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## Financial Education for Your Teen

By Janine Purves, CFP, CPCA

As a parent, I had a very emotional weekend...filled with hope and trepidation. I just dropped my oldest daughter off at university.

She is ready, but I'm not so sure the rest of the family is...we will miss her. I could share the many emotions that go through your head, but I'll spare you. The real issue is many parents go through this, and wonder, have we prepared them for the real world, have we really taught them what they need to know. At this point we can only hope....

I've helped many families go through this, but dealing with it yourself always adds a new perspective. Here are some steps to consider to ensure they are financially responsible when they embark on their own. I'm going to stick to the financial aspects as that's my area...

1. Contribution and savings! University is expensive. While we know it's an investment in their future and some post-secondary education is a necessity to get any job these days, the child must also buy in. There's something to be said about ensuring they contribute something. If they contribute, and get involved in setting the budget for costs and ensuring there is sufficient funding, they are less likely to take that cost for granted. Have them participate in how it will get paid. This is a subjective area as people have different beliefs and are in a very different position to pay for this. However, ensuring they are involved and recognize that they are a part of this decision helps them to recognize some responsibility. Even if the child's contribution is finding grant money available, they need to recognize it's not a handout. Student loans are an important part of budgeting as so many kids graduate with some type of loan. It's important for them to understand the impact and tie this into the budget.
2. Teach them how to budget. The one benefit of allowances is it forces the child to manage their own expenses and recognize that there is a finite amount of funds. When they run out, that's it. We each learned that with our first paycheck. The earlier they get that lesson the better. Do not be the never-ending bank machine. This is easily done by having them set up a bank account, writing a cheque, and teaching them to balance it.
3. Establish a few rules for spending and force them to put away a solid amount. Have 10-20% of each paycheck put into a savings place. Also, often they can save more if they recognize that they are accountable. This is easily taught by asking them what they want to do with the money as most will have an objective such as a new I-pod or a laptop. Also, get them to save for future planning, not just "stuff for today". This mindset needs to be taught over time. It's often the unknowns that throw off the budget, so sharing experience with the family budget can help them understand. We all have a year where we thought we had to cut back because some unexpected expenses occurred.

4. Teach them how to use a credit card properly. While we are a debt-ridden society, credit cards are a great invention as long as they are used properly. They allow you access to cash without having to carry it. It's a little harder to get a junior a credit card, but at 18 they can apply if they are a full-time student. Using it for a few low cost items and ensuring it is paid in full before the due date will help to build a solid credit rating. It also ensures there is access to additional cash for emergencies, should it be needed. Having said this, I also recognize that credit cards can be the bane of the budget as we are tempted to spend what we do not have. This lesson must be learned early. Also, recognize your money habits and avoid the traps that can get you in trouble. If credit cards are your challenge, then avoid them.
5. Good interest vs. Bad interest. This is one of the most important lessons as it will impact everything else if it gets out of hand. The first way to learn this lesson is by paying your credit card late, even 1 day. Explaining how everything becomes a loan from the date of purchase if you don't pay it in full usually helps to ensure the cards are used correctly. Make the student calculate the cost of missing the full payment 1 month. This will help it to sink in that they should pay it on time.
6. Prepare a tax return. When the student has worked, it's time for them to recognize that taxes are due. Everybody should know the basics of preparing a tax return, so walk him/her through this exercise. Usually, they get money back, which becomes the motivator to do it. But also, it allows them to build up RRSP contribution room that will provide tax breaks for later.
7. Have them budget for a larger expense, such as driving, or purchasing a car. Either way, there is insurance, gas, and possibly a car payment. They need to understand all the costs of ownership, and accountability. By having them pay for their own gas, they will be more responsible when considering the actual costs of going out.
8. Be accountable. The first time away from home it's okay to have fun, but ensure it doesn't get in the way of the real reason you're there, learning and education. Granted, education is learned beyond the classroom, but we hope the core of learning starts with the program they are taking and the exposure that it gives them.
9. Watch for other opportunities, volunteer work, education or work opportunities within the industry in which you're interested. This will help later when they are really pursuing a job.

In closing, to help you ensure your child is on the right path to financial independence, check out some great websites.

[www.financialplanningweek.ca](http://www.financialplanningweek.ca) has many resources. [www.getsmarteraboutmoney.ca](http://www.getsmarteraboutmoney.ca) also have many articles about financial education.

If we can breed financially literate kids, we can help make our society a better place for the future. Let's all do our part!

Money is only a tool. It will take you where you wish, but it will not replace you as the driver. - Ayn Rand

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