expressing remorse about losing her part-time job and maxing out three credit cards. [32]

In 2001, Iowa Attorney General Tom Miller lamented that "more and more students are slipping into high credit card debt with very serious long-term consequences" and quoted an administrator at Indiana University who said, "We lose more students to credit card debt than to academic failure." [33]

Between 1999 and 2001, at least 24 states considered — but only Arkansas and Louisiana approved — legislation to either study the effects of credit cards on college students or to limit credit card solicitation at institutions of higher education. [34]

The American Council on Education's King says that in the 1990s many parents were surprised their college-age students could get credit cards without their signatures and didn't know their kids were running up debt. Now, she says, some colleges ban credit card solicitation on campus, while others include financial-literacy information during orientation with freshmen and their parents.

Financial Literacy

Although Congress held several hearings in the 1990s on marketing credit cards to college students, it enacted no new laws. Sen. Christopher Dodd, D-Conn., a member of the Senate Banking Committee and a frequent critic of the credit card industry, has blamed the "very, very powerful" industry for blocking changes, including his proposal requiring anyone under 21 to prove they have the financial capacity to pay or have a parent co-sign when applying for a credit card.

"We've lost that every time I've offered it," Dodd said in a 2004 Public Broadcasting Service report, "Secret History of the Credit Card." [35]

In the early 2000s, however, growing concern prompted many banks and credit card companies to launch their own public-education campaigns to improve financial literacy. Many now offer free financial-literacy curricula for schools and online games (*see p. 465*).

The dot-com crash and the Sept. 11, 2001, terrorist attacks quickly ended the good times of the 1990s. But despite a recession, consumers — including teens — continued to buy, and often it was on credit. Rising levels of bankruptcies, including a troubling number of people under 25, and identity theft through credit cards prompted Congress in the 2000s to pass legislation calling for new efforts to teach young people about managing money.

The Fair and Accurate Credit Transaction Act of 2003 (FACTA), which primarily aimed to help consumers fight identity theft, also mandated creation of a Web site and a toll-free hotline directing consumers to personal-finance resources and a national financial-literacy strategy.

Congress also passed a resolution that year marking April as Financial Literacy Month, a move spearheaded by Reps. Rubén Hinojosa, D-Texas, and Judy Biggert R-Ill., and Sen. Daniel Akaka, D-Hawaii.

Two years later, the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 required that anyone filing for bankruptcy receive credit counseling and urged states to develop financial-literacy programs for elementary and secondary schools.

Akaka also added a provision to the Bush administration's landmark No Child Left Behind law setting aside $1.5 million to promote economic and financial literacy. [36] The National Council on Economic Education, which won the grants during the program's first two years, has provided subgrants to hundreds of local groups to bolster financial-literacy education. ■

CURRENT SITUATION

Wooing Youngsters

Politicians, business leaders, consumer groups and even pro football players and rappers are ramping up efforts to encourage teens to save and to spend their money wisely. But they are competing against a barrage of ads targeting teens as well as their parents, who are racking up billions in debt themselves.

"We have a long way to go," says Rep. Hinojosa, who frequently talks to parents and young people on money matters as co-founder and current co-chair of the House Financial and Economic Literacy Caucus.

Today's teens spend so much because they have been bombarded with ads to buy nearly since birth, say experts. The advertising industry spent $100 million pitching products to teens and kids in 1983, primarily through TV ads. But today, 150 times as much — $15 billion — is spent wooing young customers, according to a 2006 report from the Center for a New American Dream, a coalition of nonprofits that "helps Americans consume responsibly to protect the environment, enhance quality of life and promote social justice." [37]

Marketers today not only use TV and radio but also the Internet and the classroom to pitch their products — ranging from soft drinks and junk food to computers — to teens. [38] The Channel One television network, for example, provides video equipment to schools if classes watch daily news broadcasts liberally punctuated by promotional materials and commercials. [39]

