Dear Mom and Dad: Part I

By Steven Mayo, June 2017

"Please teach me, please talk to me about important financial topics that I should know about".

Financial literacy is becoming a big issue with high school and college/university students and young adults generally. Exposing your children to these crucial skills early is a lasting gift that parents can provide. Too often I recall my own children not fully comprehending the financial language we adults deal with daily, and didn't fully appreciate the significance of my explanations.

As a starting point, I've created two lists of topics that parents can refer to while educating their kids; the first for teenagers, and the other for young adults.

High School age...or earlier if you and they are ready:

1. Savings vs. Spending, and budgeting.
2. Needs vs. wants
3. Operating a bank account...and yes, they may still need to know how to write a cheque.
4. Protecting your identity, email fraud/phishing.
5. The cost of their cell phone (if applicable...they all seem to have one).
6. The cost of a car (if applicable) Eg insurance, gas, maintenance etc.
7. Liability and what it means as it relates to driving, and their actions in general.

Young adults, age 18+...or earlier if they are ready:

1. Understanding the responsibilities at age 18, the legal age of majority. Eg their ability to enter into a contract and what that means.
2. Credit Cards, their purpose, how to build credit and manage it responsibly. How they can hurt their credit and how that will affect them in the future.
3. What is a lease?
4. What is renters insurance?
5. Shredding important documents.
6. Online banking/computer privacy, and reiterate the risk and implications for phishing scams.
7. Income taxes, what they're based on, why they pay, how they pay, and deadlines.
8. Mortgages, Life Insurance, and if they've been successful in this learning, a Tax Free Savings Account.

There are so many topics, a young person could easily be overwhelmed. However, shielding them from these responsibilities is not helpful in the long run. Financial competency is a marathon, not a sprint.

High school curriculums have embraced enhanced education on this topic which can be a great help to parents. The newly announced Ontario Financial Literacy Program will cover four modules beginning in Grade 10: Financial Literacy, Entrepreneurship/Skills, Digital Literacy, and Career Life/Planning.

Kids do want to learn these skills, but may not know what to ask. It's up to the parents to open up the conversation and provide their kids with the day to day financial skills they require. When you do, I'm sure you will hear the most satisfying words from your children: "You're smarter than I thought, tell me more!"

Quote: Someone's sitting in the shade today because someone planted a tree a longtime ago. ~ Warren Buffet

Steven Mayo is a Vice President, Investment Advisor with RBC Dominion Securities Inc. (Member–Canadian Investor Protection Fund). This article is not intended as nor does it constitute investment advice. Readers should consult a qualified professional before taking any action based on information in this article.

Dear Mom and Dad: Part 2

By Steven Mayo, September 2017

Back to school! Financial Literacy is now becoming a required life skill.

Part one of this article provided two lists of specific topics to discuss with teenagers and then young adults. This article touches on the big picture...the initial steps and discussions required to get you started.

Within Canada, the Millennial demographic – loosely defined as those between the ages of 15 and 35 – includes approximately 9.5 million individuals, approximately 27 percent of the total population. This group has become the largest percentage of the workforce, and will also receive much of the wealth transfer in coming years/decades. It is important to zero in on the value of practical financial management skills and overall financial literacy. These following tips provide useful information and strategies within five key aspects to help Millennials build confidence and knowledge when it comes to planning and managing their financial affairs.

1. **Identify short and long-term financial goals**
   This can be an overwhelming task, but what's important to recognize is that the process is a good starting point to map out concrete plans for reaching those goals.
2. **Creating a structured savings & spending plan**
   Once your goals have been determined and recorded, it is crucial to understand the value and importance of developing a savings plan and a spending plan. A good starting point is to direct 3-10 percent of your paycheque to a savings program, to be reviewed and modified when appropriate, as your income increases. The spending plan then provides a method for self-checks prior to making purchases...impulse/unplanned purchases can easily derail you achieving your goals.
3. **Understanding debt and using it responsibly**
   Not all debt is created equal, so individuals need to know the type of debt they are incurring and the interest rates associated with it. Credit cards typically have the highest interest rates and should be prioritized to pay down first.
4. **Develop a basic knowledge of investment options**
   This relates to the creation of a savings plan. Individuals need to be aware of the different types of plans/accounts and the benefits of each. The two main options to examine are Tax Free Savings Accounts (TFSA) and Registered Retirement Savings Plans (RRSP).
5. **Make Financial Literacy a priority**
   Build and continue to improve your overall knowledge about financial topics. Research has shown there is a direct connection between high levels of financial literacy and confidence in financial decision-making. Formal programs and/or self-directed education is beneficial. The informal learning that may occur when there is open communication, and exposure to financial management through family discussion may also prove to be a valuable resource.

   The expertise of a qualified advisor may be the last piece needed to complete this financial literacy circle.

Quote: There is no elevator to success, you have to take the stairs. ~ *Zig Ziglar, American author, salesman, and motivational speaker.*

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Dear Mom & Dad: Part 3

By Steven Mayo, January 2018

Today's message to parents: Transfer knowledge before wealth.

In my previous "Dear Mom & Dad" articles I was encouraging parents to teach teens/young adults about budgeting, banking, cheque writing, legal issues when they turn 18 years of age, and so on. Quite frankly, money and stress go hand in hand, but I recommend parents pass on knowledge before wealth so that your children are allowed time to develop an understanding of their future financial responsibilities, so they are not intimidated about the decisions that will face them.

