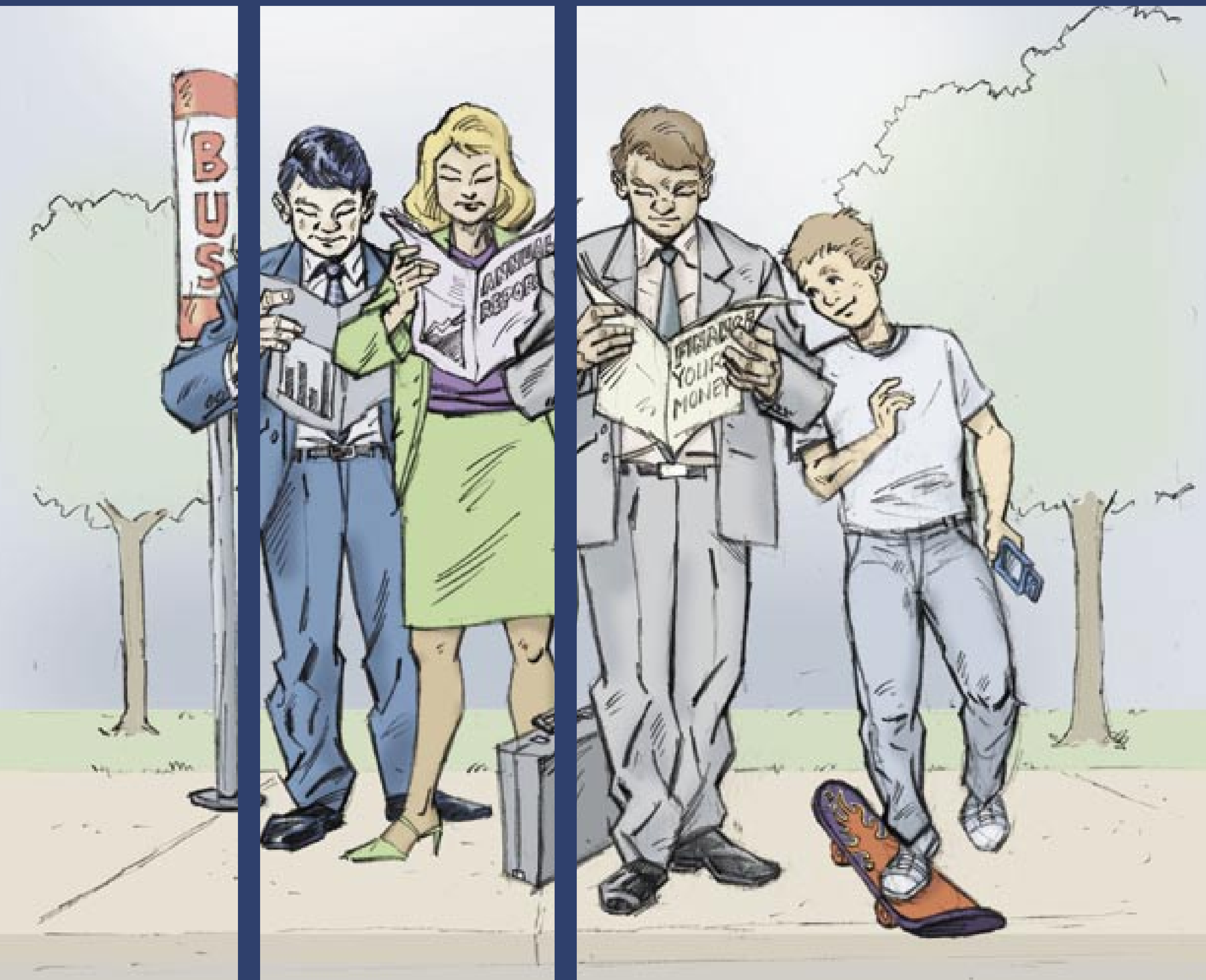
Raising Financially Literate Teens



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Introduction

As parents, it's our job to launch our kids successfully into adulthood, and few things could be more important than teaching them how to manage their money well.