"Contemporary American tweens and teens have emerged as the most brand-oriented, consumer-involved and materialistic generation in history," writes Juliet B. Schor, a sociology professor at Boston College, in her 2004 book *Born to Buy: The Commercialized Child and the New Consumer Culture.* [40] (*See sidebar, p. 468.*)

The perpetual advertising adds to teens' pressure to buy more things, says the Center for a New American Dream, which along with the World Wildlife Fund launched the "Be, Live, Buy Different" campaign calling on kids to be socially aware consumers. According to a 2002 poll conducted by the center, nearly a third of teens between ages 12 and 17 admitted to feeling pressure to buy things like clothes, shoes and CDs just because their friends had them, and more than half said they bought certain products to make them feel better about themselves. [41]

The center also found that kids asked for things, on average, nine times before they parents finally gave in. "As a result of unprecedented levels of advertising and marketing aimed at kids, our children feel intense pressure to try to bolster their sense of self-esteem at the mall, and they will go to incredible lengths to get their parents to give in," said Executive Director Betsy Taylor. [42]

Apparently, however, parents often give in to their kids' demands because they enjoy the products as much as their children, according a recent poll. This is a shift from generations past when parents and teens clashed over clothes and culture, said Yankelovich Inc., a marketing research firm, in its latest *Youth Monitor.* [43] Nearly 3-in-4 parents said they and their child had a lot in common when it comes to things they like to do and buy, ranging from the latest camera phones and iPods to blockbuster hits such as "Shrek 2."

"We have to remember that today's parents are, to a significant degree, the MTV, original "Star Wars," "Star Search" generation," Yankelovich said. "So in some respects, the ruling pop culture of their youth is frequently echoed in today's pop culture." [44]

Personal-Finance Courses Required

Seven states require personal-finance courses before high-school graduation.

Require Personal-Finance Course Before Graduation

Alabama • Georgia
Idaho • Illinois
Kentucky • New York
Utah

Require Testing on Personal Finance

Connecticut • Georgia
Idaho • Illinois
Indiana • Kentucky
Michigan • Oregon
Virginia

Source: National Council on Economic Education, March 2005

National Strategy

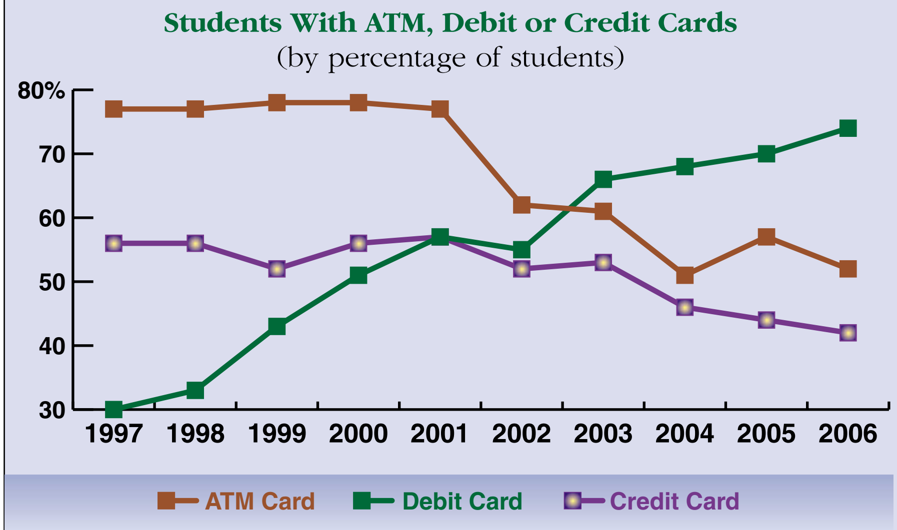
While admitting that times have changed, Rep. Hinojosa wishes more parents emulated his own father when it comes to teaching money skills. As a 10-year-old growing up after World War II, Hinojosa was required to sock away a portion of his allowance and earnings into his piggy bank. When he earned $200, his father took him to the bank and opened a savings account. Hinojosa's own children got savings accounts when they were 12 and began investing in the stock market at 14.

"Young people can be trained to save early, and that continues through adulthood," he says.

