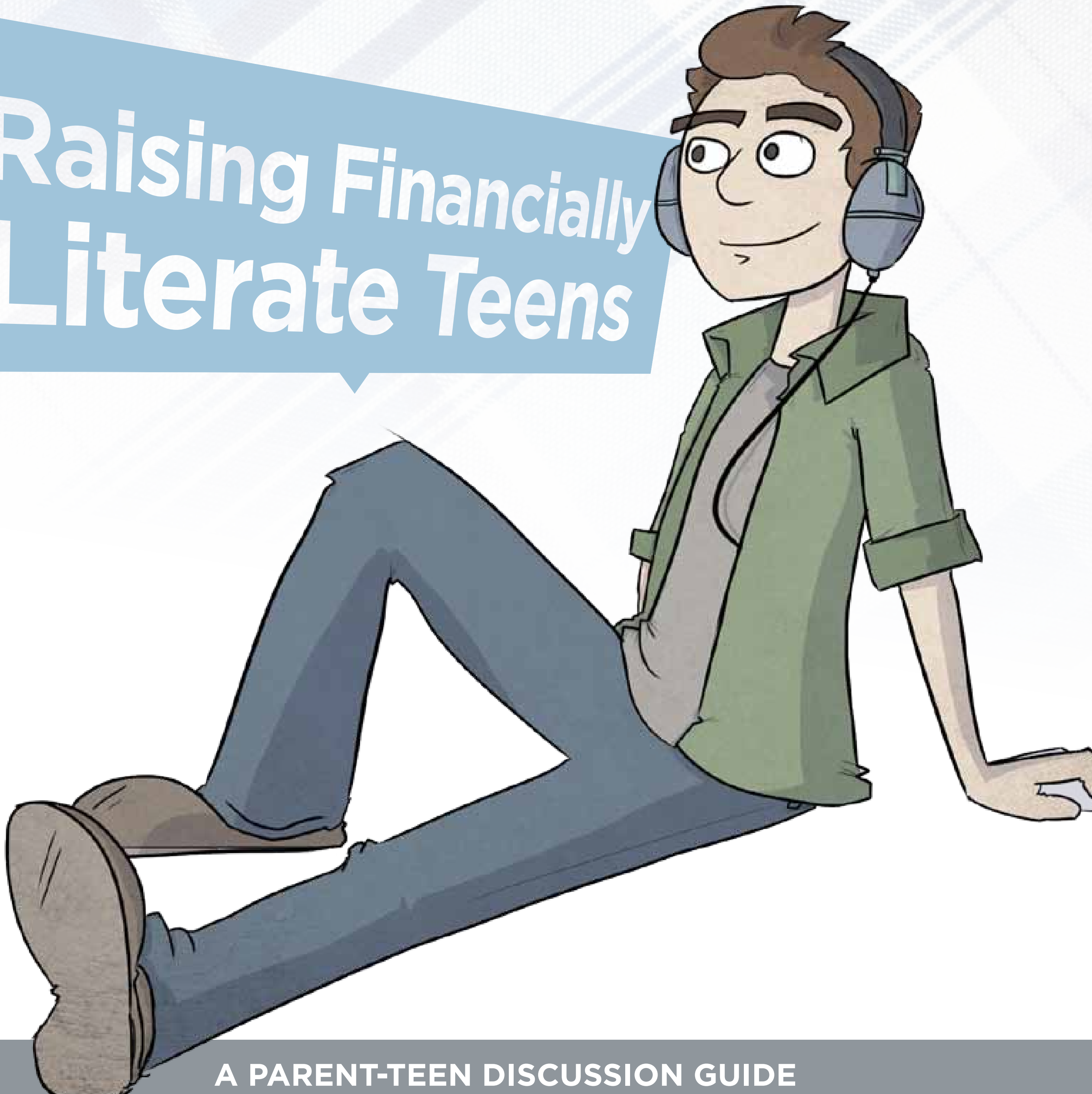
Raising Financially Literate Teens



A PARENT-TEEN DISCUSSION GUIDE TO SPENDING, SAVING AND INVESTING

It's called generation gap for a reason

Today's teenagers are the richest, most networked generation in history and, as every parent knows, they love to spend money. Their spending is a way to assert their independence, to socialize and to establish their identity – behaviours that are embraced and encouraged by advertisers of everything from iPods to designer jeans.

