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Financial literacy for your family: Where to start

More than ever, financial literacy has become critical knowledge for Canadians from all walks of life. The ongoing COVID-19 pandemic has prompted many planning discussions surrounding financial security, investment management, income taxes, retirement and estates. In light of these issues, many families are concerned about a transfer of wealth to the next generation and the latter's ability to manage and protect the wealth that was built by the previous generation. In addition, families are also engaging in risk planning and risk-mitigation activities and are concerned with how to protect their family and their own mortality.

Gluskin Sheff is dedicated to enhancing our clients' lives through meaningful wealth management, of which financial literacy is a core component. We hope the following guidance will assist you in recognizing the importance of financial literacy and how your family's well-being can improve with some focus on these foundational principles.

Why is financial literacy so important?

Our experience in this area has shown many families who embrace financial literacy as a core value can realize the following benefits:

DOOMSDAY SCENARIO

In many households, one spouse often takes control of all financial affairs (the "financial spouse") and the other spouse and family members may have little or no participation in that regard. This may be problematic in the event of a premature death of the "financial spouse". This "doomsday scenario" also holds true for single-parent households and the surviving members of the family.

If the widowed spouse and family members had little or no involvement in the management of financial affairs, they will likely experience significant difficulty in administering an estate, managing investments or having a sense of comfort over their financial security.

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Having family members involved in financial affairs can help better prepare for the worst-case scenario. Family members who are involved will be armed with knowledge of who the family's professional advisors are, what the deceased's estate plan is and may also be better equipped to manage their own finances.

COHESION

Dissimilarities in financial management can often play a significant factor in creating or expanding rifts between spouses and may contribute to marital discord or even breakdown. By improving financial literacy of all family members and having a consensus on financial decisions, the family's overall relationships and cohesion may be improved.

WEALTH TRANSFER

The saying "shirtsleeves to shirtsleeves in three generations" refers to the concern that wealth created by one family generation (grandparents) and passed onto future generations may be squandered by the third generation (grandchildren) due to inconsistent family values and a lack of financial literacy and stewardship.

By addressing the financial literacy of the next generation, parents may be reassured their wealth will not be mismanaged after their death.

We have included some suggested activities below that can be used to improve the financial literacy of all members of your household.

HOST A FAMILY FINANCIAL MEETING

A family financial meeting can be a great way to bring your family members together to openly discuss financial matters in a safe space. The goal of this meeting is to ensure the family is working towards common goals and teaching financial management to the younger generation. It's also advisable to engage professional advisors in the conversation, capitalizing on their expertise to help guide the discussion and facilitate knowledge transfer through their real-world experiences.

It is up to you to decide how frequent a family financial meeting should be (e.g., annually, biannually or quarterly). In establishing an agenda, it's important to ensure all family members are able to provide their input without fear of reprisal.

The following is a list of suggested topics to include on a family financial meeting agenda:

- Discuss what the family's short-term and long-term goals are. This allows the family to define what financial success means for each member.
- Preparing a Net Worth Statement will allow you and your family to have a complete understanding of what assets you own and what you owe to your creditors. In each subsequent family financial meeting, an updated Net Worth Statement will allow you to see how your net worth has changed and if any corrective steps are needed.

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- Compiling a Summary of Income and Expenses can be helpful in budgeting for your projected expenses for the coming year and how much you anticipate to save. You should also consider planning for large expenses such as a new car, renovation projects, post-secondary education and travelling.
- Have family members share their recent positive and negative experiences involving finances. Positive experiences, such as paying down higher-interest debt or accelerating savings, can be celebrated and reinforced with your family members. On the other hand, negative experiences can be used as a learning opportunity for the family.
- Major life events, such as a change in employment, a severe illness or disability and retirement can have a significant impact on your financial affairs. The impact of any major life change should be addressed in a family financial meeting to revisit the family's goals and determine if any additional steps are needed.

PREPARE A BUDGET

A household budget can be a very useful tool to ensure you will have sufficient financial resources to fund your household spending needs and savings goals. Having your family members discuss a household budget will give them valuable insight on what steps need to be taken to achieve financial success.

The first step in creating a budget requires compiling your income from employment, investments, government benefits, pensions and other sources. Next, you would compile your expenses by category such as housing, clothing, leisure, telecommunications, travel, etc. The estimated cash flow surplus or deficit should be reviewed in the context of meeting your goals and objectives.