But not enough teens and their parents are getting the message. "Most of our children haven't yet grasped

College Students Favor Debit Cards

Debit card use among college students surpassed credit cards and ATM cards in 2003. Today nearly three-quarters of college students use debit cards while less than half use credit cards.



Source: Student Monitor LLC, 2006

the most basic financial and economic concepts that will enable them to prepare for their future," said Rep. Biggert, the other caucus co-chair, after the House approved a resolution for the third-straight year marking April as Financial Literacy Month. [45] As the leading congressional advocates for financial education, Biggert, Hinojosa and Akaka hosted a financial-literacy fair on Capitol Hill on April 25.

The Bush administration is also promoting financial literacy and trying to determine what works in the classroom, says Dan Iannicola, Jr., deputy assistant Treasury secretary for financial education, who participated in the department's recent 15-city tour touting Financial Literacy Month. Iannicola is surprised that so few young people seem to understand the consequences of using plastic, such as finance charges, compounding interest and fees. They also seem unaware that someone is watching how they use credit cards, and that their history shows up on a credit report. "I liken [credit reports] to a grade point average," a concept that students understand, he says.

He recently returned from Chicago with U.S. Treasurer Anna Escobedo Cabral, who was publicizing the National Strategy for Financial Literacy, a blueprint for improving Americans' understanding of credit management, retirement savings and home ownership. [46] The strategy describes programs the administration hopes communities will institute, including a money-based math curriculum developed by the Treasury Department in 2001 (www.publicdebt.treas.gov/mar/marmonetymath.htm) and a report on how schools can integrate financial education into their curricula (www.treasury.gov/financialeducation). The strategy also highlights programs that teach financial education to college freshmen, high-school dropouts seeking their GEDs and male juveniles in correctional facilities.

The 159-page strategy was developed by the Financial Literacy and Education Commission, made up of 20 federal agencies and headed by the Treasury Department, which was mandated by the Fair and Accurate Credit Transaction Act of 2003. By the end of this year, Iannicola expects to begin airing public-service announcements on credit literacy, another requirement of the law, which also mandated creation of a Web site (www.mymoney.gov) and toll-free hotline (1-888-mymoney).

Hinojosa and Biggert say the commission's report is a good start but doesn't go far enough. Biggert wants the commission expanded to include private-sector representatives; Hinojosa wants a hearing on the national strategy.

During a hearing on financial literacy held by the Senate Banking Committee on May 23, several senators expressed concern that the commission's report merely showcased some "best practices" but failed to provide a strategy to make more Americans financially literate. "The report is useful . . . but we need to do more," agreed Federal Reserve Chairman Ben S. Bernanke, who also is a member of the Financial Literacy and Education Commission. The Fed kicked off its "There's a Lot to Learn About Money" campaign in 2003 and provides information on personal finance, including resources for teachers, on its Web site (www.federalreserveeducation.org).

Sen. Richard Shelby, R-Ala., the committee's chairman, saying he was worried that young people were getting mired in credit card debt because they only pay the minimum amount listed on their statement, wondered if legislation was needed. Bernanke said the Fed was working on "guidance" to persuade banks that offer credit cards to include on each bill how many months or years it would take to pay off the full balance if a consumer only made the minimum payment.

The U.S. Securities and Exchange Commission, which regulates the stock markets, is trying podcasts to get the word out to young people about investing, SEC Chairman Christopher Cox told the Senate panel. The podcasts "Welcome

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At Issue:

Do credit card companies market too aggressively to youths?

TRAVIS B. PLUNKETT
LEGISLATIVE DIRECTOR,
CONSUMER FEDERATION OF AMERICA

WRITTEN FOR *CQ RESEARCHER*, MAY 2006

yes

Many credit card issuers have targeted the least sophisticated and riskiest consumers in recent years, including young people, and encouraged them to run up high, often unsustainable levels of debt. This practice has proven to be very profitable for many credit card issuers, but it can have devastating consequences for consumers.

