

### Financial health for kids



By Randy Ray

Next to losing weight, one of the most common New Year's resolutions is putting one's finances in order, especially after the wild pre-Christmas spending sprees that beat the stuffing out of many parents' bank accounts.

This January, as you attempt to put your financial house in shape, why not take your kids along for the ride? Why not help them learn about money and if they, like you, aren't using their cash wisely, why not offer a few pointers to help keep their bank balances in the black?

Shannon Walker, a consultant at the Investors Group's Kanata office, says teaching kids about money is one of the best gifts you can give, largely because the only place young people learn money management is from their parents.

"It is not taught in schools at all," she says. "Many times I have met with clients in their 20s, 30s and 40s, who do not know the basics of how to put together a budget, what investment options they have, how an RRSP works – even that they should pay off higher interest debt cards before focusing on lower interest debt."

Yikes!

"In our world today, the answer to nine out of every 10 questions is money. There are so many levels of money management that can cause such trouble in our lifetime," adds financial planner Bill Jensen. "I turned 50 this year and I know for a fact that had I received some kind of basic financial life skills early on, I would not have made some of the most common and often brutal mistakes along the way."

So, what can parents do to help their kids learn the basics of money?

Step one is to introduce them to money matters as early as age five or six. Buy them a piggy bank, make learning about money fun by teaching them how many quarters are in a dollar and how money is exchanged when purchases are made,

says Walker. At age 10, 11 and 12 open a savings account and explain how interest helps their money grow.

Tip: When the time comes to open an account, take your child into the bank, don't leave him or her in the car. Let them meet the tellers and your bank manager so they aren't intimidated by the world of finance.

Next, start paying them a weekly allowance in exchange for work done around the house beyond their usual chores. Receiving a regular "paycheque" will give them the opportunity to learn about money management, including saving and spending, says Jensen. At this point parents should begin discussing the need to set money aside for future purchases and why kids should set realistic spending limits.

Tip: Most financial experts advise their adult clients to save 10 per cent of their earnings for unexpected expenses. It's never too early to hammer this message home with your kids.

"A rainy day fund is a great idea," says Walker. "Kids do not have financial emergencies that pop up, but they do have toys and other items such as bikes and computers they would like to buy. It makes sense to teach them about setting financial goals, such as how much a bike costs and how much they will need to put away to buy it."

Many adults use credit cards and debit cards for the bulk of their purchases; ditto for young adults. It makes sense, then, to give your kids an early explanation of the good, the bad and the ugly of these plastic cards, which, as most of us know, have the ability to put folks young and old on the road to financial ruin.

Teaching kids about credit and debit transactions is best accomplished during shopping trips. While swiping your debit card or signing a credit card slip, explain that debit purchases can be made only if there is money in your account and that credit card spending can take place without money in the bank but purchases must be paid for later. And don't forget to underline that purchases not paid off when the credit card bill arrives carry heavy interest charges, sometimes as high as 28 per cent.

Tip: Haul out a credit card bill and point out that if you pay only the minimum payment each month you will get nailed with a substantial interest charge that will be added to your next bill. Point out also that if you don't pay the balance off, the interest gets added to the cost of your purchase, so the 42-inch LCD you bought for \$499 can end up costing \$799 or \$899.

While you're at it, why not discuss the issue of borrowing? Your kids won't be visiting a bank to sign up for a loan, but it's not uncommon for them to borrow money from their friends, not always a good strategy.

"Sometimes people don't pay you back on time, which can cause hard feelings," says Walker. "Kids should stay away from it; if they need money, they should turn to their parents."

**Tip:** If your kids don't pay you back, teach them a lesson by taking back the CD or magazine they bought with borrowed money. And when they come asking for money, don't kiss off their requests with lines like "money doesn't grow on trees" or "do you think I'm made of money?" Canadian financial guru Gail Vaz-Oxlade says on her website. Instead, point out that whatever cash you loan them is money that won't be spent elsewhere, such as on gas for the car, groceries or for the pizza that's delivered every Friday.

A key tip most financial experts preach is always be open and communicative about money with your kids. Don't lead them to believe you have more money than you have, by financing spring break vacations and electronics equipment purchases with money you don't have. If you are having financial challenges be straight up with the kids: if the bank account is low, explain that this year's sunny south vacation will have to wait.

**Tip:** Like you did with the VISA bill, pull out a stack of bills that must be paid monthly to keep the house warm and lit and food in the refrigerator. Explain what a mortgage is and how paying it off sooner will save the family thousands of dollars in interest. Let them know how much of the family's pay cheques are left over once the bills are paid.

"The key is to not send out negative messages," says Walker. Don't use phrases like 'there's never enough money' or 'no matter what we do, we never get ahead.' Instead, point out positives such as how doubling up your mortgage payments or paying off a car loan early has saved mom and dad enough interest to finance a vacation or buy new skis for the family.

Follow some or all of these tips and your children won't be part of the many horror stories Walker has seen over the years, such as people in their mid-20s who are saddled with debts and other bills as high as \$50,000 or others in their 30s with \$10,000 credit card bills that could take 30 years to pay off.

“Young people who avoid these situations by learning about money will not waste money on interest payments and will not waste opportunities because of their debts,” she says.

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