The *Wisest* Investment

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TEACHING YOUR KIDS *to* *Be* RESPONSIBLE, INDEPENDENT *and* MONEY-SMART *for* LIFE

Robin Taub

CPA, CA

ISBN 978-1-7774484-0-0

The first edition of this book, *A Parent's Guide to Raising Money-Smart Kids*, was originally published by the Canadian Institute of Chartered Accountants, now CPA Canada. The second edition, *Raising Money-Smart Kids: How to Teach Your Kids About Money While Learning a Few Things Yourself*, was published by CPA Canada and Cormorant Books Inc., under license. No endorsement of this edition by CPA Canada is implied.

Edited by: Erik Leijon
Interior design: Jessica Albert
Cover design: David A. Gee

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All inquiries should be addressed to:

The Wisest Investment
1210 Eglinton Ave West
Toronto, ON, M6C 2E3

books@robintaub.com; (416) 256-4498
www.thewisestinvestment.com

Dedicated to Justin and Natalie,
my wisest investments!

Introduction

Like most parents, you feel a responsibility to teach your kids about money. You understand the importance of making sound financial decisions and developing good financial habits. You know how financial struggles can strain relationships and even take a toll on your health. But teaching kids about money is easier said than done, especially in today's financially complex, digital world where the tools we use are constantly changing to keep pace.

At a time when cash is disappearing, spending is frictionless, and fraud and scams are constant threats, seemingly out of nowhere, COVID-19 hit. Its sudden and devastating impact on the economy accelerated and magnified these trends. Many families found themselves financially unprepared, and the pandemic served as a wake-up call about the importance of teaching the next generation about money.

According to research, most parents feel they don't have the information they need to teach the right lessons about money, and they don't know how to approach the subject with kids of different ages. But they do recognize they need help, and they are willing to listen and learn.

As a Chartered Professional Accountant, I've always felt comfortable and confident around money and financial concepts. And I believe money management is an important life skill, one that I wanted to pass on to my two kids. So in 2011, when I was asked to write a book to help parents teach their kids about money, I was intrigued. I had just started writing for the Ontario Securities Commission's financial literacy website, getsmarteraboutmoney.ca. But writing a book? It wasn't something I had ever really thought about doing. It certainly wasn't on my bucket list (like meeting Bruce Springsteen, which I managed to do in 2007!).

When Justin and Natalie were young, I started to invest in their financial education. I knew that the earlier kids are taught about money, the greater the likelihood of financial success throughout their lives. I tried to put my money where my mouth was and be a good financial role model to them. I took advantage of teachable moments to build money lessons into our daily lives, and I made sure that the information I shared with them (about earning, saving, spending, sharing and investing) was appropriate for their age and maturity (and I still do). Back in 2011, when my kids were 14 and 16, I could already see my efforts were paying off.

After some reflection, I thought to myself, *Maybe*

I do have a book in me! Why not write about my own experiences — both rewarding and challenging — and the experiences of other parents? That, combined with solid research, would help parents like you give *your* kids the knowledge, skills and confidence that I gave my own kids.

I wrote *A Parent's Guide to Raising Money-Smart Kids*, and it quickly became a Canadian bestseller. In the decade since it was first published, society has moved away from cash toward mobile and digital money and the economic consequences of the coronavirus pandemic have only accelerated this move. This third, updated version builds on time-tested lessons that have always applied and still apply today, while modifying some for the post-pandemic "new normal." It also addresses both the challenges and benefits of managing money in an increasingly digital world. Over the same decade, my kids have grown into financially literate, independent and responsible young adults (most of the time!).

For anyone who may be thinking, *How can I teach my kids about money if I'm not doing a good job of it myself?*, this book will make you more aware of your own behaviour around money and the type of financial role model you are to your kids now (and the type of role model you can become). But it's something you and your kids can learn together, and it may even lead to improvements in your own financial habits and health as you become more skilled in understanding, practising and explaining money management.

To get the most out of your reading, you should understand a few things about how I've organized the book. The first chapter sets the stage, explaining why teaching your kids about money is the wisest investment. It also covers what that implies about your own responsibility to be smart with your money so that you can teach by example.

