

Teaching your child about personal finances

The average child is exposed to more than one million ads by the time he or she reaches the age of 21. The pressure to consume and spend is intense, so it is important for children to learn basic money management skills. They can then grow up with an understanding of the consequences of living beyond their means.

Starting the journey towards financial literacy and responsibility begins at a young age. As soon as children can count, you can introduce them to the concept and purpose of money. Practice basic arithmetic using real money. Play cashier and have your child learn to give you change.

Consider these tips when teaching financial responsibility to your child:

- **Don't give kids everything they ask for** and don't feel guilty about it. It is vital that children learn not to make impulse buys and instead save for what they really want and need. As reported in The Stanford Marshmallow Study, self-discipline and the ability to delay immediate gratification can lead to long-term goal achievement and lifelong success. Kids who are able to resist instant gratification tend to have more successful marriages, higher incomes, greater career satisfaction, better health and more fulfilling lives than most of the population.
- **Open a savings account.** Take your children to your bank or credit union and have them open up their own savings account. Every time they deposit birthday money or part of their allowance, they'll see their savings grow. Let them withdraw money to purchase something they've been saving for. Not allowing them to withdraw money might deter them from further saving. Allowing older children to withdraw small amounts via an Automatic Teller Machine (ATM) can also demonstrate the impact of bank charges!
- **Give an allowance.** Give money in denominations that encourage saving. If the amount is \$5, give one dollar bills and encourage your child to save at least one.
- **Teach them about debt.** A great way to get children and teens to understand how credit and overall debt works is by lending them money for a special purchase. First explain how it works – that you will lend them a certain amount but you will also charge them interest at a specified percentage. After they repay the loan from their allowance or savings account, let them compare how much they originally borrowed versus how much they actually paid.
- **Alert older kids to the risks of credit cards.** College and university students are often offered credit cards by financial institutions and if they're not good money managers, this can lead them into debt. Consider using one of your paid-up credit cards to purchase something expensive your teenager wants. Every time the monthly credit card bill comes, share it with your teen so he or she can see the impact of high interest rates and have him or her pay you the minimum required. Do this every month until the purchase is paid off. Of course, if they want to pay off the balance once the lesson has been learned, that's okay too!
- **Involve your child in buying decisions.** For example, you have \$10. You can buy two boxes of your child's favorite cereal or three boxes of the one that's on sale. Ask your child which is the better option.

- **Let kids earn extra money.** Give your kids the opportunity to earn extra cash by washing the car, weeding the garden or shoveling snow. Understanding that earning money involves hard work will make them less likely to spend it recklessly.
- **Let them make mistakes.** You don't get financially savvy kids if you do everything for them. Let them set their own goals and make their own mistakes. Be firm though. If your children spend all of their allowance on candy, don't give them more money – or buy anything for them – until their next allowance. They'll soon learn to manage their money more responsibly.

Holiday budget tips for you and your kids

The holiday season can be tough on children and adults alike. Toy manufacturers and retail outlets start their advertising campaigns early, and kids are increasingly bombarded with dozens of advertisements for the latest and greatest toys or gadgets they “absolutely *must* have”. Kids then begin their own campaigns with their parents. “Everyone will have this...” or “I’ll die if I don’t have that....” or the tried and tested, “Please, please, please, please.”

While most parents will assess their children’s requests and buy wisely and appropriately, they too can fall prey to the pressures of the season. According to the American Research Inc., Americans spend, on average, more than \$800 each on gifts alone every holiday season. That’s not a problem if we’ve budgeted for our purchases. Unfortunately, most of us don’t. The average American consumer needs to add about \$64 a month to his or her regular credit card payment to clear this year’s holiday debt in time for next year’s Christmas.

However, with a little planning, we don’t have to start the New Year in debt. We can also use the season to teach our children some worthwhile financial lessons. For example:

- **Make a list.** List each person/family member you need to buy gifts for. Next to each name write the maximum amount you’re willing to spend. Have your child do the same for his friends and siblings. If your list is too long, consider:
 - Asking family and friends if they’d like to draw names and give one gift per person.
 - Asking friends if you can both just buy for each other’s children.
 - Buying family, rather than individual, gifts.
- **Set a holiday budget.** Look at how much you can spend this year without having to rely on credit. Include expenses such as gift wrapping, entertaining and charitable donations. Have your child do the same for their friends and siblings.
- **Set expectations with children.** Younger children often have unrealistic expectations. Let them know how much you intend to spend this year and what they can expect.
- **Give homemade gifts.** Make gifts for teachers, friends, co-workers and neighbors. Bake cookies, knit sweaters, or make them gift baskets. Your children will enjoy helping, while learning that you don’t have to spend a lot of money to show your love and appreciation.

Looking for additional support? Your Employee Assistance Program (EAP) can help through a variety of resources. Call your EAP at **1 866 468-9461** or visit shepell.com.

- **Use cash whenever possible.** Only use a credit card if you know you can pay it off right away. If shopping with children, stop buying when your money runs out.
- **Allow time for comparison shopping.** With your child, shop around to get the best price. Make it a fun learning experience by having your child keep notes on what store charges for each item, then deciding where the best bargain can be found.
- **Take the “I” out of the holiday season.** A great way to teach small children social responsibility (and the true meaning of the holidays) and allow older kids to explore different causes, is to make a family donation to a charity. Ask your children what charity they would like the family to “adopt” and why. Then have everybody give a certain amount to the cause.

Planning for the New Year

Reduce financial stress next year by planning now. Put a small amount into a savings account every week – even \$5 a week will result in a tidy sum of about \$250 come next December. Put \$25 a week away and you’ll have \$1,300 by the time the holidays roll around again.

Encourage your children to save a percentage of their weekly allowance. The exercise will establish a lifetime habit of saving.

It’s also a good idea to shop for gifts throughout the year. This way you take advantage of great sales and avoid the holiday rush! If you need more financial advice, your Employee Assistance Program (EAP) is there to help. There are many ways to make the holiday season less stressful and more enjoyable!

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