Starting in the early 1990s, card issuers targeted massive marketing efforts at college campuses across the country, resulting in a sharp growth in credit card debt among college-age and younger Americans. As a result, Americans under age 35 continue to show more signs of trouble managing credit card debt than any other age group.

Between the mid-1990s and 2004, the amount of credit card debt held by students graduating from college more than doubled, to $3,262. Americans under 35 are less likely to pay off their card balances every month than average Americans. They are paying more for debt obligations than in the past and are increasingly likely to pay more than 40 percent of their incomes on credit card debt.

Not surprisingly, more young Americans are declaring bankruptcy than in the past. Moreover, there is increasing evidence that credit card companies are now targeting high-school students with card offers. They are also marketing branded debit cards to adolescents, in part to encourage these young consumers to use similarly branded credit cards when they are older.

Young people are also financially vulnerable to the questionable pricing and business practices adopted by issuers to increase the profitability of lending to riskier customers. These abusive practices include "universal default," in which a consumer must suddenly pay a sharply higher interest rate on their outstanding balance with one credit card company because of a minor problem with another creditor.

Many creditors have also significantly increased their penalty fees, even for small transgressions like a payment that is made only a few hours late. Until recently, issuers also decreased the size of minimum payments that consumers had to pay, encouraging them to carry more debt for longer periods.

Several pieces of legislation have been introduced in Congress in recent years that would prevent credit card companies from targeting young people with unsustainable offers of credit and prohibit abusive fee and interest-rate practices. Unless credit card issuers adopt considerably more restraint in marketing and extending credit to less-sophisticated borrowers, the Consumer Federation of America will continue to urge Congress to adopt such restrictions.

LOUIS J. FREEH
VICE CHAIRMAN AND GENERAL COUNSEL,
MBNA CORP.

FROM TESTIMONY BEFORE U.S. SENATE BANKING COMMITTEE, MAY 17, 2005

no

In discussing student marketing, it is important to note that we make every effort to ensure that credit card offers are not sent to people under the age of 18.

MBNA does promote its products to college-aged customers by partnering with more than 700 colleges and universities, primarily through the college alumni associations. By working closely with school administrators, we have earned the confidence and trust of most of America's premier educational institutions. . . .

Before granting credit to a college student, analysts familiar with the needs and abilities of college students review each application and decline more than half. . . . Most college student applicants report a separate income, and many already have an established credit history.

When evaluating an application, we consider the college students' projected performance as an alumnus, and when we grant credit, we typically assign a line of between $500 and $1,000. If a college student attempts to use his or her card beyond the credit line, we typically refuse the charge. And we do not re-price these accounts based on behavior.

Once a college student becomes a cardholder, MBNA delivers its "Good Credit, Great Future" brochure in a Welcome Package. The brochure highlights sound money-management habits, including guidance on how to handle a credit card responsibly. We also maintain a Web site aimed at college-aged consumers, highlighting many of the same tips. MBNA also conducts on-campus credit-education seminars, and we provide articles concerning responsible credit use for student and parent publications.

The performance of our college-student portfolio mirrors closely that of the national experience, as reported in [Government Accountability Office] reports and several independent studies. However, our accounts have much smaller credit limits and much smaller balances than the norm, our college student customers utilize their cards less often than the norm and these accounts are less likely to incur fees. Our experience has also been that college students are no more likely to mishandle their accounts than any other group of customers.

When we grant a card to a college student, we think of it as the beginning of what we hope will be a long relationship. . . . Given this, we have absolutely no interest in encouraging poor credit habits. In fact, everyone's interest is best served when college students make responsible use of credit. That is our goal in every situation, and certainly when dealing with college-aged customers.

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to Your Money" and "Hot Stock Tips" are available on the SEC's Web site (www.sec.gov/investor).

Meanwhile, Sen. Akaka is pushing legislation that would create a pilot program requiring college students to get credit counseling and a financial-literacy program that gives grants to organizations that ban or discourage credit card marketing on campus.

