HOLM TRUTHS

Down to earth advice for savers and investors from independent investment commentator Mary Holm

SPRING 2005

Kids, cash and cards

There's more than one way to skin a cat. The same applies to teaching children about money.

Some people, indeed, say they learnt their best financial lessons from watching their parents do it all wrong!

This article, then, is not going to tell you what you should do, but rather to pass on ideas that have worked well for others. Choose and modify the suggestions that make sense for you.

Pocket money

Experts suggest you start giving pocket money when your child can start to appreciate the value of money, perhaps when he or she starts school.

Give it weekly, on the same day each week, so the child can count on receiving it.

How much? That depends largely on what the money is expected to cover.

Discuss with your child what he or she is going to spend the money on, and what seems a reasonable weekly amount for each type of expenditure. If the child makes a list of items, this can also help him or her to budget.

BE FAIR

Children care greatly about being treated equally.

Try to make sure each child gets the same pocket money, clothes allowance and so on at the same age.

What about inflation? In these times of low inflation, you may not think it's worth the bother of giving your second child more than your first child at the same age, because two years have passed.

In any case, it's quite possible that prices haven't actually gone up on the products they buy.

But if there's a ten-year gap, to be fair you should give the second child about 20% more than the first.

As a rough rule of thumb, allow 2% per year.

Include some "other" spending, to give the child some discretion. And don't expect the child to pay any school-related expenses. You want to be sure those bills are paid, so you should pay them yourself!

Children's needs and wants will change over time. Negotiate increases with them at the start of each year – which helps them learn negotiation skills.

Also include adequate money for regular savings. More on that in a minute.

Should a child be expected to do tasks for their pocket money?

Some experts say "No". A child should get pocket money simply because they are a member of the family. Pocket money, they say, is a learning tool, not a privilege.

That's not to say children shouldn't be expected to contribute to the running of the household. But they should probably do those chores as part of the family "team", not because they will get paid for them.

It's a question of what principles and values you want to communicate.

Working for extra money

Over and above regular chores, if your child wants to do extra paid tasks to boost their income, that's fine.

Try to treat the child a bit like a valued employee. And don't forget the importance of positive feedback – even if the job isn't done to your usual standards!

(CONTINUED PAGE 2)

(KIDS, CASH AND CARDS, CONTINUED)

Older children may also want to take on a part-time job.

If they do, let them spend their pay as they want – even if you think they are frittering it or wasting it. It's better if they learn young about unwise spending.

Saving

Encourage your child to always be saving for a goal – something they really want, rather than something you would like them to have.

A short-term goal is good, especially when they are young. There's nothing like success to encourage further saving.

Buy a young child a lovely bright piggy bank for savings, and every now and then go with them to deposit the money in a bank account.

When they are older, perhaps make an agreement with them that a portion of their pocket money is transferred directly from your bank account to their savings account.

Some parents boost the savings by contributing 50c or a dollar for every dollar the child saves.

You might want to put a chart on the child's bedroom wall, showing how their savings are growing.

Gifts within the family

Let children learn the joy of giving from a young age. Help each child to shop for – or make – small gifts for family members.

A clothes budget

If you give a pre-teen or teenager a budget from which to buy non-necessary clothes and shoes, they will learn how to set priorities, and what happens if they blow all their money on one item.

Bonus: You won't be under constant pressure to buy heaps of designer label items.

Debit and credit cards

Some parents are nervous about their teenagers using these cards irresponsibly.

Clearly, you will have to set rules, and confiscate the cards for a while if the rules are broken.

But surely it's better for them to make their mistakes while you are there to give them guidance.

Borrowing

Consider charging interest on small loans you make to your children, so they understand the concept.

Let them in on the action

Explain to them what you are doing when you check your bank statement. (You do check it, don't you?!)

You might point out how the money you took out of an ATM or via EFTPOS the other week has been deducted from your bank balance – so the child realises it's not free money.

