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How to help kids face your budget turbulence

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Talk of silver linings can be especially irritating when you're lurching through a treacherous financial storm. But for parents, the turbulent economy – and pressure on household budgets – provides some opportunities.

Not only does it create many teachable moments and life lessons for kids and teens, it's also a reality check for a generation that has wanted for little and been raised in an era of entitlement and overspending.

"In a way this has given parents a bit of oomph in setting limits and expectations," says Jennifer Kolari, family therapist with Connected Parenting in Toronto.

"There's a lot less stigma around saying , `No, we can't afford that.'"

Parents are rediscovering the importance of teaching kids the value of working for things, making wise choices, chipping in and doing without. And children can be surprisingly quick to adapt. As one U.S. expert recently put it: "Frugal is cool."

We asked four experts in financial planning, parenting, credit counselling and retail banking to answer some of the tough questions parents face in an uncertain economy.

What are the main themes to keep in mind regarding kids and family financial stress?

Have a solid grip on your financial picture by designing a realistic budget and backup plan. This will benefit everyone including children, who are quick to pick up on adult worries. "If you are prepared and have an understanding of your situation, you can alleviate a lot of anxiety," says Frank Wiginton, a certified financial planner with TriDelta Financial in Toronto.

Start early. Don't wait until you face a financial crunch to teach kids about managing money. Even 6-year-olds are ready to learn about advertising, comparison shopping and budgeting their $5 allowance. A piggy bank with four slots for spending, saving, investing and donating is a good place to begin.

Avoid sweeping statements like "We can't buy that, we have no money," warns Kolari. Kids take things literally and start stressing about the worst-case-scenario.

You're nervous about your job security and debt. Do you let the kids in on it, or wait until something happens?

Kids know when something's up. Avoiding the issue just fuels their imagination and creates more angst than the truth.

There's a fine line between saying enough to reassure them, but not so much that it will add to their worries.

Stick to generalities for kids under 10, says Wiginton. "You don't need to give them a macroeconomic explanation about why they can't have that new video. Explain that you don't have money for that right now and leave it at that."

Be frank with older kids about the big picture and how it affects the family finances. Avoid putting too much weight on their shoulders, but don't be surprised if they offer to contribute, he adds, even if it's by babysitting siblings or cleaning the house to cut household costs.

"You'd be astounded at the maturity level that can come out of kids when they understand and when they see they can make a difference."

Manisha Burman, director of RBC client strategies, notes that kids cope better when they have time to prepare. So give them warning if you expect lifestyle changes are coming, whether it's forgoing the family vacation or a parent taking on extra work.

Your 9-year-old asks "What happens if you lose your job?" or "Do we have enough money?" Do you tell her not to worry or provide details?

Reassurance is critical. And children feel more secure when parents give them information, says Laurie Campbell, executive director of the Toronto debt counselling agency Credit Canada. Kids need to know the adults have a plan, or are setting money aside for an emergency. Often that's enough. It may also comfort them to know many other families are going through the same thing.

There's nothing wrong with telling kids Mom may start working full-time or "we might be looking for a different house," Burman adds. While it can be unsettling, it demonstrates parents are on top of the situation and prepared to address it.

Wiginton says when kids pose tough questions, find out what prompted them to ask. Sometimes it's headlines or schoolyard chat. But asking them about what they've heard and how they feel about it can pinpoint the root of their worries.

You've lost your job. How do you explain it to the kids?

Calmly outline the facts and what's behind the distressing turn of events. Acknowledge what kids already know – that the situation may be difficult and frightening, says Kolari. And indicate that you're seeking advice and help. Reassure them there are things beyond everyone's control and that obstacles are part of life, but you will find a way to deal with it.

As much as possible, maintain household routines and an open dialogue, says Burman. It's not just what you say that's important in minimizing kids' stress, but other factors such as interaction between parents.

How do you encourage your kids to strive for their dreams, while also being realistic about what you can afford?

Burman says if kids have a goal that requires some investment – buying a car or a university education – encourage them to research what's involved and the different paths to achieving it, including costs, scholarships or loans.

"Rather than it being a yes or no discussion, talk about how."

This helps them come to their own conclusions and make a plan.

Campbell says parents should always encourage commitment and passion in kids and keep in mind that money isn't the only obstacle kids will face. At the same time, families have to be realistic about their financial limits.

Sometimes the message might have to be "You don't have to give up on your dream, you may just have to take a different road," says Kolari.

Is there an appropriate age to share details with the kids about family assets, debts, and how much their parents earn?

"Never tell your kids your income without also telling them your expenses," says Campbell. "Otherwise they'll automatically think you're loaded."

Most younger kids aren't interested in the details, so it makes more sense to keep it general and explain typical salary ranges for different jobs, including in your field.

But Campbell doesn't believe income, assets and liabilities should be a taboo subject in the family, especially for teens, as long as it's put in the context of the entire household budget. Sharing that can be a great teaching tool for teens with part-time jobs or preparing to leave home and who need to learn about money management and the pros and cons of credit.

Wiginton says parents should stress that the most important thing isn't how much you earn, but what you do with it and how much you save.

How and when should kids start contributing to their own expenses?

As soon as they start becoming consumers, whether through downloading songs off iTunes or deciding they want a new videogame. Start by matching their contributions toward a coveted item.

Encourage kids to get part-time jobs by the time they are 14 or 15, says Wiginton. Decide what you will pay for and have them gradually assume responsibility for costs of entertainment and extras.

Campbell says there's nothing wrong with shifting more onus onto them when finances are tight, as long as you make it a learning experience. Offer frequent guidance on everything from choosing the most appropriate bank account to the most cost-effective cellphone plan.

Is it fair to expect children and teens to understand when there's suddenly no cash for sports fees or vacations?

No, don't expect them not to be upset. Kolari says the first step is to listen and acknowledge their disappointment. Then move on to explaining the problem and finally, why they may not get to play rep hockey this year. "The problem is most parents start with the last part."

Kids and teens need to know they aren't the only ones making sacrifices and that "we're all in this together," adds Campbell.

Wiginton notes that if a certain activity is really important to a child's well-being, it may be worth creating some short-term debt. He also suggests inviting kids to help set family priorities. Engaging the whole family in free or low-cost outings such as tobogganing or skating can make up for a lot. "The kids will see it as `we're still doing a bunch of stuff and having fun.'"

"Kids are resilient," adds Burman. "But that's why we suggest starting financial education early – so at least these conversations aren't happening for the first time."

How do you instill gratitude and the notion of giving back while you're busy trying to make ends meet?

Model it by donating what you can afford and volunteering your time. If you've already adopted a system of setting aside a certain portion of monthly income for donations, continue the habit, even if you have to reduce the amount. In tough times charities need help more than ever, notes Burman.

There are many non-financial ways families can contribute together, from volunteering together in a food bank, to helping at community fundraisers or collecting toys and books to donate.

Express gratitude for what you have rather than focusing on what you don't have, and remind kids – without lecturing – that even in challenging times, your family is better off than many. Use the news as a source of discussion and for ideas of where and how you can help.