Teaching our kids to be financially smart should be simple enough, but unfortunately it isn't. Sure, the school system offers a few basic courses in money management, but times have changed. Today, "tweens" and teens can have a lot of disposable income and they are constantly being coaxed to spend it in a thousand different ways.

That's why, as parents, teaching our children how to save, invest and spend their money wisely are important lessons that will last a lifetime. But as we all know, children learn by example. So chances are they will approach spending and saving the same way their parents did. You can be sure that how we spend, enjoy or worry about our money will be passed on to our children — either with good results or bad.

Still, don't worry: it's possible to help teens get a financial head start, an advantage that could easily lead to financial security later in life. Just begin by asking yourself, "What have I learned about money in my lifetime?" And then share those hard-won lessons with your children in an open and honest way. This guide will provide you with some ideas to help you talk positively to your kids about money.

> "Smart money management is an essential lesson for our kids to learn. In order for our children to become independent, thriving adults we must model the intricacies of saving, spending and investing in a positive way."
>
> – Rhonda Katz, Family Therapist

7 Helpful Hints for Raising Financially Literate Teens

E Explain where money comes from

D Demonstrate a powerful force called compounding

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C Coach your kids on smart money management

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E Encourage them to use credit and debit cards wisely

Explain where money comes from

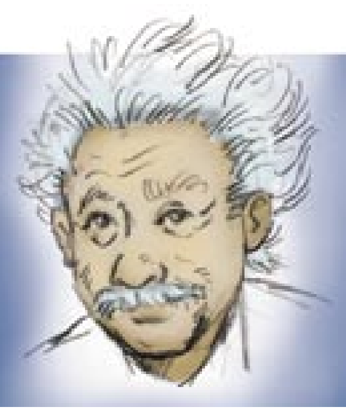
Most parents have been told by their children at one time or another to "just go to the bank machine," when they've needed money. Why not? To a child the bank machine just seems to magically spit out cash. This is why it's important to teach kids from a young age that there is actually no magic involved. Money is finite, and you have to work hard to earn it and carefully decide how to spend it.

A good place to start is to explain to your children that a large portion of your income goes toward basic necessities like housing, heat and food. But don't just tell them. When you're paying your bills let them see (in a positive way) exactly how much it costs to run your household.

But there is nothing like those first slim paycheques from a part-time job to teach teenagers how to manage their money. So encourage yours to find one, and he or she will not only learn what it takes to earn a cheque, they will likely want to master the art of stretching their money by saving and managing their cash wisely.

"The most powerful force in the universe is compound interest."

– Albert Einstein, Physicist and Nobel Laureate



Demonstrate a powerful force called compounding

By investing at an early age, kids can give their savings a head start and learn about the miracle of compound interest — a principle Albert Einstein called "the most powerful force in the universe." Help your kids understand the "force" Einstein was talking about by telling them the story of Early Ella and Late Liam.

Early Ella and Late Liam

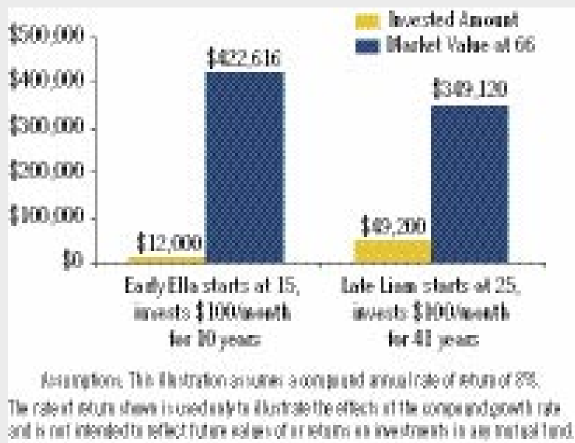
Two students, Ella and Liam, started part-time jobs working at the local video store. They worked the same number of hours and made the same amount of money. Ella's parents had always encouraged her to put some of the money she received for her birthdays and holidays into an investment account that she could use in the future. She enjoyed watching her money grow.

