Building good saving and investing habits in the next generation

As society develops, our living standard enhances. Times may change, but one thing unchanged is the parents' care for the growth and development of their children. According to the survey of Visa in 2019, Hong Kong parents worry about their child's financial management capability and are willing to provide financial support to them. Chart 1 shows the top financial items that parents are most willing to pay for their children.

Items that parent respondents are willing to pay for	Percentage
Postgraduate studies	42%
Down payment for housing property	37%
Purchase of housing property	28%

Do you consider the same? Paving the way for your child; yes, that is what parents do. Nonetheless, every financial decision made in the family may affect other financial arrangements, it is crucial to examine the consequences of each decision.

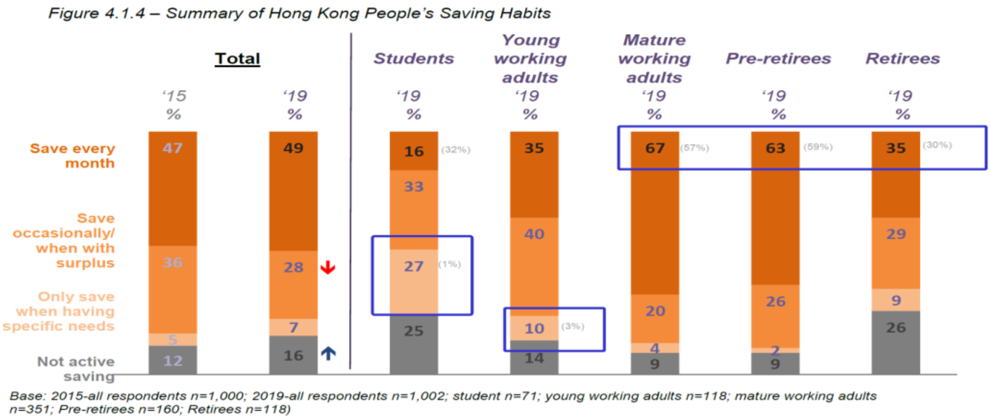
Written and data source: The Money Coach, Mr. Alvin Lam

Over the ten years, I have been providing financial planning and consultation services to hundreds of individuals or families. And I have just come to a case of a couple, who both are secondary school teachers with a household monthly income of around HK$130,000. They live with their son, soon turning 30, and are worried about him not planning for his future. The worrying parents therefore suggested bankrolling their son the down payment of the housing property so that he can live independently and get ready for his own family. You may think the child will not reject the support, but their son thought otherwise. He doubted that he could repay his monthly mortgage on time even with the down payment support from his parents. And why should he bother to live by himself when his parents take every care of him at home? He rejected his parents' offer and decided to maintain the current living style without extra burdens. His parents were sad but could do nothing about it.

This is indeed a serious family issue that every parent should not avoid. According to a survey also by Visa, during 2018, 6 in 10 Hong Kong teenagers were 'Moonlight clan', spending each and every penny without savings. The phenomenon shows that some people have an issue of financial mismanagement during their young age. Will they manage their finances better after entering the workforce?

In the Financial Literacy Monitor 2019 issued by the Investor and Financial Education Council, among the young working adults being interviewed, approximately only 1 out of 3 respondents have monthly saving habits. Young adults' financial management behaviours have been worrying.

Sources: IFEC Financial Literacy Monitor 2019



Sources: IFEC Financial Literacy Monitor 2019

As we now realise the lack of financial habits and knowledge in the young generation, the issue should be addressed and we should act now when time allows, for the child is at young age. Otherwise, parents are going to keep worrying. Or worse, they have to take care of their child even after adulthood, who might likely become the wearying NEET.

NEET (Not in Education, Employment, or Training) refers to a group of young adults who finished school with the capability to earn their own livings, but they choose to stay at home, being unemployed or being their parents' dependent. As the situation goes on, it is harder for them to change due to the lack of motivation and self-care skills. Inevitably, they might become their old parents' burden meanwhile also have to deal with the pressure from society. Hence parents should seize your time now and have the issue resolved before it is too late. Delayed problem-solving is merely a forced remedy and the result cannot be satisfactory.

Children at different stages should have differing savings and investment concepts. For those who are still in secondary school, or even younger, parents can teach them about managing their pocket money and other non-recurring gains like packet money and money from the elders. I often use the strategy of CASE to illustrate four directions of savings, which comprises the first letters of four words.

Strategy of CASE	
Charity	Do charity; to learn the importance of contributing to society
Accumulation	Learn to set long-term goals and accumulate wealth to achieve them; may consider endowment insurance plans and other relatively aggressive financial products
Savings	Learn delayed spending by setting medium-term savings plan; may consider a 10-year savings plan
Entertainment	Save money for entertainment spendings; mainly to learn about expense management

The fund allocation on the four sectors can be flexible but you cannot focus on Entertainment. It is also feasible to allocate the money evenly. For young adults who have had part-time jobs since university, or those who have started working with stable income, may consider the following budgeting rules:

1) **50:30:20 Rule** - Divide the after-tax income into 3 portions: 50% on Needs, which means necessary expenses like housing, clothing, groceries and transportation; 30% on Wants like entertainment expenses; and the remaining 20% on savings or investments.

2) **70:20:10 Rule** - Consider using not more than 70% of after-tax income on daily expenses; 20% on savings or investments; the remaining 10% on donations for social responsibility.

3) However the budgeting, ensure to keep three to six months of savings as an emergency fund, adding reasonably valued life insurance, medical insurance and critical illness insurance. After deducting the amount, apply the 100 Rule for investments.

4) **100 Rule** - Divide the investable funds into two: the percentage of 100 minus your age is the portion of capital investable in the relatively aggressive assets, whilst the percentage of your age number is the capital ratio to invest in conservative financial tools, possible assets include bonds, annuity, endowment insurance plan, etc.

Parents are a child's best and most important inspirer. When you ask your child to build good habits of savings and investments, be a role model and practise what you preach. As long as the family strives together, a worry-free financial future awaits you all.

Written and data source: The Money Coach, Mr. Alvin Lam