Teens are burning through about $100 a week on average, and modern teens also have something mom and dad never had: credit cards to make online purchases with. As they spend, it raises difficult questions for parents who know their children will one day have to face financial reality and pay their own way in the world.

What should you do? Here's a suggestion: encourage your teens to see money in a broader context. Introduce ideas like saving, investing and the compounding effect. Show them how to balance today's desires against tomorrow's needs. At times, they may look at you like you're from another planet. They don't know about shared accommodation at university, sacrificing consumer purchases to pay rent, or dining on an 80-cent pack of noodles. In short, they aren't you. They are living the dream that you've worked hard to attain. But with some tips from this guide, you can get them started on the path to attaining their own dreams.

It all starts with a budget

If there is one theme that runs through this guide, it is the importance of having a budget. Everyone talks about budgets but few people actually do them. To get your teen started, here's a basic budget template.

Weekly sources of money (Income):	Allowance	
	Part-time jobs	
	Babysitting	
	Other	
	Total Income	
Weekly uses of money (Expenses)*:	Transit	
	Lunch	
	Entertainment	
	Restaurants	
	Snacks	
	Clothing	
	Video games	
	Gifts	
	Shoes	
	Music	
	Other	
	Total Expenses	
Total Income – Total Expenses =		

*The easiest way to tabulate weekly uses of money is to keep notes, writing down transactions during the week. At the end of the week, your teen can add up their expenses.

They're more interested than you think

Teenagers are ready to move beyond "I need $100 to buy (insert essential item here)." In fact, polls show that they are very interested in personal finance and the vast majority look to their parents for help.

There are a number of things you can do today to engage your teens. Why not start by including them in discussions about family finances? If you've set up a savings plan for their education, show them the statements and explain how the plan has grown in value. Or, when you receive a mortgage statement, discuss payments, interest and principal. And take some time to explain how your mortgage and other mundane expenses fit into the family's financial plan. Why are some forms of debt preferable to others?

Ask your financial advisor if you can bring your son or daughter to your next meeting. Yes, they'll be bored. But you are also showing them that it's okay to be open about your finances, and that financial advice is part of financial success. The advisor's office is where financial goals and financial reality meet.

Believe it: Teens want help

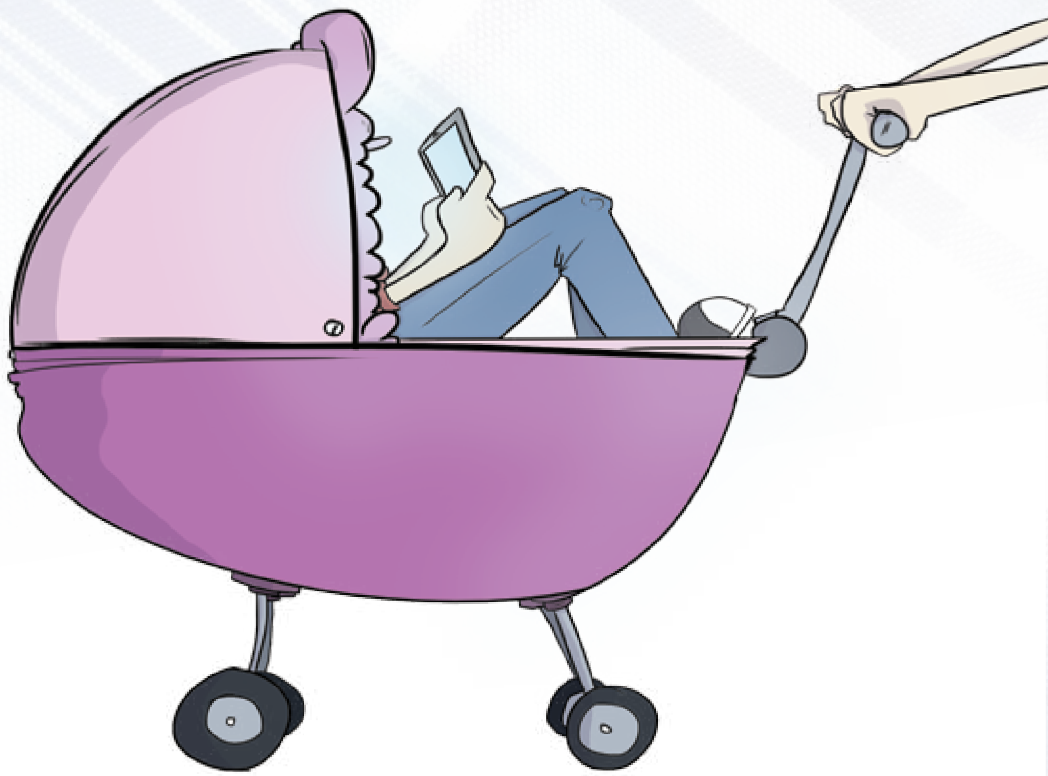
More than 80% of teenagers learn to manage money from their parents. Less than half learn it from school and 65% say they learn it from real-life experience.