Liam, however, wasn't much of a saver. Whenever he had money, it was quickly spent on lunch with his friends, magazines or anything else he felt like buying. In fact, Liam's motto was, "Why put off until tomorrow what I can buy today?"

So when Ella and Liam got their first paycheques, they knew exactly what they were going to do. Ella paid herself first, putting away $100 every month in an investment account. Liam had other plans and decided to buy a cool new pair of running shoes, but before he could, he ran into friends and decided to go out for pizza and a movie. Before he knew it, he'd spent almost everything and was left with just $50 to last him until his next cheque!

Starting with that first job, Ella invested $100 every month for ten years. Liam continued to spend all his money, but he eventually realized that if he was going to have anything set aside for later in life, he needed to start saving. So at 25, Liam started putting away $100 a month. Although Ella had a 10-year head start on him, he thought that if he invested for longer than the 10 years that Ella had saved, he'd eventually catch up. Imagine his surprise when he realized that simply wasn't going to happen.

Let's take a look at the numbers



The first set of bars shows Ella's invested amount and her nest egg at age 66. Even though Ella only invested $12,000 and let it sit in her investment account for years, her investment grew to $422,616 by the time she reached 66.

At age 25, Liam put away $100 each month until he was 65, a total of $49,200. He put it in the same investment vehicle as Ella, but when Liam turned 66, his account was only worth $349,120.

How is that possible? Well, Einstein was right: the length of time your investment grows can have a greater impact than the amount of money you've invested!

Mackenzie has developed a handy investment calculator to help illustrate how saving and investing various monthly amounts at different rates of return can add up *(see page 8).*

> *"Money is a good servant but a bad master."*
>
> – Aristodemus

Use an allowance to teach good money habits

The only way to learn about money is to have some, so a good way to teach children how to control and manage their own cash is to give them an allowance. Rhonda Katz, a family therapist, suggests a weekly allowance equal to $1 for every year in age. So if your child is 10, you might give $10 a week. Rhonda also maintains that an allowance should cover a reasonable number of teen expenses, perhaps a movie or dinner out.

An allowance can also be used to teach financial management skills by depositing it directly into your kids' bank accounts on a monthly or quarterly basis. Doing so, will not only encourage them to budget, it will also help them understand that frequent use of bank machines has its own costs.

TIP

Encourage your children to plan their weekly spending in advance and withdraw just enough money on Sunday to last them the entire week. Being able to see how much cash they have will help them keep their budgets on track and prevent frequent and costly trips to the back machine. Parents might want to give this strategy a try as well. Then, at the end of the week talk to your kids about how successful each of you were at budgeting. Did it work well for you? What would you do differently next time?

You might both be surprised at how it can change the way you spend.

Coach your kids on smart money management

Budgeting and tracking spending

The first step toward developing good budgeting habits is to understand when, where and why you spend money. Tracking spending on a weekly basis helps teens uncover costly and often unnecessary habits. When they can see, for example, that they are spending $15 every week on an afterschool snack, they begin to understand how changing a single habit can result in a monthly saving of $60, or $720 a year.

Saving for the "big ticket" items (and how to resist the impulse buy)

As kids get older, their interests get more expensive. At 12 they want the newest video game system, at 14 it's a snowboard and by 16 they're thinking about their first car. Teaching your kids about saving for expensive items can make having them more meaningful. A snowboard that your children have saved to buy will surely be appreciated more than a snowboard that's been bought for them by mom or dad.

So the next time your kids ask for something expensive, try creating a savings plan with them. This empowers your children to think creatively to reach their goals. Once they have saved enough, go and buy the item together and celebrate!

