

Keys to adulthood need to be earned

The next step First car

Debra Cleveland



When adolescents become adults, one of the biggest boosts to their independence is being able to drive. The downside for many households is the family car becomes a hotly contested commodity.

Should you cave in and buy the young adult in your household their own car? Absolutely not, say many advisers.

Financial services veteran Peter Thornhill, whose Motivated Money business helps investors make informed decisions and whose three sons are in their 30s, calls it "an absolutely stupid idea".

"We are stealing our kids' dreams – think back to all those little goals you kicked when you were young [saving for an overseas trip, a car, a deposit for a first home]," he explains.

"These provide a huge boost and affirmation for [the good money habits] you pick up when you're young. Many kids now have all those sources of pride taken away [via parents giving them too much]."

He cites a recent conversation with a wealthy investor who had bought homes for both his daughters "because he could". Thornhill argues that this – like buying them a car outright – robs our offspring of the chance to "step by step climb the ladder of life". "Many kids can't claim to do this because they're getting so many free kicks from their parents," he says. "By getting them to do it on their own, they can take personal pride and pleasure in what they have achieved."

Adviser Kate McCallum, director of Multiforte Financial Services, advises clients thinking about helping their kids with a vehicle purchase (either outright or via a loan) to have a preliminary money conversation with them.

"Sit down with your kids and work through what it costs to own a car – including who is going to pay for maintenance, petrol, insurance," she says. "These are all interrelated decisions, and I'm not a fan of funding all those things."

Many parents come to a compromise, – saying they're happy either to buy the car or contribute towards the purchase price. But after that, maintenance, petrol and insurance are not their problem.

McCallum argues getting your young adult to save for a car (or at least some of it) teaches them financial discipline and to work out the trade-off between cutting back on other expenses to save for what is a costly (and depreciating) asset.

This is a point reiterated by Arun Abey, co-founder of ipac Securities and author of *How Much is Enough?*. He reckons too much money in the hands of those under 30 is "a weapon of mass destruction".

"I've done a lot of consulting to wealthy families and so many times I see that things that are simply given and not earned are not appreciated and valued."

Like Thornhill, he says the sense of

achievement for a young adult in reaching the goal of saving for a car is all-important. "One of the greatest dangers for parents of some affluence is trying to buy their kids comfort and ease – what it actually does is rob their kids of capability and a sense of achievement."

He says getting young adults either to buy (or make a sizeable contribution to) their first car not only teaches them financial savvy but contributes to their sense of wellbeing. "What we know from psychological reports is the sense of achievement from setting important goals and then reaching them is a very emotional driver of wellbeing. So kids who are given stuff relatively easy – like cars and houses – may reach material comfort earlier but they report lower levels of wellbeing."

For those forced to budget and save, there's a double benefit – financial literacy in working out how much is required as well as postponing gratification and working out what to give up to save for a goal. "Like taking lunch to work or uni or drinking water rather than soft drinks, there are a whole range of expenses which

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Arun Abey, ipac Securities

in hindsight make no difference to your life but help you achieve your goal," Abey says.

A more constructive helping hand, he suggests, could be lending your child, say, \$10,000 to buy a car and stipulating they have to repay \$5000, for example, over the next three years.

Adolescent psychologist Janelle Dean advocates adult kids using the family car instead. And if there are not enough family cars, buy another one. "That way parents maintain some control while the kids contribute to the running costs," she says.

Parents providing a family car for shared use not only support young adults' transition to adulthood in getting to uni or work independently, but gives parent control as to how the car is used. "It's also a potential reward and motivation strategy to encourage behaviours you want to see," says Dean. "Many [young adults] are quite surly and just grunt at their parents and don't want to do anything. Using the car could [be contingent on] them ferrying younger siblings to sports practice or doing some of the shopping."

When they later move out of home and buy their own car, parental help could be in the form of matching their savings.



Help your young adult children set savings goals rather than making things too easy.