

# Sound Advice

## HOW TO TEACH

# Financial Literacy to Our Children

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Every autumn marks a return to school with the promise of a new beginning. I bet you can easily recall your own experience of returning to classes in grade school. I always liked school, but truthfully I was usually more excited about what games I could play at recess than I was sitting through a math or history class. I am also very certain I never attended any classes discussing how to manage the money that I made delivering newspapers. I most likely spent it on movies and popcorn!

For several years, I volunteered together with four other financial advisors, to read 100+ essays that were submitted in a competition for ten scholarships that were funded and then awarded by a national investment firm. The students who wrote the best essays described how they viewed money and investments and were the ones who won the scholarships. Reading all these essays opened my eyes to the challenges that families and their children face when trying to understand the concept of smart behaviour of earning, spending, saving and in-

vesting money. It was at this point that I remembered how one family addressed this challenge.

Some years ago I attended a presentation in New York City given by a woman who worked in the commercial banking sector. Her presentation had both an initial and lasting effect on me. You might guess that my first response was that she was a woman presenter, something that in the 1990's was a rarity in a male-dominated world of finance. Yes, that was but a small part of the reason that I have remembered this presentation, but more so because her talk was so impressive. So here's what I heard in New York.

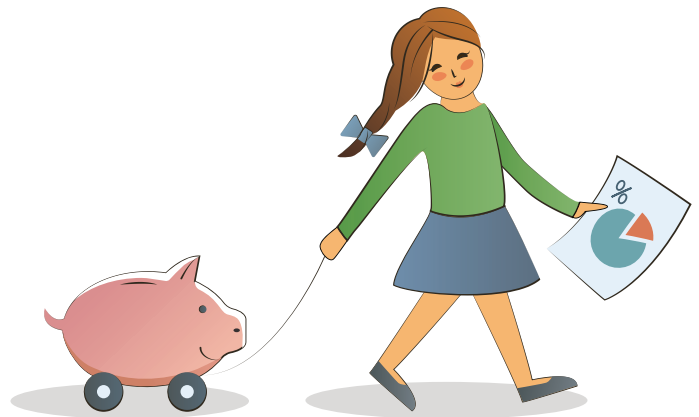
The presenter had spent several years working for a major New York bank. She had risen quickly through the ranks to become a Vice President of this large bank when suddenly she made a life-changing decision and altered her career path. She left the bank to raise her family of three children. During her years of working in the banking world, and dealing with people's lending and borrowing needs, she often marveled at how basic financial education was so lacking by so much of the general public. She also commented on the fact that this financial deficit **was not confined** to people with modest educational backgrounds. The lack of basic financial spending habits was just as prevalent in all the professions. She recognized that the concept of saving money was a disappearing behaviour and that borrowing was becoming more and more prevalent. She often encountered this phenomenon as it was her job to discuss loan application approvals with clients earning significant annual incomes. Often her clients simply did not have any appreciation of the concept of saving money and wanted to access more credit, more loans or a mortgage. She realized something was missing. She had decided that she could and would do something to change the situation, especially with her own family.

## Here's what she did.

Upon returning home, she and her husband set about to put a plan in place. She recognized that unless she could teach and mentor her own children about basic behaviours toward money, they would easily end up in the same situation as the customers whose loan applications were being declined by her bank. Recognizing that her children had a relatively short time span left to learn about the value of money, she devised a solution for teaching her children how to earn and save money. **Here was her formula.**

It began with each of her children having a job that was appropriate to their age, such as feeding the dog, washing the dishes, putting away toys and clothing, and yard work. If they completed these jobs each week, they received a specific amount of money. If they didn't complete their jobs, the amount of their allowance was significantly reduced. The format was as follows.

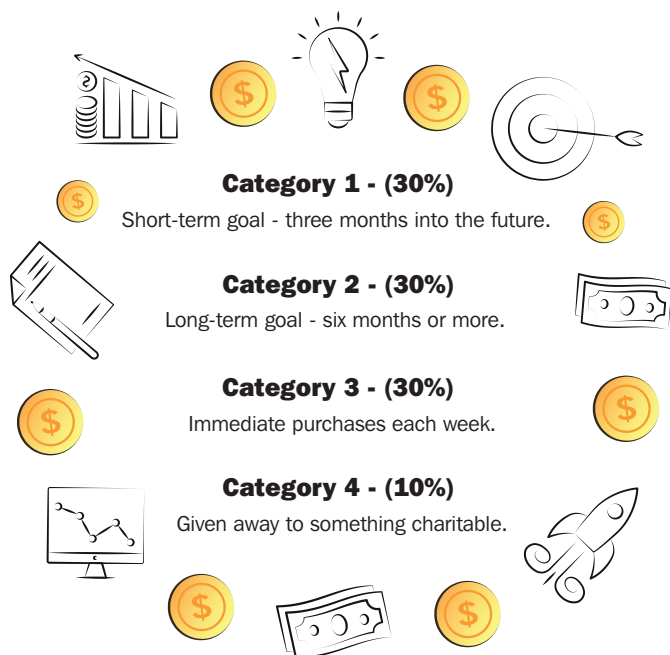
Each week her children would divide the money they earned and received into four categories. The first three categories represented 30% each and the last category 10% for a total of 100% of their total earnings. Category 1 (30%) was for a short-term goal, three months into the future. Category 2 (30%) was to be saved for a long-term goal, six months or more. The 30% in Category 3 could be spent on immediate purchases each week. The last category represented 10% of their allowance to be saved and ultimately to be given away to a charity, which each child could choose.



What she had created was a short-term, mid-term and long-term savings habit. Even though most of the money would eventually be spent, this arrangement created an appreciation for the opportunity to be able to earn money, spend money and to share some with those less fortunate.

I grasped the beauty of this simple but effective system of this woman's plan to motivate her children to an understanding of how to set short-term and long-term goals, and that also produced a sense of gratitude and also an appreciation of the less fortunate. She permitted them to spend portions of their money, but the key was delaying the need for immediate gratification.

The best part, however, was that her system was self-monitoring and self-motivating. It was based on actual activities that would ultimately become good habits. It was not simply an intellectual exercise based on a formula for saving money. My last observation is that **it is not what we know** that produces results, but rather **what we do with what we know** that drives success. Financial literacy is an important part of anybody's education, but it is not the only thing that ensures financial success. It is the actual doing that produces results.



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