Smart shopping techniques

With so many consumer goods to choose from, teaching children how to be "healthy" shoppers is a challenge, but successfully doing so will help them save money as adults. And don't forget, your own attitude and approach to shopping will influence their behaviour.

How to raise a smart shopper:

1. Don't go shopping for entertainment. Instead, plan ahead and stick to your list and budget. And remember, going to the mall simply because there's a sale isn't going to save you money, because in the end you will probably buy things you didn't want or need.
2. Teach your kids the value of finding a good deal by comparative shopping, checking the flyers and surfing the Internet.

Investing wisely for tomorrow

A common rule of thumb is to invest 10% of your income as soon as you receive it. And explain to your kids that paying yourself first and setting aside 10% is an easy way to start building a nest egg. Investing it will show them that if left alone their money can make it's own money (see page 8).

TIP

Have your teen record his or her purchases for a week using the weekly spending tracker provided in this kit. At the end of the week sit down and take a closer look together. Are there purchases that your child could have avoided? Could taking a bagged lunch rather than buying it in the school cafeteria have saved money?

A few wise choices can really impact weekly savings.

Allow them to make mistakes

Telling your children what you think is best for them is no substitute for their own personal experiences. This is true about nearly everything, including managing money.

A good place to start is by working out a quarterly clothing allowance when your children are in high school. Most kids will quickly learn that shopping for bargains will make their money last longer; others might spend their entire amount on two or three very expensive items and have nothing left when they really need it. You may have to stand firm on your initial agreement. Learning that choices come with consequences will help them make better decisions in the future.

Teach them how money invested can make its own money

There are many different kinds of investments for kids – bank accounts, Canada Savings Bonds, corporate bonds, stocks and mutual funds. So ask your financial advisor for some tips on educating your kids about the variety of options available to them.

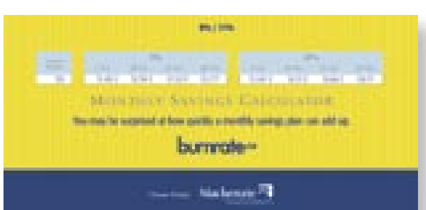
Here are a few interactive and fun ways to get your kids interested in investing.

- For birthdays or other special occasions buy your children shares in companies that they can relate to such as Apple or Disney. Then monitor the stock's price online so they can see how the investment is doing.
- If you can afford it, match every dollar that your children invest in appropriate investment vehicles. If one child invests $50 in a mutual fund, you can match it with $50 of your own. This will help create interest in investing and encourage them to spend less on high-tech gadgets and clothes.
- Create a family investment club, and meet regularly to come up with new investment ideas. You can do this with virtual money by assigning each family member $10,000. Each of you chooses investments and then you monitor your progress to see how well each of you does with your virtual portfolio.

The rule of 72

The "rule of 72" is a handy way to measure how quickly your investments can double. Simply divide the number 72 by the annual rate of return of your investment. The result will tell you the approximate number of years it will take your money to double at that particular rate of return.

For example: When you divide 72 by the rate of 10%, you get a result of 7.2. That means that it takes an investment roughly 7 years to double at a 10% annual rate of return.



Use the Monthly Savings Calculator to see how a regular investment plan can really add up over time.

Encourage them to use credit and debit cards wisely

In this age of debit and credit cards, we are using less "real cash" all the time. Paying for things with debit cards makes the expenditure seem less real, and purchasing things with credit cards is even more dangerous since you feel like you're not even spending your own money! So if you want to spend less, try paying with cash because it's much more difficult to overspend if you have to open your wallet and count out the dollar bills.

Did you know?

If you pay cash for purchases rather than using debit and credit cards, you tend to spend less just due to the emotional pain of parting with your hard-earned money.

You can also teach financial discipline by giving your children all of their budgeted spending money at the beginning of the week. This will help them stick to their budgets and prioritize their purchases. If the cash runs out, don't give them any more until the following week.