Iannicola says states and schools should have the flexibility to figure out how best to integrate financial-literacy courses and that federal or state mandates may not be the best answer. But that is precisely the direction some states are taking. Seven states passed legislation in 2005 requiring financial education in schools, and New York and Illinois this year introduced measures to beef up their existing financial-education standards, according to a report from Citigroup. [47]

JA Worldwide

The Junior Achievement program reaches 7 million K-12 students around the globe, including this youth at the A.H. Middle School in Richmond, Va. In-school and after-school programs cover financial literacy, career development, economics and related areas.

Shock Therapy

Some bankruptcy judges have turned to shock therapy to teach teens about the consequences of excessive debt. In March about 90 high-school juniors from Worcester, Mass., got a taste of the real world when they watched a mock consumer bankruptcy case in U.S. Bankruptcy Court in Boston.

"If many of the 25,000 debtors who filed for bankruptcy in Massachusetts last year better understood the risks of credit, they might have been able to avoid bankruptcy," said Chief Bankruptcy Judge Joan Feeney, who in 2004 created a task force with the Boston Bar Association to devise a financial-literacy curriculum. [48]

In Western New York state, Bankruptcy Court Judge Ninfro visits about 20 high schools and colleges each year, describing to students some of the cases he sees in his bankruptcy courtroom, such as the man who owed $20,000 on credit cards and lost his $60,000 job.

"Mounting credit card debt is a ticket to bankruptcy," he says. U.S. bankruptcy filings in the federal courts skyrocketed a record 30 percent in 2005, according to the Administrative Office of the U.S. Courts. More than 2 million individuals and businesses filed for bankruptcy in 2005, up from the 1.6 million the previous year and more than in any 12-month period in the history of the federal courts. Many people filed before the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 went into effect in October 2005. The act made it harder for people to file for bankruptcy. [49]

Many financial institutions today are trying to boost financial education. Citigroup, for example, has committed $200 million over 10 years to address financial literacy around the world. [50]

Meanwhile, the National Endowment for Financial Education (NEFE) plans to focus more attention on credit card fraud, Internet transactions and parental involvement. "The new materials will emphasize parents," NEFE's Parfrey says. "There's a real disconnect between parents and kids."

Experts agree that while it's important that teens learn about money in school, it's even more important for the lessons to begin at home. "By far, the largest influence on kids and how they behave financially is watching their parents," says Salisbury of the American Savings Education Council.

Parents are doing some things right, Salisbury says, just not enough. Most parents encourage their children to save, and eight out of 10 say they teach their kids to compare prices, he says, citing a 2001 council survey. [51] But only half the parents said they taught their kids how to track expenses and make a budget, and even fewer have taught them about different kinds of investments.

Even though the council's study is somewhat dated, Salisbury says the results are consistent with other reports showing that many parents carry large balances on their credit cards and don't have family budgets.

An overwhelming number of teens — 94 percent — say they are likely to go to their parents with money questions, but many are reluctant to sit down and talk with their kids about finances, especially those who feel their own habits are not exemplary, says Mead of the National Endowment for Financial Education. She urges parents to set aside a monthly "family money night" to discuss financial matters, such as the importance of saving, how to make a budget and what groceries and other necessities cost per week.

Levine of Jump$tart says that whether parents feel prepared or qualified to talk is beside the point, because it's not just what they say but what they do. "If you spend and charge too much, it's hard to expect that your teenage son or daughter won't," she says. "Parents have to set a good example." ■

OUTLOOK

Train Wreck?

Most financial experts are only cautiously optimistic that today's teens will be smarter than their parents about money, but others are downright bleak in their assessments.

"It's a train wreck waiting to happen," says Parfrey of the National Endowment for Financial Education.

The problem is that many of today's teens won't have pensions to fall back on when they retire, as their parents do. "Young people need to increase their financial IQ now if they are to survive in a world where there will be no Social Security, the costs of health care and college tuition for their kids will skyrocket, gas will be $5 to $6 a gallon and job security will totally be a thing of the past," says New York state Bankruptcy Judge Ninfro.