But beyond your own example, there is the very basic need to talk to your kids about money. How do you approach it? Well, there are five pillars of money that can be used to structure an ongoing conversation. Chapter 1 explains the fact that in order to have money you have to earn it. Then, once you've earned it, there are just four things to do with it:

- save
- spend
- share
- invest

Chapters 2 through 5 are directed at parents with kids at different stages:

- young children (ages 5–8)
- preteens (ages 9–12)
- teens (ages 13–17)
- emerging adults (ages 18–21)

Each chapter is organized around the five pillars of money just discussed — **earn**, **save**, **spend**, **share**, and **invest** — and explores specific topics within each. There are suggestions for family discussions and activities designed to reinforce these concepts. Each chapter also contains quotes from parents talking about how they approached financial education with their kids, which remind us that we can find humour in even the most serious of subjects.

I hope the suggestions in this book and the real-life experiences of other parents will help you make the wisest investment. I would love to hear from you. Please email me at wisestinvestment@robintaub.com.

Robin

Contents

CHAPTER 1

The Wisest Investment

Teaching Your Kids about Money

This first chapter explains why teaching your kids about money is the wisest investment and helps you understand the context in which kids learn about money. It discusses some of the problem areas that parents run into and suggests approaches to deal with those problems effectively. This chapter also introduces the Eleven Healthy Habits of Financial Management, which can help you achieve two objectives: getting your own finances in order and teaching your kids how to do the same.

Why Is Teaching Your Kids about Money the Wisest Investment?

We want our kids to thrive in life. We want them to be able to manage their lives well, including their financial lives, for their sakes as well as our own. If we don't succeed in teaching our kids about money management, it may come back to haunt us. How would you feel, for instance, if you had to support your adult children financially? (Most Canadians can't afford to.) Or if you had to bail them out of a financial mess, like bankruptcy or an expensive divorce, with savings painstakingly accumulated and set aside for your own future? What if this happened when you were supposed to be enjoying your carefree retirement years? It's not a pretty picture, is it?

Those are some of the potential consequences for us as parents, but what about the kids themselves? If you've ever struggled with financial problems that were brought on by bad habits — or simply by not knowing how to approach financial management effectively and efficiently — then you know what a negative impact such problems can have on your life generally, and especially on your relationships with the people closest to you. Money stress can even be bad for your health and is a common cause of anxiety and depression. It's certainly worth investing in our children to spare them from such struggles.

The Canadian government felt that financial literacy was critical to Canadian economic growth and prosperity, and they created a task force to study it in 2009. The task force defined financial literacy as having the knowledge, skills, and confidence to make responsible decisions at every life stage. Many people now recognize it as an important life skill.

"A neighbour has a 26-year-old daughter who lives at home with her parents. She only has a part-time job working in retail. She Ubers everywhere rather than take public transit, goes out for brunch every weekend, buys takeout food regularly for dinner, and before the pandemic hit, had just came home from a week's vacation in Mexico. She doesn't have any savings at all — no RRSP, no TFSA, not even a basic savings account, and now she doesn't have a job. The worst part is, she couldn't care less about learning about finances — she's more concerned about how many followers she has on Instagram! Her parents now bemoan the fact that they did not take the time to teach their daughter good money management skills and habits when she was younger. They're distressed by the fact that she doesn't seem to share any of their values and seems to take so much for granted. It's really strained their relationship with her."

Healthy, happy and successful adults, among other things, are adults who are financially responsible and independent. That's the goal for our children as they become young adults, but it's normal to encounter bumps along the road. For example, in challenging economic times, your kids may need a little more support. When youth unemployment is at record high levels, twentysomething children may want to move (or stay) home, in order to build savings, or avoid getting (further) into debt. Or if they are employed, they may need help paying for a car to get to work safely. This support shouldn't come at the cost of your own financial well-being, and every family has to decide what feels right for them.

What Are the Challenges Parents Face?

The basic challenges parents face when trying to teach their kids about money are lack of knowledge, lack of time, and lack of opportunity (or not always recognizing when an opportunity presents itself). Teaching your kids how to manage money is particularly hard if you're not good at it yourself. It becomes easy to just avoid the conversations altogether, especially when you're running a busy household with so many competing demands on your time. Although it may not feel like a priority when your kids are little, their early years are an important time to lay the foundation and teach the basics. The concepts are the same as they get older, but the stakes get much higher. It's better if they can learn from their mistakes when the stakes are low.