It's important to teach wise credit management because when kids get to university, they will be approached by numerous credit card providers. You might not be there to offer a word of caution and they may end up with their own credit cards. Having a credit card is not necessarily a bad thing, but understanding how they work and the cost of carrying a balance is vital. It would be helpful to show them how much their new pair of jeans is really going to cost them after credit card interest and fees are calculated.

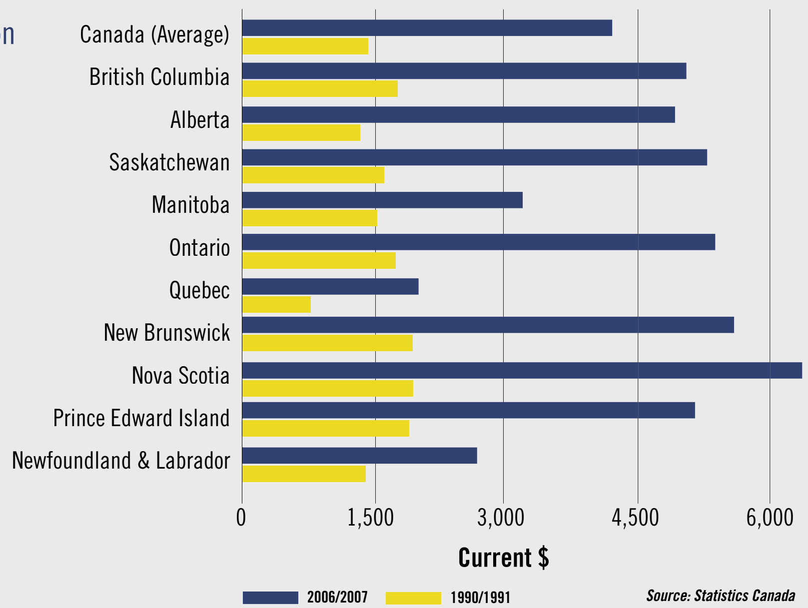
Post-Secondary Education
Saving for it, Budgeting for it and Surviving it

Post-secondary education will make a big difference to your children's earning potential and standard of living. According to the 2001 Census, Canadians with a high school diploma earned an average annual salary of $25,807. Those with a university degree earned almost twice as much – $48,287.

Since 1990, average tuition costs have almost tripled, from about $1,500 to $4,347 in 2006.

Take a look at the chart to see how much tuition fees have gone up at Canadian universities since the early 90s.

Average undergraduate tuition fees by province



Saving for college or university

An effective way to maximize the money available to your children when they enroll in a post-secondary program is to open a Registered Education Savings Plan (RESP). Your contributions are not tax deductible, however, money inside the plan will grow tax-free until it's withdrawn. Parents, grandparents, aunts and uncles can all contribute to your child's RESP.

There's also some free money available to Canadians by way of the Canada Education Savings Grant (CESG). The CESG provides a maximum $500 annual grant for children 17 and under to a lifetime maximum of $7,200 per child. Further grants are available to lower income families.

Encourage your children to apply for scholarships and bursaries. Visit **www.scholarshipscanada.com** for an extensive listing of available programs. Most schools will also have helpful information on their websites.

Budgeting at school

The chart below outlines some typical school expenses.

