This teen is thinking about retirement…sort of

Mississauga teen Andrew Georgescu, works as a hockey referee and at an accounting firm.

Colin McConnell/Toronto Star

By Suzanne Wintrob | Thu Feb 16 2012

Andrew Georgescu is a busy guy. The 16-year-old is an A-student at Mississauga's Lorne Park Secondary School and an active member of the school's stock market club. When he's not doing homework, Georgescu referees hockey games around town and spends summers as a clerk at a Toronto company that provides tax and accounting services to small businesses. He earns about $5,000 for his efforts, a decent sum for a teenager.

Rather than blowing his hard-earned cash on comic books and girls, Georgescu deposits every penny into his savings account. His parents give him spending money for movies and dates, allowing him to save for his favourite big-ticket items.

As he doesn’t yet invest in stocks or mutual funds and isn’t ready to open an RRSP, he’s content to spend about $1,000 a year on technology and hockey tickets and feels great that he can afford them.

“I don’t think about retirement, but I do think about going to university, and the money I’m going to have there,” says Georgescu.

“Paying tuition for university is a financial burden on any family. I want to make sure that I can provide for myself and buy nice things when I want nice things.”

Georgescu seems to be on the path to retiring in style. Learning how to save from an early age contributes to a healthier and more satisfying life, experts say.

“[Teenagers] should make savings an important part of their lifestyle when they’re young, just like exercise, just like eating well,” says Peter Aceto, president and CEO of ING Direct. “Get in the habit of saving in a systematic way, even if it’s $20 or $30 a week.

“Saving money in that way will add up significantly to the things that they want to buy and add significantly to the quality of life they’ll have when they’re older, when they want to buy things like a home or a car.”

Given Canadian youngsters’ lofty expectations, they have good reason to start saving early.

The BC Securities Commission’s National Report Card on Youth Financial Literacy surveyed 3,000 Canadian high school graduates between 17 and 20 years old.

Respondents expect to earn $90,735 in 10 years, which is roughly three times the average income of 25- to 29-year-olds with post-secondary degrees, according to Statistics Canada.

Almost three-quarters expect to purchase a home within 10 years, a much higher rate than the real rate of home ownership. Although it’s okay to be optimistic, says Patricia Bowles, BCSC’s director of communications and education, it’s not the real world.

“They have great intentions, but the realities are that they’d better learn how to save early,” says Bowles. “They better learn how to distinguish between wants and needs. They better learn how to save enough to buy something and not buy it on credit. … We need to have Canadian youth graduating with different attitudes than my generation has had.”

So, what’s a kid to do? First, they should file a tax return as soon as they get their first, part-time job. No need to worry about paying taxes, because the first $10,000 in earnings is basically tax-free, says Jamie Golombek, managing director, tax and estate planning, CIBC Private Wealth Management.

The tax return creates RRSP contribution room, he explains, and allows the child to make an RRSP contribution at any time in his or her life.

Next, teens should think long-term.

Allan Small, senior investment advisor at DundeeWealth, suggests they take $10, $25 or whatever they can afford, and deposit it monthly in an investment account. Not only will it accumulate over time, but it will become a habit going into adulthood.

Investing is another option, says Small. Mutual funds are a great place to start, because funds, in general, offer different levels of risk, provide diversification, and can be bought easily through monthly instalments. Buying stocks in companies kids like, such as Apple and Starbucks, can be fun because they'll look forward to checking the stock's progress.

At 18 years old, it's time to open a tax-free savings account. Says Golombek: "It's tax-free investment income for life while it's in the account, and the added bonus is that, when you take it out of the TFSA, it's also tax-free, unlike an RRSP."

Georgescu is content to play with his "fake portfolio" of investments until he has bigger bucks to burn. It's a learning experience, he says, and he urges his peers to educate themselves, too.

"Some parents won't buy their kids anything, and for those kids I say, save so you can afford to buy the things that you do," advises Georgescu. "But other kids don't have that problem and maybe are a little better off. They can spend their money, because they're okay.

"To know whether you should save or spend your money, you need to take the time to analyze your financial circumstances as a kid, and see if you can afford to spend money or not."

Looking to get a head start on financial freedom? Here are some tips to get teens thinking smart:

• **1. Start early!** Investing early on allows you to be more aggressive, yield better returns and recover quicker from mistakes, says May Fung, senior manager at BMO Retirement Institute.

• **2. Draw up a budget!** Know what you make and what you spend and set aside a percentage for savings, says John Near, a financial advisor at Sun Life Financial.

• **3. Choose wisely!** What are you saving for? RRSPs and TFSAs have different advantages, says Fung, so learn the difference before signing up.

• **4. Know yourself!** It always feels better to get that new iPhone than to put money away for retirement because it's so far away, says Fung. Set up automatic monthly withdrawals to conquer the urge to spend and hasten savings.

• **5. Prepare for adulthood!** Your tax situation will change down the road, says Near, so "plan that the money we set aside takes best advantage of the Canadian tax rules."

• **6. Have fun!** The reward of retirement is too remote for a young person, says Fung. So if you've been saving dutifully for the year, reward yourself with a nice dinner or a special treat.

• **7. Get help!** Many financial institutions have kid-friendly online tools to explain spending, saving and giving. You can even find a financial advisor online, says Near, and a young one who's into the social media scene will create an instant bond with a teenager.