INSIDE

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FINANCIAL MATTERS AFFECTING YOUR LIFESTYLE

TEACHING KIDS ABOUT CASH

Many valuable lessons are learned throughout life. One of the most important to pass on to kids is about the value of money. But how do you do it?

Most parents and grandparents would likely feel they do a fairly good job of teaching kids the value of money. But there might be better ways to do so. Here is what the experts have to say.

Mathematics, not money

A Professor at Harvard Business School, Shawn Cole, made headlines[1] when he released the results of a study around the relationship between financial education and financial behaviour. In a nutshell, there was no relationship. When financial education increased in schools, the resulting financial behaviour of those students in adulthood did not change. But students required to take additional mathematics courses ended up better at managing credit, had higher equity in their homes and earned a greater percentage of income from investments. Mathematical skills, Cole reasoned, give people the ability to make sensible, balanced decisions rather than those based on emotion.

Explain the real cost

Clinical psychologist Dr Elizabeth Kilbey, in a recent interview with The Guardian,[2] said the cost of a product should be explained in clear terms that make sense to the child. So if they want an expensive toy, explain exactly how many days you would have to work to pay for it. And don't say you can't afford it, as this creates a feeling of being out of control when it comes to money, leading to uncertainty and anxiety around the topic.

Let children learn from mistakes

We allow children to fall off bikes in order to learn to ride, so why don't we let them make money mistakes, Kilbey asks. Allow children some of their own money and let them do what they wish with it. This way, when they experience the negative consequences of a bad decision it may lead to smarter decisions next time.

Make it a lifelong education

A 2015 study at the University of Colorado's Centre for Research on Consumer Financial Decision Making[3] revealed that financial literacy and other financial education interventions are responsible for just 0.1% of the eventual variance in financial behaviours. This is partly because financial education decays over time. So don't assume that several sessions of intensive financial training will be all that a child needs. Constant learning (particularly mathematics –, behavioural modelling by parents, open and honest discussions about everything to do with money, and personal experience with money are all ingredients of long-term success.

1 http://www.wsj.com/articles/the-smart-way-to-teach-childrenabout- money-1422849602
2 http://www.theguardian.com/money/2014/nov/10/tips-teach-childmoney-matters
3 http://www.colorado.edu/leeds/2015/06/02/financial-literacyfinancial- education-and-downstream-financial-behaviours

Use a clear container for saving.

Piggy banks are cute, but a clear container allows kids to actually see the savings grow as the jar fills. When they deposit money into the jar discuss how much they added and congratulate them on adding to their savings. Keep your own jar close by and put extra change in it. Children are natural imitators and will want to keep putting money in their jar!

Establishing a savings plan

Successfully building wealth is a commitment you make to yourself. The best place to start could be to establish a savings plan. The key to successful savings isn't having lots of money, it is consistency and discipline. Successful savers don't rely on staying motivated – instead they devise a system to keep their savings plan on track, no matter what.
May people have their savings deducted directly from their salary and sent to a separate account. If this isn't possible, consider setting up an automatic transfer from your everyday bank account to your savings account. Schedule it to occur the same day your salary hits your account, so you are not tempted to spend it.

How much you decide to save will depend on your personal goals. Many financial specialists suggest 10% of your income (after tax and superannuation contributions) is a good place to start. If this seems like a lot, think about how much money slips through your fingers every week without you even noticing. For example, consider your daily $3 cup of coffee. Day by day it seems like loose change, but in a year all hose coffees cost around $1,000.

Ways to reduce debt

There are a number of ways to reduce debt, depending on your personal circumstances. Some useful debt management strategies are shown below.

Pay off non-tax deductible debt first
Interest payments on debt used to purchase assets that produce income, such as a loan for an investment property, are generally tax deductible. On the other hand, interest payments on debt such as your home mortgage, credit card or car loan are generally not tax deductible.

If you have both deductible and non-deductible debt, reducing the non-deductible debt first should minimise the after tax cost of your interest payments. For example you may choose to make interest only payments on any deductible debt while you pay off the non-deductible debt as fast as possible.

Don't borrow to fund depreciating assets
Avoid going into debt to pay for depreciating items, such as cars. You will probably end up paying a lot more than you intended, so before you buy you should consider the total cost of the purchase, including interest repayments.

Pay off high interest credit cards
Interest charged on credit cards is usually high, so try to pay the balance of any credit card in full every month. If you have more than one card, review them and consider cancelling them, find the most cost effective care that suits your needs. Watch out for low interest balance transfers as they can have a sting in their tail and many providers introduce much higher interest rates after the promotional period.

Always plan for the unexpected
When setting your budget or working out if you can afford a new purchase, check if your debt is manageable nu allowing for interest rate increases. This builds in a margin to cushion the effect of any increases. You should always allow a buffer for emergencies such as car repairs or a new fridge.

Ways your adviser can help

- We understand your financial position and can provide advice on how you can grow your portfolio.
- We have the experience in building effective savings strategies that help maximise your income and minimise your tax.
- We are able to implement regular savings plans to help you stay on track in meeting your lifestyle goals whether that is overseas travel, renovations or a holiday home.

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