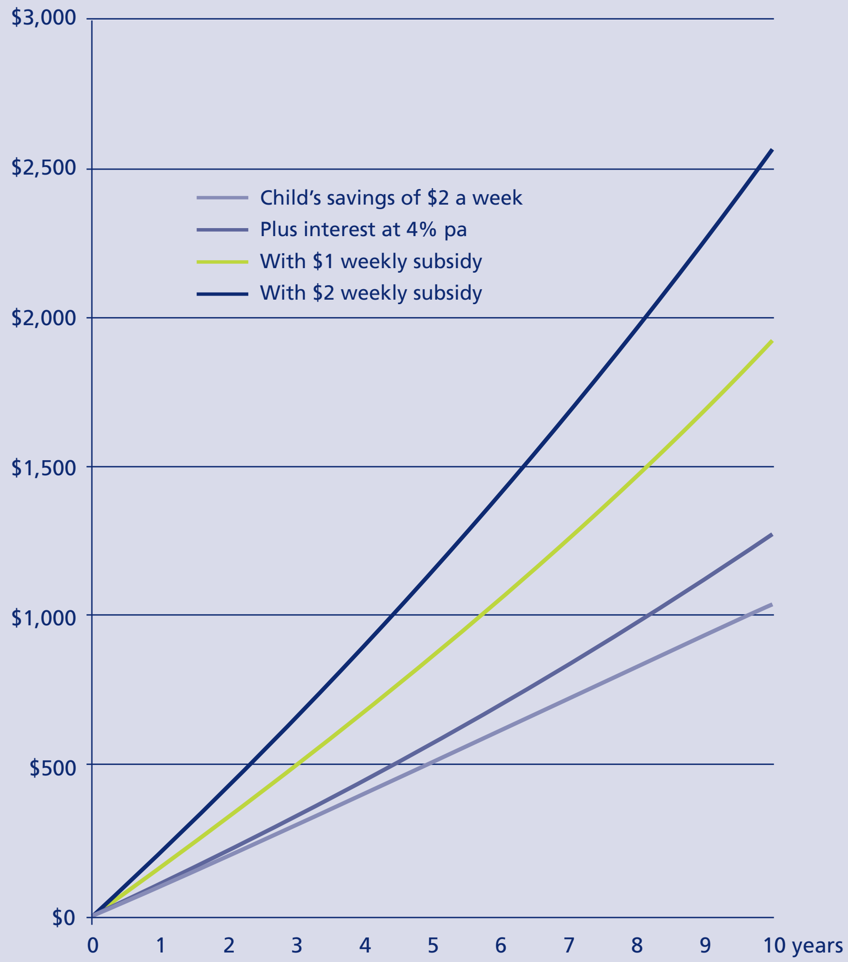
Similarly, you might sometimes show your child how an item you bought for them on a credit card has turned up on a statement and must soon be paid for.

You might also discuss with an older child the merits of paying off a credit card in full every month – so they get that message before they have their own card.

Show them how you do research and shop around before making major purchases, and explain the advantage of shopping in sales.

When Can The Kids Do What? Page 4.

HELPING YOUR CHILD'S SAVINGS GROW



Encouragement

If you subsidise your child's savings, perhaps by contributing half as much as they put in, or by matching their savings dollar for dollar, the total will grow much faster.

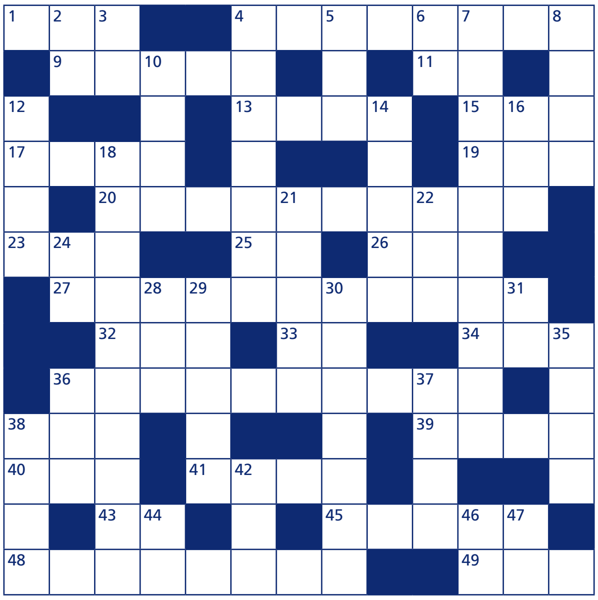
A HELPFUL WEBSITE

The Retirement Commission's website, www.sorted.org.nz, is not just for us old fogies saving for our retirement.

The Kids & Money section has lots of games for different age groups that teach children about money.

It also includes a useful section for parents, covering such topics as key financial concepts for children, how much pocket money you might give them, and what the games on the site will teach them.