Parents: **82%**
Real-life experience: **65%**
School: **49%**

Source: Charles Schwab — 2011 teen survey

Stop treating them like babies

Marketing experts believe that young people are not acting their age; they're acting, and spending, older. So start their financial education by giving them around $15 a week when they turn 12, and let them learn by trial and error. But when they turn 13, it's time to get serious by increasing both the amount they receive and what they must pay for.



Using money to teach about money

- Saving before spending is the key to financial success. Reinforce this by opening a bank account with them, and match and deposit any money they save from their allowances.

- If you provide lunch money, give your teens enough for the week, but teach them how to save by making it clear it must last. If they run out, let them brown-bag it.

- Help them prioritize by finding out on Sunday what activities they have planned for the week. Cover what you think is necessary, but no more.

- If you agree to purchase a big-ticket item like a snowboard, do so only if your teens agree to save money from their allowances to put toward it.

Your teen's financial IQ

Here is the percentage who know how to:

Shop for the best deal: **66%**

Write a cheque: **60%**

Budget money: **57%**

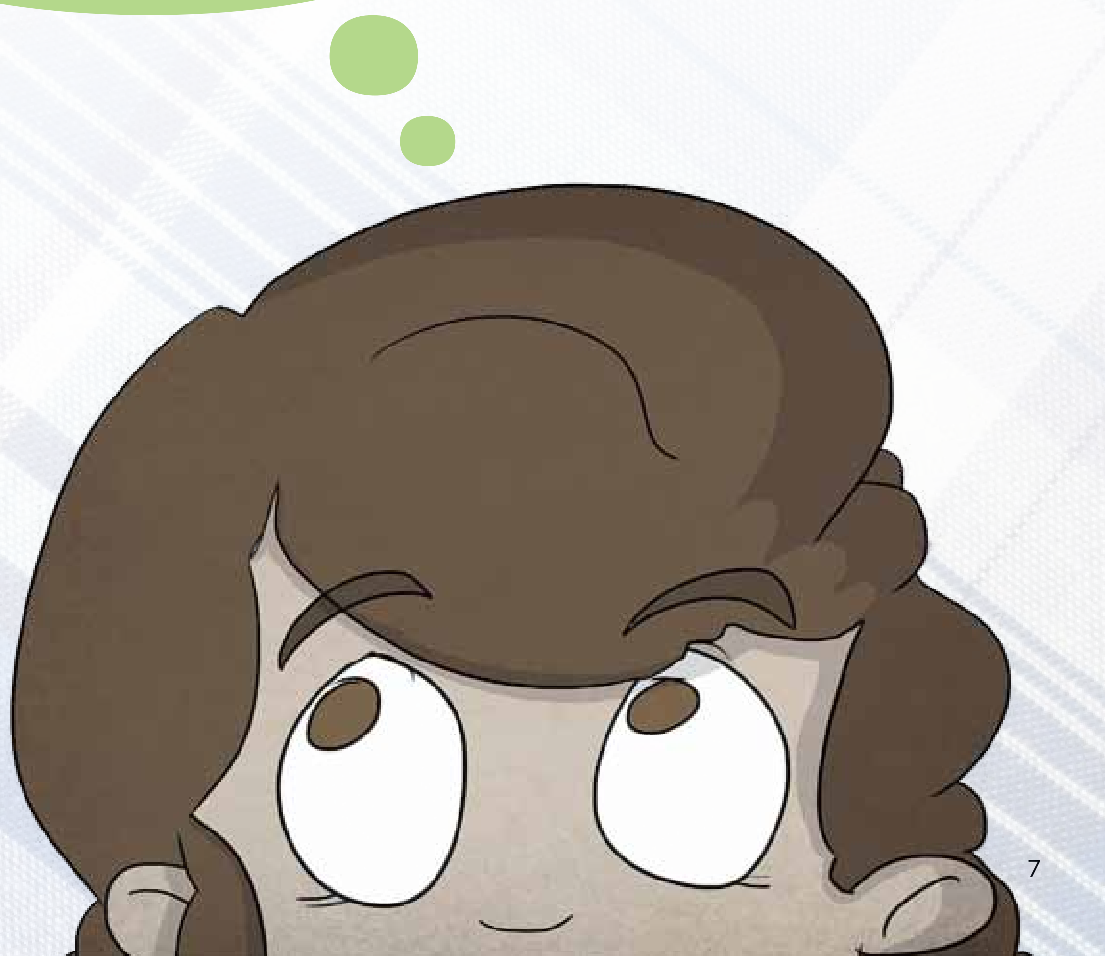