We recommend reviewing and revising your budget on a regular basis to ensure that any changes to your personal situation are accounted for. As an example, your budget should take into account higher expenses (e.g., a child commencing post-secondary education) or higher income resulting from a change in your employment.

INTRODUCE YOUR PROFESSIONAL ADVISORS

Each of your professional advisors can play an integral role in educating your family in their respective specialties. As an example, your investment professionals can explain how your investment asset allocation is linked to your goals and objectives.

It is strongly recommended you engage professional advisors as the following areas of practice are introduced to your family so they understand each individual's needs. Your professional advisors may include:

- Wealth planners and financial advisors
- Private bankers
- Business partners
- Tax advisors and/or accountants
- Legal counsel
- Insurance advisors
- Banking advisors
- Family office professionals

DISCUSS YOUR ESTATE PLANNING INTENTIONS

Many families are beginning to take a proactive approach to estate planning by discussing their estate intentions with their family while they are alive. This approach can minimize frustration and negative emotions after the death of the older generation with the goal of ensuring family harmony for years to come.

An estate planning meeting can be used to discuss the proposed distribution of your assets among your beneficiaries. At this time, you may explain unequal distributions of assets (e.g., a beneficiary with special needs may require significant financial assistance for the duration of their lives) and who would receive significant assets, such as a cottage property or valuable personal effects. It may be prudent to involve your professional advisors so they understand your estate intentions and can assist your beneficiaries in building and preserving the wealth they have inherited.

This meeting can also be used to instruct your appointed executors and attorneys for property and personal care what is required of them in those roles.

HAVE A COMPREHENSIVE WEALTH PLAN PREPARED

A comprehensive wealth plan prepared by a third-party professional can be an excellent tool to learn about the family's goals and how your professional advisors will work together to achieve them.

The findings and analysis from a comprehensive wealth plan can be used to assess your progress toward meeting your goals, discover new strategies to minimize income taxes and kickstart discussions on your estate planning. A comprehensive wealth plan may also include a summary of action items you can review with your professional advisors to help you meet your goals.

Your plan should be reviewed every few years and updated when your circumstances change or major life events occur. Each iteration allows you to continually measure your progress toward meeting your goals.

EDUCATE CHILDREN AT AN EARLY AGE

Teaching financial literacy and good financial habits to young children helps to improve their self-confidence and financial management skills for when they are older. To teach young children and young adults about financial literacy, the following activities can be used to help reinforce good financial habits:

- There are teaching moments all throughout your day that can be used to explain why you made a financial decision and to solicit their input. Everyday teaching moments can include withdrawing cash from your financial institution, paying for groceries or fundraising for school events. As your children grow older, you can expand the teaching moments to include reading about current events and reviewing investment statements for their Registered Education Savings Plans or other investment accounts.
- It is never too early to open a bank account for your young children. With your assistance, a youth bank account can be a good starting point in teaching a child how to manage their finances, such as recording income from allowances and gifts.

- Providing children with a set allowance can help them learn how to spend within their means. When discussing the amount of the allowance, you can use this moment to differentiate between needs and wants and have the child prepare a budget. It is important to emphasize the three primary ways that money can be used: saving for your future, spending on needs and wants and gifting to charitable causes that are important to them.
- As your children reach the pre-teen and teenage years, you can provide guidance as they accumulate part-time earnings and how it can be saved for post-secondary education or prudently spend on entertainment and telecommunications. This is a critical juncture at which to explain the importance of saving for a rainy day and managing credit to avoid high interest costs.
- When you have established an investment account for the benefit of a child (e.g., Registered Education Savings Plan) you can explain to the child the features of this account and how it benefits them in the future. As the investment accounts grow in value over time, you can explain the benefits of investment compounding.
- When your child turns 18 years of age, they can open a Tax-Free Savings Account and contribute up to the full contribution limit for that year. The Tax-Free Savings Account can be an excellent opportunity to teach your child about the basics of investing and asset allocation.

There is no one-size-fits-all approach to teaching financial literacy to children as every family's circumstances are unique. However, our experience has shown having financial education commence at an early age, and maintaining that dialogue as the child grows, can help achieve the best results for you and your family.

Should you wish to discuss how to address financial literacy in your household, please speak to your Client Wealth Management team representative to schedule a consultation with the Wealth Planning team.