ITEM	ESTIMATED COST	COMMENTS AND IDEAS
Education		
Tuition fees	$4,347 for the school year (average full-time undergraduate tuition for 2006/2007)	Tuition fees vary from province to province and school to school. Most schools offer different payment plans to help with cash flow.
Other school fees	$650 for the school year	Usually compulsory, these fees cover costs such as recreation and athletics, student health services and student association memberships.
Books and supplies	$1,000 – $2,000 depending on program of study	To cut book costs consider buying used books and selling your books at the end of the course.
Housing		
At home	Cost depends on personal situation	
On-campus housing	$3,000 – $6,000 for the school year	Shared rooms are the cheapest option.
Shared housing off-campus	$350 – $600 per month	Big cities tend to have more expensive rents than smaller towns.
Food		
Residence meal plan	$2,000 – $3,500 for the school year	If you know you'll be going home on weekends a lot, the lighter meal plan is more cost effective.
Groceries	$150 – $250 per month	Check weekly flyers for sale items and plan weekly meals around these goods. Supermarket house brands are usually cheaper, and are often produced at the same plant as the name-brand products.
Transportation		
Walk	Free	Living on campus or within walking distance can keep transportation costs low.
Public transit	$80 – $100 per month	Student bus passes are a cost effective way to get around.
Car	Costs depend on personal situation	Gas, insurance and parking can make having a car at school expensive.
Communication	Cost depends on personal situation	Telephone bills can really add up when you're living away from home for the first time. Consider setting up a specific day and time for a weekly family call and email through the week to keep in touch.
Personal expenses	$2,500 for the school year	Don't forget to account for miscellaneous personal expenses like entertainment, toiletries, cosmetics and clothes. These costs will vary widely from person to person.

Most colleges and universities have information on their websites to help your teen budget and plan their spending throughout the school year. The CanLearn website has a great budget estimator for prospective students and their parents.

Teaching Younger Kids Financial Literacy

If you can encourage good money habits at an early age, you will set your child on the path to self-confidence and responsibility. A good place to start is to have discussions about money and pass on smart strategies for spending, saving and sharing as soon as your child is old enough to ask for treats at the grocery store checkout.

Keep it real

For young children, seeing is believing. Here are a few ways to pass on smart money habits:

- Establish a money jar for weekly treats. Let your children fill the jar with loose change. They'll enjoy watching the savings grow, and you can buy a treat together on the weekend.
- Family therapist, Rhonda Katz, suggests creating an allowance system for spending/saving/sharing. You can divide the allowance and deposit predetermined amounts into three different piggy banks – one for spending, one for saving and one for sharing.
- Go with your child to the bank on a special birthday and open a first account. Your child can deposit savings toward a desired item, or perhaps you can make a deal: for every dollar saved, you'll match it.
- To help young kids grasp the costs of running a household, show them your monthly bills and "pay" them with stacks of real money or monopoly money. They'll learn how quickly household expenses add up.
- To introduce the concept of equity investing you can buy kids shares in their favourite company on oneshare.com. The company will issue a framed share certificate registered in a child's name. It can be hung on the wall and the stock price monitored online.

According to Dr. Ron Clavier, a psychologist, it's around age 11 that children begin to develop the ability for abstract thought. For effective learning in kids younger than 11 your best bet is to make discussions and modeling about money much more concrete.

A note about advertising

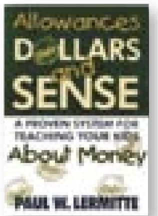
Kids are bombarded by consumer product ads on television, radio and the Internet. And our culture often measures worth by extrinsic values such as clothes, shoes and cars rather than by intrinsic values like our intellect, humour and kindness. Reinforce the values that are important to you and challenge your kids to stand strong against the influence of advertising.

Keep it positive

When kids are asking for expensive things, don't say "We can't afford that." Instead ask, ***"How can we save for it?"***

- Introduce the concept with smaller, less expensive items that don't take too long to save for. Your kids can get used to the idea of saving for things they want. Over time they will come to learn that bigger, more expensive items take longer to save for.
- Children are able to understand the importance of charity at an early age. On birthdays or holidays, encourage them to make a donation to a charitable foundation or to donate their unused toys. Helping others will give them a sense of accomplishment and pride.
- When taking your kids to the grocery store, make a game out of finding good deals on the items on your shopping list. This is a great way to teach them the difference between name brands and generic or no-name items. It also gives you the opportunity to show them how to compare prices, sizes of items and the relative costs of each. For example, a 750ml bottle of ketchup costs $1.79. The same brand of ketchup in a 1L bottle costs $1.99. Do your kids know which is the better value? Positive reinforcement (and maybe a small treat) will keep them interested in learning.

