



Learning how to avoid the debt trap

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ELLEN ROSEMAN

Adam Goodman has a master's degree in business and a good job in financial services.

But he's made mistakes in handling his own money and still lives in his mother's basement.

He hopes to be out by his 30th birthday next month.

"My dad is a successful accountant and my mother has been in finance for as long as I can remember," he says. "My parents just never taught me about the subject of money, nor did I think to ask."

He spent frivolously, having owned six cars by the time he got his first university degree.

Then, he borrowed \$60,000 to pay for his MBA studies and moved to China for two years. He found a job there, but racked up another \$10,000 in consumer debt.

Goodman likes the idea of teaching young people about personal finances in school – as long as they learn why they need to care about their money.

"Sometime in your life, something will change. And if you're not prepared for the unexpected, you can get into trouble," he tells me.

"I never learned why it was important to save money until it was too late. I could have paid my debts faster and not had to move back home."

He tries to help others avoid the same plight in his book, *Following the Goods: Financial Management for the Young and Ambitious*, which he published himself and sells at his website, www.followingthegoods.com.

What if schools started teaching money skills to all students? What would be on the curriculum?

Compound interest is a good place to start, says high school teacher Mike Gentile, who has taught Grade 12 economics.

"Most students are completely shocked to understand how debt functions," he says. "The greatest consternation stems from the basic concept of amortization, where the lender is paid the bulk of the interest costs up front."

He shows students how they can pay up to twice the original amount borrowed if they spread the interest over many years.

The shorter the better when it comes to loan repayments: That one lesson can help them save thousands of dollars once they start buying cars and homes.

Gary Rabbior, president of the Canadian Foundation for Economic Education, has three simple concepts he'd teach youngsters:

- **Opportunity cost.** When you make a decision, take time to consider the next best alternative, both now and in the future.
- **Scarcity.** You can't have everything you want in life. There are finite limits that must be acknowledged.
- **Trade-offs.** Think about what you're giving up when you pick one option over another.

Students can go through school without ever being taught how to make decisions, he says.

They need a rational, step-by-step model to guide their future decisions on working, spending, borrowing, saving and investing.

They also need to consider the impact their decisions have on other people.

Rabbior thinks there's too much focus on preparing budgets in money management courses.

"Almost no one works with a budget. Out of 100 people, maybe three will do it," he says.

"We're pushing people into the details of something they're likely never to use."

It's better to focus on the big picture, he says. Are you saving enough to pay for what you want? Are you taking on more debt than you can handle?

(You can find a free 125-page book, *Money and Youth*, and help for parents and teachers at www.moneyandyouth.cfee.org.)

eroseman@thestar.com

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