Audit a bank balance: **35%**

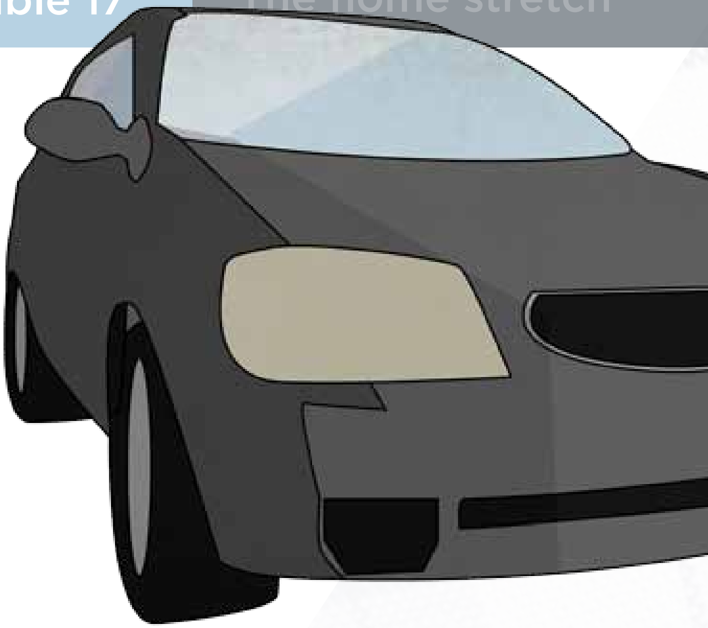
Manage a credit card: **35%**

Understand credit card interest: **31%**

Understand income taxes: **22%**

Source: Charles Schwab – 2011 teen survey





More cash, bigger decisions

By the time your teens turn 16, they should know that they will have to save and budget for the things they want. Increase their financial independence by giving them enough to cover things like clothing at the start of the school year, but make it clear they won't be getting any more. When they turn 17, add more responsibility.

- Deposit their allowances in a bank account every month and trust them with a chequebook and a bank card.
- They will be targeted by credit card companies at college, so consider getting your children jointly-held cards with a $500 limit so they can learn how to manage credit.
- Coach them to make the right financial decisions by going over month-end credit card and banking statements, showing them how rapidly debts can add up.
- Emphasize the importance of saving by stressing the cost of higher education and how much they will be responsible for.
- Setting aside money for a good cause is also an important lesson to teach. Encourage your teens to research the work of a major charity and then donate part of their allowance to it.