NEFE's Mead agrees. "Kids today are facing financial issues that their parents didn't," she says. "They will have to be much more financially savvy." Much depends on whether more schools teach financial literacy and whether the lesson is reinforced at home, she says; it may take "several generations."

Levine of the Jump$tart Coalition for Personal Financial Literacy predicts more states will require financial literacy in schools and hopes parents will reinforce the message at home. "It's so important that financial literacy become part of a child's formal education — in school, after school and at home.

"You wouldn't hand a kid a musical instrument and see if they can learn how to play it," she says. "Why would money be any different?"

But with young people being bombarded with ads that promote living rich and on credit, "We have a big challenge," says Duvall of the National Council on Economic Education.

Deputy Assistant Secretary of the Treasury Iannicola says the financial-literacy movement for both teens and adults is in its adolescence. "It's not new anymore, but it's not in full maturity," he cautions. And like any other social movement, it will take time before most Americans start changing their spending and saving habits, he says, citing the years of urging before Americans began using their seat belts and designating a non-drinking driver.

Ninfro likens today's spendthrift ways to the popularity of smoking in the 1950s, before the dangers were widely known. He predicts that just as millions of Americans have stopped smoking because of the cancer risk, they will, over time, stop running up thousands of dollars of debt once they realize the financial consequences.

Young adults who racked up debt and bad credit histories as teenagers are losing out on jobs, student loans, apartments, admission to graduate school and more because of their abuse of credit, he says. "We need to get young people the message," he says. "Education is really the only way." ■

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FOR MORE INFORMATION

American Savings Education Council, 2121 K St., Suite 600, N.W., Washington, DC 20037-1896; (202) 659-0670; www.choosetosave.org. A coalition of government and industry institutions to educate people on all aspects of personal finance.

Consumer Credit Counseling Service, 9009 West Loop South, Suite 700, Houston, TX 77096; (800) 873-2227; www.cccsintl.org. Helps people nationwide solve debt problems by providing counseling on personal finances.

Consumer Federation of America, 1620 I St., N.W., Suite 200, Washington, DC 20006; (202) 387-6121; www.consumerfed.org. A leading critic of credit card marketing to young people.

Credit Abuse Resistance Education (CARE), 1400 U.S. Courthouse, 100 State St., Rochester, NY 14814; (585) 613-4200; www.careprogram.us. A national program founded by Judge John C. Ninfro of the U.S. Bankruptcy Court in Western New York that provides resources, speakers and information to schools and colleges.

FederalReserveEducation.org. The Federal Reserve's online resource includes materials specifically geared toward teachers and high school and college students.

Jump$tart Coalition for Personal Financial Literacy, 919 18th St., N.W., Suite 300, Washington, DC 20006; (202) 466-8604; www.jumpstart.org. Regularly surveys high-school students' knowledge of basic money matters.

Junior Achievement, One Education Way, Colorado Springs, CO 80906; (719) 540-8000; www.ja.org. A nonprofit dedicated to educating young people about business and entrepreneurship.

National Council on Economic Education, 1140 Avenue of the Americas, New York, NY 10036; (212) 730-7007; www.ncee.net. A network of state and university centers that promote financial literacy in the classroom and track state developments.

National Endowment for Financial Education, 5299 DTC Blvd., Suite 1300, Greenwood Village, CO 80111; (303) 741-6333; www.nefe.org. Provides curriculum and materials for classrooms and researches financial-education issues.

Securities and Exchange Commission, 100 F St. N.E., Washington, DC 20549; 1-800-SEC-0330; www.sec.gov/investor.shtml. The federal agency charged with protecting investors provides information about saving and investing.

U.S. Financial Literacy and Education Commission (1-888-mymoney); www.mymoney.gov. Provides educational materials on financial issues.

About the Author

Pamela M. Prah is a *CQ Researcher* staff writer with several years previous reporting experience at Stateline.org, *Kiplinger's Washington Letter* and the Bureau of National Affairs. She holds a master's degree in government from Johns Hopkins University and a journalism degree from Ohio University. Her recent reports include "Disaster Preparedness," "Eating Disorders" and "Coal Mining Safety."

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