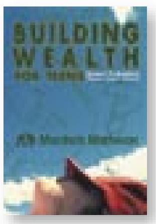
Additional Resources



Allowances, Dollars and Sense

by Paul W. Lermitte

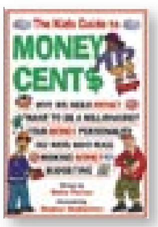
Written for parents, this book is full of practical ideas and worksheets.



Building Wealth for Teens

by Murdoch Matheson

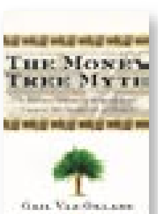
Written for teens, this book answers common questions that kids have about investments and personal finance.



The Kids Guide to Money Cents

by Keltie Thomas

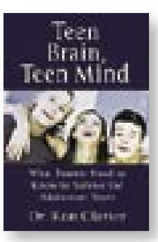
Written for kids, this comic-style guide covers money concepts like saving, budgeting and smart shopping. Features quizzes, checklists and puzzles.



The Money Tree Myth

by Gail Vaz-Oxlade

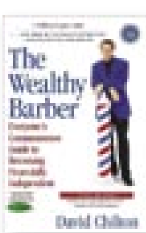
A parent's guide to helping kids unravel the mysteries of money.



Teen Brain, Teen Mind

by Dr. Ron Clavier

Written for parents who are grappling with the daunting task of raising a teen, the book offers many strategies designed to improve communications between you and your teen.



The Wealthy Barber

by David Chilton

A common sense guide to financial independence. Written in everyday language, this book is suitable for young adults and parents alike.

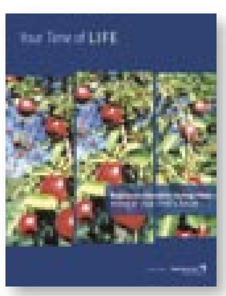
Websites

www.makingallowances.com	Paul Lermitte's website with additional tools and ideas.
www.cfp-ca.org/public/public_educatingyouth.asp	The Certified Financial Planner website has a dedicated section entitled "Educating Youth" where parents will find a number of guides and other resources.
www.bankofcanada.ca	Canada's central bank website has some games and activities for kids of varying ages in its "Educational Resources" section.
www.canlearn.ca	Developed by the Department of Human Resources and Skills Development Canada, the site provides information and services to decide what and where to study and how to cover the costs.
www.scholarshipscanada.com	Provides an extensive database to find scholarships, student awards, bursaries and grants. You'll also find information about student loans, applications and budget planning.
www.younginvestor.com	This is a US website with sections targeted to kids, teens, parents and teachers to promote saving, investing and budgeting.
www.kidsbank.com	Developed by a US bank, this site has fun games and kid-friendly information to help you explain money and banking concepts.
www.oneshare.com	Oneshare.com enables you to give the gift of stock ownership by buying one share in a variety of US public companies.
www.servicecanada.gc.ca	Canada's one-stop access to a variety of government services. Go here to apply for your child's Social Insurance Number or to find summer jobs.

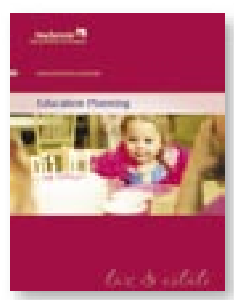
Other Mackenzie Tools

burnrate.ca

Visit burnrate.ca for on-line savings and investment tools to help you better understand your Burn Rate.



Registered Education Savings Plan brochure



Education Planning guide

Ask your financial advisor for these and other helpful resources or visit the Mackenzie website.

mackenziefinancial.com

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