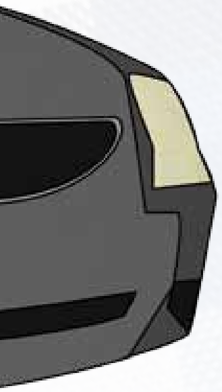
What teens are saving for

Long-term: college 76% or car 41%

Emergencies: 46%

Bigger purchases: iPod, computers 43%

Source: Charles Schwab — 2011 teen survey



Five financial lessons in a pay stub

You may be surprised to find out that today's teens are working longer hours than previous generations. In fact, nearly 40% of girls and 34% of boys are working almost 14 hours a week at part-time jobs. Of course they will find lots of ways to spend, but those early paycheques provide important lessons in budgeting and financial management.

1. Discuss budgeting and show them how they can spend today and still set something aside for the future.

2. Teach them to pay themselves first by saving 10% from each cheque and investing it in a mutual fund inside an RRSP.

3. Encourage them to save another portion for college or a trip to Europe after high school.

4. Show your teens how many hours they had to work to buy a specific item like an iPod. This helps them avoid the temptation to spend every cent they earn.

5. Invite your financial advisor to discuss investing with your teens and how a little money saved from their job today can grow powerfully over the years.

Compounding and the benefits of starting early

Kerry Saver and Johnny Popular went to the same high school. They were in a few of the same classes, but Kerry paid a bit more attention in Business Math; Johnny had a vastly more satisfying social life.

When Kerry graduated, she decided to apply what she had learned about compounding. Starting at age 20, she invested $3,000 per year, and found an equity fund that ticked along at 5% growth. At the age of 35, after having done the $3,000/year program for 15 years, Kerry took a break from saving and left her money to grow.

The very year Kerry stopped saving, Johnny started his own program. He contributed $3,000 per year in the same equity fund as Kerry. Encouraged by its 5% annual growth, he contributed $3,000 every year until he was 65.

As luck would have it, Kerry and Johnny's high school held a reunion for the graduating class that had turned 65 years of age. After several glasses of punch, the old acquaintances had run out of stories about their grandchildren and their own physical ailments and turned to discussing their portfolios. Kerry described her strategy of starting at age 20 and stopping at age 35; Johnny was amazed at the coincidence of that year – age 35, marking the year he had started investing. And he was surprised that he outlasted Kerry in his persistence at saving: he had kept his program going for 30 years.

"You're not going to believe this," he said. "That meagre $3,000 a year is now $209,282." Kerry stared into her glass of punch and reflected on the passage of time. A song that was popular in their graduation year echoed through the bannered gymnasium over the din of conversation. Finally, she spoke. "Johnny, your persistence paid off, and I'm impressed that you've saved so consistently over the last 30 years. But get this: because I started earlier, my $3,000 a year, for just 15 years, is now worth $293,771. I've got nearly $85,000 more than you."

As the two seniors took the stage, having been crowned King and Queen at the reunion, members of the crowd observed that Johnny appeared to have a tear in his eye. They assumed that he was overcome with the mixed emotions of catching up with long-lost friends. But alas, it was the embarrassment and self-loathing he felt at having been bested by a wealthy Saver. The moral of the story: never attend a high school reunion. Actually there are two morals. 1) If you can start early, it is worthwhile. 2) If you can't, it still pays to save. Johnny's portfolio of $209,282 is nothing to sneeze at.

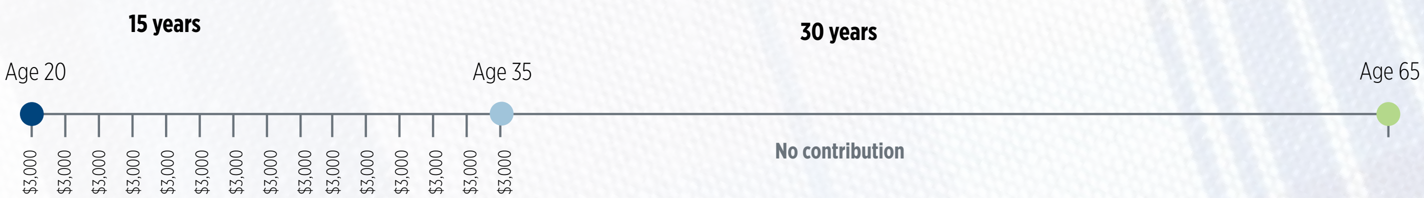
The wealthy Saver portfolio

The wealthy Saver portfolio

Starting at 20, invested $3,000 annually for 15 years.