A lot of parents procrastinate: they don't teach their kids about money because they think their kids are too young. But there are lots of ways to engage younger children with money. Maybe your kids don't seem all that interested in learning about money. Your challenge is to make it relevant to them and to use opportunities in your everyday lives as teachable moments. You don't have to set aside extra time; these opportunities will crop up in day-to-day activities like grocery shopping (either in-store or online) and opening a bank account, as well as when your kids get their first real job.

What if your kids are already teenagers, but you've never taught them about money: is it too late? No — it's never too late to learn a new skill or to learn how to do things better. The way you approach money management with teens is different. For instance, you can discuss more sophisticated topics with them than with their younger siblings, but the basic concepts are the same throughout your kids' lives and your own. When you earn money, you have four basic choices about what to do with it: save, spend, share, and invest. You want your kids to understand that making a lot of money doesn't guarantee financial security; financial security comes from making sound decisions with the money you make.

Financial technology (known as "fintech") is changing every aspect of how we deal with money and has produced new ways to manage it in a digital and mobile world. Much of what we do with money (whether we are earning, saving, spending, donating, or investing) can increasingly be done using technology, either online or on our phones. Canada (along with the rest of the world) is moving toward a cashless society. In Sweden, before the pandemic, 98 percent of transactions were digital, and they have almost eliminated cash. So how do you teach your kids about money in an increasingly cash-free world, which the pandemic has only accelerated?

The answer, especially with younger kids, still starts with cold, hard cash. As your kids get older, you can introduce "paying with plastic" (i.e., debit and credit cards) and from there move on to digital money and tools like apps. We will address this issue in more detail in subsequent chapters.

Who's Teaching Your Kids about Money?

When asked who should be responsible for educating children about responsible money management, most respondents in a study conducted by CPA Canada (CICA Canadian Finance Study 2010) felt that parents or guardians had the most responsibility. Next in line were schools, followed by the financial services industry and then government. We'll get to the very important role that parents play in the next section, but first a word about financial literacy in school.

FINANCIAL LITERACY IN SCHOOL

Each province is responsible for whether and how financial literacy is taught in school. For example, financial literacy has been integrated into the curriculum in Ontario from Grades 4 to 12 since 2011. This means it's being taught in many different subjects such as math, social studies, Canadian and world studies, business studies, and others. Students learn about basic money management and how to be an educated consumer, and they gain knowledge that will help them be confident in making decisions about where and how to invest their money.

Other studies[1] have shown that 84 percent of parents and 70 percent of high school students want financial learning in the classroom. Beginning in 2019, Ontario's new career studies curriculum for Grade 10 took a deeper look at financial management, including budgeting for the first year after graduation and comparing different forms of borrowing to pay for post-secondary education.[2]

In 2008, the British Columbia Securities Commission (BCSC) and the Financial Consumer Agency of Canada adapted an existing BCSC resource called Planning 10: The City into a national online resource called The City/La Zone. It gives youth the knowledge, skills, and confidence to plan for their post-secondary education or career and to navigate through the financial realities of adulthood.

A 2017 PricewaterhouseCoopers study found that millennials (the generation born between the early 1980s and the mid-1990s) are generally better educated and more skilled than their parents were at the

1. See Ontario Securities Commission: getsmarteraboutmoney.ca.
2. www.cbc.ca/news/canada/toronto/grade-10-career-studies-curriculum-focus-financial-literacy-ontario-1.5197517

same age, but only 24 percent have basic financial literacy (meaning an understanding of assets, expenses, and income). Just 8 percent have high financial literacy, including a grasp of taxes, mortgages, and investing. In response, some universities in Canada are offering personal finance courses.

For example, McGill University is offering a free, online, personal finance essentials course, which covers budgeting, borrowing, real estate and more. Taught by professors from the Desautels Faculty of Management, the course is open to everyone.

L'Université du Québec à Trois-Rivières offers a massive open online course on personal finance. The free, five-week online class covers personal finance basics, taxes and tax breaks, and growing your personal wealth.

So ask your kids what they're learning in school about money and try to reinforce those lessons at home.

What Kind of Financial Role Model Are You?

As parents, you try to be good role models for your children. You're careful about how you treat and relate to others, how you look after your health and well-being, and how you balance work and family life, because you know your kids observe everything. They're watching and learning from you — and they pick up both your good and bad habits, including habits of financial management. So what kind of financial role model are you?