In a recent report by Price Waterhouse Coopers entitled "Millennials Don't Seek Financial Help", millennials are described as a 'high impact generation with the ability to influence the national and global economy in new and significant ways.' However, the report also touches on the challenges millennials face when it comes to financial literacy.

The top eight challenges include limited financial knowledge, unhappiness with their current financial situation,, worry about student loans, debt that intersect economically and educationally, being financially fragile, being heavy users of Alternative Financial Services (Eg. payday loans, cash advances, etc.), sacrificing retirement accounts, and not seeking professional help.

Financial stress is actually ranked the highest stress for many Canadians. So, parents must also have their financial house in order, and hopefully be better able to pass on good habits to the next generation. Stress reduction often begins with a financial plan and the plan often starts with "spend less and save more". This can be a big hurdle for many families, for which I have great empathy, but this basic discipline has to be recurring.

Millennials in this report listed a number of fears. As such, when they do seek an advisor, it is the advisor's responsibility to discuss financial topics in a manner that addresses their fears.

When surveyed, the top three characteristics millennials look for in an advisor include:
1. Ability to provide personalized advice,
2. Knowledge and experience, and
3. High level of service and ongoing communication.

Hopefully, a team approach with parents and advisors can be of benefit. It rests upon the parents to encourage discussion and questions. We all need to keep our financial knowledge on track and we need to equip the next generation by building their confidence and preparedness.

The benefit down the road is that our kids can assist us in our old age! That should be sufficient incentive for those in their 40's, 50's, and 60's.

Quote: The good life is one inspired by love and guided by knowledge. ~ *Bertrand Russell*

Dear Mom and Dad: Part 4

By Steven Mayo, March 2018

In my previous "Dear Mom and Dad" article, my message for parents was to pass on knowledge before wealth. As part of life-long financial learning there is also the need to execute important items along the way. If you are able to complete one or two per year (and continue to update) then you, as parents, are leaving a manageable legacy for your children.

1. **Make sure your Will and Power of Attorney documents are up to date.**

   Approximately half of Canadians do not have a Will. Furthermore, many are often outdated and do not reflect their current wishes or family situation. Concurrently you should ensure you update your Power of Attorney documents (Personal Care and Property) as there is a higher probability of becoming incapacitated than dying, and you must ensure you have proper/responsible representation in this event.

2. **Review your Life and Disability Insurance.**

   Simply ask yourself, "If I were to pass away or become disabled, will my family have adequate assets and income to maintain their standard of living"? If you don't know the answer ask a licensed Insurance Representative to do an analysis to determine if you are underinsured and by how much. Also consider the fact that life insurance is one of the few remaining tax shelters in Canada, for individuals and corporations.

3. **Review asset ownership structures and beneficiary designations.**

   Make a list of every asset/account you own, and how you own it (eg. individually, jointly, or through a corporation or trust), and where applicable, who is named as the beneficiary. This information must be in harmony with bequests made in your Will to ensure your intentions are carried out at the time of your passing. This list should be kept in a safe place, and include the contact information of your Advisors, for your Power of Attorney or Executor to reference.

4. **A Swedish Death Cleanse.**

   Not a joke, this is a thing! In Sweden, when you hit your 50's, you begin the process of having "less stuff" and decluttering your life, with the sole goal of leaving less burden on your children. Your children will love you for this! Passing on memorabilia, or keepsakes to family members while you are still alive, allows everyone to better appreciate and understand family history.

Quote: All good men and women must take responsibility to create legacies that will take the next generation to a level we could only imagine. ~ *Jim Rohn*

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Dear Mom & Dad – Part 5

By Steven Mayo, May 2018

Dear Mom & Dad, I can't afford you!

Parents want to be generous with their children but there is a reality that I'm exposed to each year, either personally or through clients' experiences.

The reality is that people are living longer, and that cost of living is increasing. In my personal experience, my Dad lived to age 90, and my Mom to age 84. They both required retirement home and nursing home care. Thankfully their assets could support their needs and they were not dependent on their children financially for their care. In addition, when they became unable it was our responsibility to handle their finances and personal care decisions using Power of Attorney documents. Children do need to "step up " when the time comes.

When your parents need additional care, you can only hope the nest egg that has been saved will last them 10+ years, from age 80-90+, depending on their circumstances, when expenses can be their highest.

A real life example:
$4400/month Retirement Home
$500/month Enhanced Care in the Retirement Home
$1200/month Additional Home Care Services (approx. 12 hours/week)

I'm sure you can do the math. To live in a nice retirement home costs money. To have the finances available requires planning over a long period of time. As a result, I remind my clients to consider these possibilities before they give money to their children in their early retirement years. Will the funds remaining be able to support them in an environment they are accustomed to, should they require more care for longer? The alternative is not appealing.

It's a shame we have to think this much. In the "old" days, people made it to ages 68, 72, or maybe 80, and then passed away after a brief illness. With the advances in medicine comes longer life expectancies, longer than we may have intended.

Enjoy your family and plan for age 90+.

Today's article is in honour of my oldest client, Edyth, who just passed away at age 105, and her very caring and wonderful son Peter.

Quote: Intelligence is the ability to adapt to change. ~ *Stephen Hawking*