Total invested: $45,000

At 65, value is $293,771.



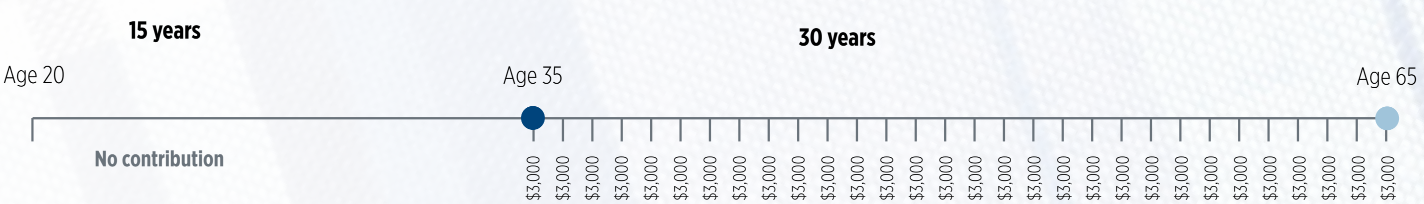
The persistent Johnny Popular portfolio

Starting at 35 and contributed $3,000 for 30 years.

Total invested: $90,000

At 65, it has grown to $209,282.

Both compounded at 5% annually



Investing: How to get started

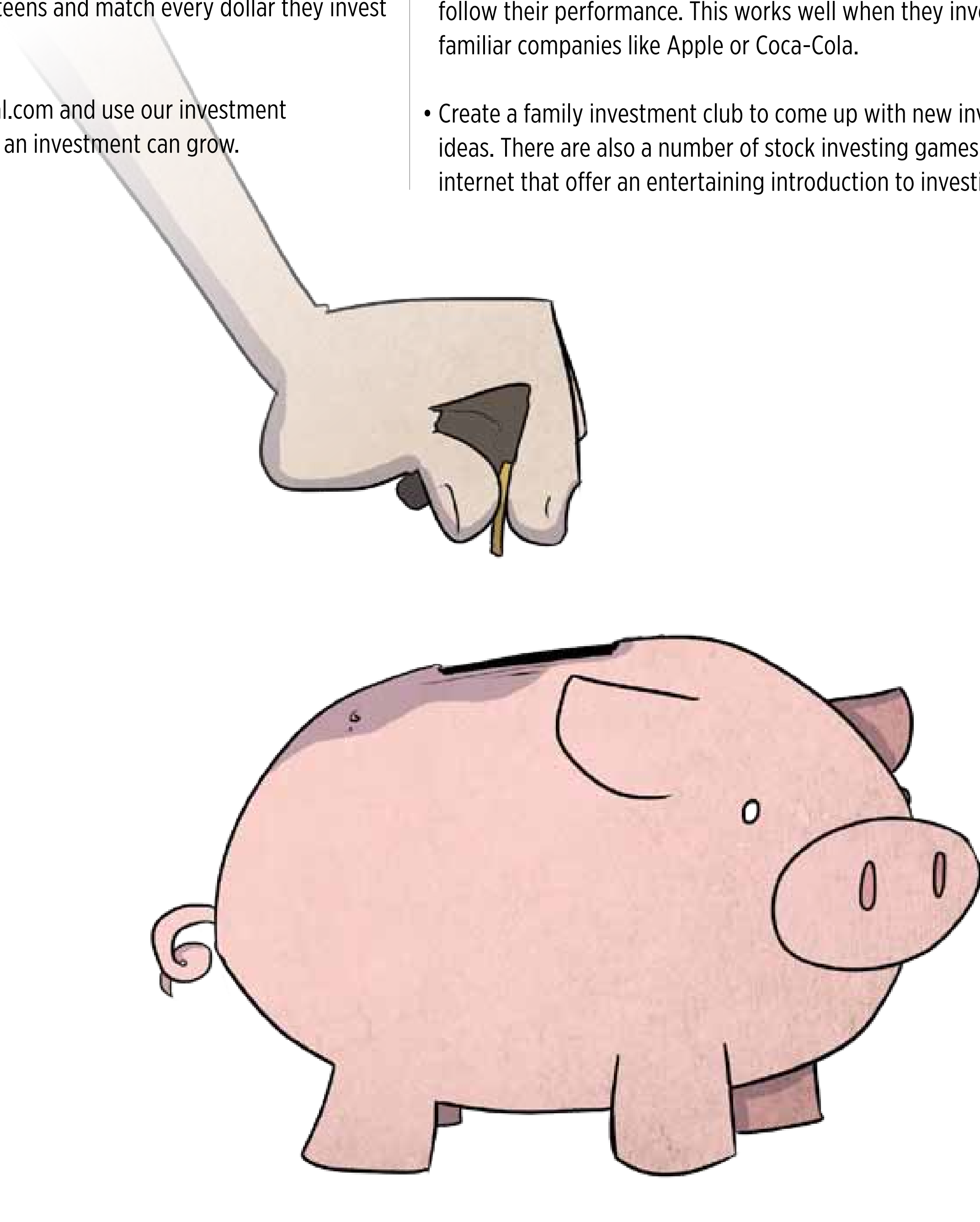
Did you know that 36% of teens earn more than $2,500 a year? Starting an investing plan with your teen can be a great way to get them on the right path financially.