> ***"The easiest way for your children to learn about money is for you not to have any."***
> Katharine Whitehorn



Solution: Back page

HOLM TRUTHS CROSSWORD SPRING 2005

ACROSS

1. _ _ _ and flow (3)
4. Extinct reptile (8)
9. Prickly plants (5)
11. For example (initials) (2)
13. Ooze (4)
15. A grain (3)
17. Self-satisfied (4)
19. Snakelike fish (3)
20. Eating toes (anagram) (10)
23. Pixie (3)
25. NZ's "mainland" (initials) (2)
26. _ _ _ de plume (3)
27. Children's pay (6,5)
32. Fish eggs (3)
33. Big US city (initials) (2)
34. Mesh (3)
36. Post-work years (10)
38. Past tense of "is" (3)
39. Continent (4)
40. To be in debt (3)
41. Extinct NZ bird (4)
43. Printer's measure (2)
45. Acquire knowledge (5)
48. Bosses (8)
49. Eternity (3)

DOWN

2. Before year 0 (initials) (2)
3. Arts degree (initials) (2)
4. Get rid of (7)
5. Born (3)
6. Compass point (initials) (2)
7. Treaties, pacts (10)
8. Fishing gear (4)
10. Animal enclosure (4)
12. Island (4)
14. Musical instrument (5)
16. Not no (3)
18. One free sun (anagram) (10)
21. Name (5)
22. Old measure of weight (3)
24. Long-playing record (initials) (2)
28. Toddler's bed (3)
29. 1960s NZ PM's first name (5)
30. Milk-feeding animals (7)
31. The (archaic) (2)
35. Type of wood (4)
36. Not cooked (3)
37. US space programme (initials) (4)
38. Soil-dwelling invertebrate (4)
42. Utilise (3)
44. Mum (2)
46. About (2)
47. Opposite to 16 down (2)

From the Mailbox

Dear Mary:

I am 35 years old, employed, and I have two daughters aged 7 and 11.

I own a mortgage-free home. I also have $45,000 to invest for my daughters' future, which I currently have sitting in the bank.

I really need to make this grow but I am unsure of where to start.

I am not sure how long I want that money tied up for – I guess it depends on what sort of growth I can get from it. I would only want to tie up the least amount for 10 years (although in saying that, it would depend on the return/low risk etc.)

If the girls wish to further their education, most definitely I would need it available for that.

Dear Reader:

I suggest you aim to have the money available for the girls when they are 18 to 20, but maintain some flexibility should you need it earlier.

If they don't want to get into tertiary education at that stage, you can always extend your investments.

That means we've got about 11 to 13 years to play with for one girl, and 7 to 9 years for the other.

I presume you'll want to give the two girls the same amount. If the younger one is studying four years later, aim for her total to be about 8% more, to allow for inflation.

Where should you invest the money?

If you still had a mortgage, you would be best to use the money to repay the mortgage faster than necessary – after arranging with the lender that you could take it out again when the girls need it.

> ✉ **Consider saving for your children via repaying your mortgage.**
>
> ✉ **Shares are risky in some ways, but you can reduce the risk.**
>
> ✉ **Including bonds reduces short-term volatiliy.**

By doing that, you would be reducing your total interest payments. So the $45,000 would, in effect, be earning whatever the mortgage interest rate is [dash] a pretty handsome return [dash] and it's all risk-free.

What's more, repaying debt gives a family more security in case something untoward happens, such as sickness or unemployment.

One way to give the girls the return on the mortgage repayment would be to regularly pay into a special account whatever interest you would otherwise have had to pay on the $45,000.

Whenever the account total became sizeable, you could move the money into term deposits or bonds that matured when you expect the girls will need the money.

In your case, though, you no longer have a mortgage, and good on you! So we need to explore alternatives.

It's a good idea to start by putting $5,000 aside for unforeseen expenses. Put, say, $2,500 in a three-month bank term deposit and the other $2,500 in a six-month deposit.

When the first lot matures, roll it over for six months. Then continue rolling both over for six months whenever they mature.

That way, you will never be more than three months away from getting $2,500 plus accumulating interest whenever you need it. Arranging for rolling maturities like this is called laddering.

Don't be tempted by finance company term deposits, which pay higher interest. They are riskier, and you don't sound like somebody who likes to take risks with your money.

What about the other $40,000? I suggest you put $25,000 in share funds and $15,000 in bonds.

