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, twenty-something 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, even 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?

The answer, especially with younger kids, still starts with cold, hard cash. As your kids get older, you can intro-

duce “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, in Ontario, there is mandatory learning about financial literacy in math, from grades one to nine. 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

1. See Ontario Securities Commission: getsmarteraboutmoney.ca.

learning in the classroom. Ontario's career studies curriculum for Grade 10 also takes 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.

In British Columbia, for example, Planning 10 is a mandatory course required for graduation. Students learn how to plan for their post-secondary education and/or career goals, including budgeting, managing credit and debt, and reporting personal income.

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 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, like "Are we rich?" or "How much money do you make?"

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. 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 priori-

tize 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
- 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
- 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."[2]

— WARREN BUFFETT

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 spend-

2. https://www.supermoney.com/10-powerful-personal-finance-quotes-from-warren-buffett/

ing 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 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*,[3] 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!

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