- The best way to learn about investing is to do it. Open a mutual fund account with your teens and match every dollar they invest with one of your own.

- Go to mackenziefinancial.com and use our investment calculators to show how an investment can grow.

- Let them experiment with a mock portfolio of several stocks and follow their performance. This works well when they invest in familiar companies like Apple or Coca-Cola.

- Create a family investment club to come up with new investment ideas. There are also a number of stock investing games on the internet that offer an entertaining introduction to investing.



The Plastic Trap

If there is one thing that sets today's teens apart from previous generations, it's their use of credit cards. College students on average have at least one credit card carrying a $3,000 debt, and companies are eager for young people to start borrowing with cards held jointly with their parents. So before the debts start mounting, it's important to discuss credit management with your teens. Give your teens a head start by selecting a credit card with a very low limit. Then go over the monthly statements with them so they understand interest rates and the consequences of carrying a balance.

Have them prepay the card with money from allowances or jobs. This will help them realize it's their own money they're spending. You can also teach them to fear the credit card debt trap by going online with them and using a debt calculator to see how quickly the balance grows when only the minimum is paid.

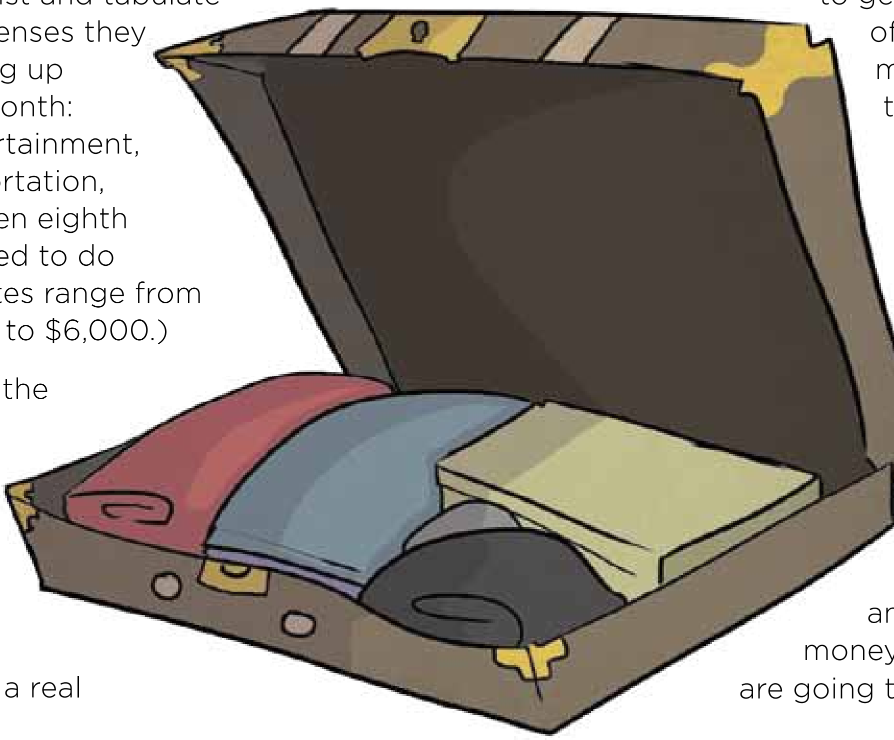
Here's another tip: To help teens understand the connection between cash and credit and how one affects the other, make sure they are the ones paying the monthly balance.