Investing in several different types of assets means the value of your total portfolio won't be as volatile. If shares have a bad spell, the bonds will still be giving you a positive return.

But aren't shares risky? Yes and no. Shares are definitely more volatile over the short term, but they provide protection against inflation over the long term. *(CONTINUED PAGE 4)*

WHEN CAN THE KIDS DO WHAT?

Some banks will open a savings account in a child's name from birth, although there's considerable parental involvement. Other banks will open an account at 12 or 13.

For term deposits, the situation is similar, a survey of major banks shows.

Children can have a cheque account as young as 11, or a debit card as young as 10 – again with parental involvement – depending on the bank. And most allow teens to use online banking.

Some banks will give a credit card to a 15 or 16-year-old, as long as their parent is the main cardholder on the account and is responsible for all debts.

At 18 – the age from which a contract can be enforced – a young person can get their own credit card account.

Most banks charge low or no fees on children's accounts. Check the interest rates, though. Sometimes they are lower than on some adult accounts, and your child may be better off using an account under your name despite the higher fees.

Special features for children include free money boxes, passbooks to keep track of savings, and websites that include games for children.

And, for older offspring, several banks have specific products for tertiary students or those taking their first job.

Offerings – and the ages to which they apply – vary widely. You may want to check out not only what your own bank will do for your children, but also what competitors will do.

What about shares?

Children can own shares in their own name, but the contract must be signed by their parent or guardian and all instructions must come from that adult, say stockbrokers. At 18, the parental involvement can end.

***(FROM THE MAILBOX,** CONTINUED)*

Also, by investing in funds that spread your money over lots of companies, you greatly reduce your risk. While some shares will perform badly, others will almost certainly do well.

And you can reduce risk even more if you promise yourself that you will leave the money in the share funds for at least 8 or 9 years, with the bulk of it staying there for more than 10 years.

I can promise you there will be times, during those years, when the value of your investment drops sharply. That's the nature of share investments.

But if you remember your promise, and stay in for the long haul, you will almost certainly end up with more than if you kept to lower risk investments. That's also the nature of shares.

You can further diversify, to reduce risk, by putting some of your money in an international share fund and some in a New Zealand fund. Half and half is a good idea.

If you have access to a super scheme at work, that will probably include share funds that charge lower fees than usual. If not, look for a low-fee fund. A good sharebroker or financial adviser can help you with that.

The story is similar with bonds. These are rather like term deposits, in that they pay regular interest and mature on a certain date.

They are somewhat riskier than term deposits, but if you stick to high-quality bonds – again, a broker or adviser can help you choose – you should be fine.

Just in case the highly unexpected happens, spread your money across say three $5,000 bonds. Or, if you have access to a low-fee bond fund, you could use that.

If you go with individual bonds, you might want to "ladder" the maturity dates in much the same way as with the term deposits.

"A boy becomes a man when he stops asking his father for money and requests a loan." Anonymous

Holm Truths Crossword Solution

E	B	B			D	I	N	O	S	A	U	R
	C	A	C	T	I		E		E	G		E
I			A		S	E	E	P		R	Y	E
S	M	U	G		P			I		E	E	L
L		N	E	G	O	T	I	A	T	E	S	
E	L	F			S	I		N	O	M		
	P	O	C	K	E	T	M	O	N	E	Y	
		R	O	E		L	A			N	E	T
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R		E	M		S		L	E	A	R	N	
M	A	N	A	G	E	R	S			E	O	N

You're welcome to send questions to From the Mailbox. Email them to maryh@pl.net, or mail them to P.O. Box 8520, Symonds Street, Auckland. Please include your phone number. Unfortunately, Mary can't answer all questions in Holm Truths, and cannot correspond directly with readers.

WRITER AND PUBLISHER

Award-winning journalist Mary Holm writes the *Money* column for the NZ Herald and *The Investor* column in the Waikato Times, Dominion Post, Christchurch Press, Otago Daily Times and other major newspapers. She runs seminars, and is the author of *Investing Made Simple* (Penguin, $27.95, at good bookstores) and *Snakes & Ladders – A guide to risk for savers and investors* and *The REAL Story – Saving and investing now that inflation is under control* (both published by the Reserve Bank. They can be downloaded from www.rbnz.govt.nz. Click on publications.). Mary holds a BA in economic history, MA in journalism and MBA in finance.

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