- Do you spend money impulsively or are you cautious and deliberate about your spending?
- Do you save up for a big purchase or do you buy what you want when you want it, charge it to your credit card, and worry about it later?
- Do you pay your bills on time and keep organized files or do you delete them, unread, from your inbox?

Try doing the **Role Model Self-Assessment** exercise at the end of this chapter; it will give you a good idea of where you stand as a role model. And if you teach your kids well, you'll find that older siblings can also be important role models for younger kids.

IS MONEY A TABOO TOPIC IN YOUR HOME?

"I was 11 when my father sat me down for 'the talk.' My father never did actually explain how sex worked, I think he thought a person just naturally figured that out. Money was different. Money was something that needed explaining."

— Michael Lewis, Against the Rules podcast, season 1, episode 7

In many households, money is a taboo topic. Many parents say they avoid talking about money with their kids because they don't feel qualified to do it properly. They don't know how to approach it, and they don't have the information they need. Many also feel they're not equipped to handle some of the uncomfortable questions that their kids may ask in normal times, like "Are we rich?" or "How much money do you make?"

But with many Canadians struggling financially and facing uncertain futures caused by the economic fallout of COVID-19, they may be getting questions right now like "Can we pay our rent/mortgage?" or "When are you going back to work?" The answers to these kinds of questions are private family matters and probably not something you want to share with the whole world, so you have to keep in mind your child's age, maturity and temperament when answering them. Ask your kid questions to make sure you understand what they're really asking. Often, when kids ask such questions, they're really just looking for reassurance that everything's okay, even though no one knows for certain what the "new normal" will look like. But if they ask, it's best to find an answer that is honest, one that stresses confidentiality and trust, and one that is only as detailed as you think appropriate. The discussion can often take place by dealing with general concepts rather than getting into specific numbers — concepts such as:

- the meaning of "rich";
- the importance of income, i.e., not that it

should be a certain amount, but that it's sufficient to provide a stable life;
- how mortgages work; and
- good debt versus bad debt.

While it may be taboo to expose confidential family information, there should be nothing distasteful about teaching your kids general money management skills. Living within your means, budgeting, and saving for important goals should be discussed openly — and they should be discussed often.

THE BIG PICTURE: HOUSEHOLD FINANCES

One of the goals of teaching your kids about money is to make them aware of the cost of running a household. Not that your kids should feel responsible for making ends meet — that's your job as a head of the household. But they can at least become aware of the costs of their needs and wants and get a better understanding of how providing for them fits into the bigger picture. Kids, especially teenagers, can seem selfish because they tend to focus only on their own needs and wants. With more information, though, they will come to realize that you have to prioritize and balance all of the family's costs of living. It helps them put things in the proper perspective.

BUDGETING: OVERHEAD EXPENSES AND DISCRETIONARY SPENDING

Raising kids is expensive. According to the website MoneySense, the estimated cost of raising a child in Canada from birth to adulthood (in today's dollars) is approximately $13,366 a year or just over $250,000 — and these costs are just some of the components of your household budget. For some families, budgeting is a dreaded activity, right up there with dieting! Both words bring up thoughts of deprivation. But if you think of a budget as a spending plan, one that will let you have and do the things in life that are most important to you and that are aligned with your values, it makes an otherwise tedious process meaningful and rewarding.

When creating a spending plan, keep in mind that your expenses fall into two broad categories: overhead expenses and discretionary spending. Most overhead expenses are fixed costs and are governed by a contract. They're easier to plan for than variable expenses because they usually cost the same amount every month (though some fixed costs, such as annual home insurance premiums, are periodic or occasional). These expenses can't really be avoided because they're the basic costs of living. Examples of overhead expenses are:

- rent or mortgage payments;
- property taxes;
- child care/daycare;
- car payments or other transportation costs; and
- cable, internet, or cell phone bills.

Other overhead expenses like groceries, clothing, utilities, and gas for the car are a bit more variable — the amount you spend may change from month to month — but you can't eliminate these expenses altogether.

Discretionary expenses, on the other hand, are a lot more flexible. You decide whether to incur these costs at all, and, if you do, how much to spend. Examples include:

- restaurant meals and entertainment;
- recreational shopping;
- personal care;
- vacations;
- club dues;
- hobbies; and
- gifts.