Should you bail out your teens?
If they get overextended, pay it, but deduct the amount from any future money you'll be giving them. It's better to help them take responsibility for a $1,000 debt now than $10,000 later on.

The suitcase drill

There's a very useful exercise given to eighth-graders as part of Junior Achievement's Economics for Staying in School course: Ask your teenager to imagine that they are leaving home to live on their own. Their challenge is to list and tabulate the various expenses they foresee cropping up over the next month: rent, food, entertainment, utilities, transportation, and so on. (When eighth graders are asked to do this, the estimates range from $1,500 a month to $6,000.)

For part two of the exercise, the students are shown a paycheque for two weeks' work at an entry-level job. It's modeled on a real pay statement, with gross pay, then various deductions for tax, CPP and so on. Students then must reconcile their expenses with their income. They have to (horrors!) make sacrifices. Instead of that snappy bachelor pad, they have to get roommates. Instead of a dozen restaurant meals, they are limited to a couple.



It can be a great benefit for late teens to perform this dress rehearsal. And you have all the resources at your fingertips to make this exercise real. Show them your monthly bills; pay them over the internet together and explain what money is left and what you are going to use it for.

Budgeting basics

- Develop a spending plan or budget by listing all their sources of regular income, including allowances and part-time jobs, and subtracting their expenses.
- Go over their budget with them at the end of every month. If their expenses are greater than their income, suggest ways they can cut back or earn more money.
- Encourage them to think through spending decisions rather than buying items right away. Show how comparing prices or waiting for an item to go on sale can save them money.
- Have your teens keep a record of their earnings and purchases by using the Mackenzie Weekly Spending Tracker (available at the back of this booklet), and sit down together at the end of the week to ensure they are saving money.

To what end?

Part of being a teenager is falling into the usual teen traps and figuring your way out of them.

But let's face it, thrift is not the dominant cultural value in North America. People are encouraged by advertising to live for today. Buy more stuff. Accept only the best. And don't worry about debt. As a teen, the make-believe world created by advertisers seems perfectly reasonable.

As a parent, you will be going against the cultural grain when you attempt to review the realities of saving and spending with your teens. But, with some honest discussion, perhaps you will help them stay out of the debt trap and move in the direction of their own dreams.

Software

Budgeting/money management programs like Quicken are designed to help you stay on top of your finances, and they are well integrated with online banking services. Some teens become proficient at these programs and, with access to their chequing and savings accounts online, can monitor transactions and budget.

WEEKLY TRACKER

GENERAL INQUIRIES

For all of your general inquiries and account information please call:

ENGLISH	1-800-387-0614 416-922-3217
BILINGUAL	1-800-387-0615
ASIAN INVESTOR SERVICES	1-888-465-1668
TTY	1-855-325-7030 416-922-4186
FAX	1-866-766-6623 416-922-5660
E-MAIL	service@mackenziefinancial.com
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Find fund and account information online through Mackenzie's secure InvestorAccess.
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