So how do you budget? The initial step is to pay yourself first by automatically transferring a certain sum of money every month to a designated account. Depending on your goals and objectives, this can be either a regular savings account or a tax-advantaged account like a Registered Retirement Savings Plan (RRSP) or a Tax-Free Savings Account (TFSA). You get used to living without this money, and what remains after you've paid yourself first goes toward covering your overhead expenses. Any funds that remain after you cover all of your overhead expenses are available for discretionary spending or additional savings.

"Don't save what is left after spending; spend what is left after saving."[3]

— WARREN BUFFET

Use the **Cash Flow Calculator** at the end of this chapter to calculate your household cash flow. Most likely, the biggest cash outflow in your budget is your mortgage payment or rent, followed by car payments, property tax, insurance, and possibly tuition. You can use the Cash Flow Calculator to create a spending plan that's right for you and your family.

CLOSING A FINANCIAL GAP

Preparing your budget and your cash flow will give you a clear picture of your financial health. If you're spending less than you earn, your cash flow will be positive. That positive cash flow is money for savings (or sometimes for further discretionary spending). If, on the other hand, you're spending more than you make, your cash flow will be negative. Most people deal with negative cash flow by using credit to cover the shortfall. For example, they may use credit cards, department store cards, personal lines of credit, or home equity lines of

3. www.supermoney.com/2014/04/10-powerful-personal-finance-quotes-from-warren-buffett/

credit. Using credit occasionally because your household cash flow is uneven (e.g., you're self-employed or earn commissions) is fine. In those situations, you may run surpluses (excess cash flow) some months and deficits (insufficient cash flow) other months. But if you're using credit every month to make ends meet, then you're living beyond your means. You're also building up debt as those monthly shortfalls begin to accumulate. This situation is obviously not sustainable. In his book, *Client-Centred Life Planning*,[4] Michael R. Curtis introduces the following "Three C" strategies to close a financial gap:

1. **Create:** creating additional income or wealth
2. **Convert:** converting consumption assets into income-producing assets
3. **Conserve:** conserving existing resources

You can use these strategies alone or together. In tough times, this may mean cutting back on spending, selling things you no longer need and stretching existing supplies. Always look for high-leverage solutions that will have a significant impact on the bottom line. For instance, if you can't afford your monthly car payments, conserving by cutting back on your streaming subscription may help a bit, but it probably won't get you all the way there!

4. (Toronto, Canada: Michael R. Curtis, 2005).

CREATE	Creating wealth brings more cash into the household. For some people, this may mean returning to the paid labour force, creating a side hustle by turning a passion or hobby into a business, or participating in the gig economy by, for example, driving for Uber. Perhaps you could rent out a spare room or the basement apartment in your house. For others, it may mean adjusting their investment portfolio to focus more on generating income to supplement their salary.
CONVERT	Downsizing to a smaller house is the classic example of the "Convert" strategy and has been a popular strategy as people move into their retirement years. Selling your large family home, buying a less expensive, smaller home, and investing the difference allows you to convert a consumption asset into an income-producing asset. Or leverage the sharing economy by listing your house on Airbnb during periods when you're travelling or living elsewhere. Converting may also involve the sale of a cottage or other vacation property, a boat, a car, or any other unnecessary assets to generate capital that can be invested to produce income or meet other financial objectives.
CONSERVE	Creating and converting are long- and medium-term solutions, but conserving has immediate impact. Examine your expenses for ways to defer, cut back, or eliminate excessive or unnecessary spending. Look for discretionary expenses like meals, entertainment, shopping, and vacations that are easy to cut.

If you take these tips to heart, you can rest assured that you will become exactly the kind of role model your kids need to make them money-smart — both now and throughout their lives.

How Your Values Influence Your Financial Decisions

Values are the things in your life that are most important to you, that you're willing to take a stand for. Some people value education, achievement, prestige, or wealth. Others value security, family, friendship, or adventure. The way you spend your money and deal with your finances says a lot about your values. Do you know what your top five values are? Do the **Values Validator** exercise at the end of this chapter and find out.

You may think your kids will pick up your values by osmosis, but these days kids are exposed to a lot of conflicting messages about money, especially from traditional and social media and their friends. So be clear about your family values and how they impact your financial decisions. Get your kids to try the Values Validator and to leave their answers out in the kitchen where everyone can see them. Let the list be a visual reminder to help all of you to stay focused on your values and the things you're committed to. The values you pass on to your kids will help them prioritize their spending and set meaningful and compelling goals for themselves. The combination of solid values and strong