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## Giving teens credit

### Are prepaid cards and credit cards aimed at the youth market really about conditioning kids to accumulate debt?

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Meet Danny, a typical teen. Except when he first flashes across the TV screen, he's kneeling in a playpen. A caption introduces him as "Recovering Momma's Boy." Seconds later, Danny is in a highchair, protesting, "I'm not a baby, mom!"

Switch to voiceover and Danny sums up his problem: "I really wasn't in control of my life." Enter the MuchMusic Prepaid MasterCard. The baby equipment disappears. Danny, now a big boy, tells us his new card means freedom. Money matters are "as easy as loading it and spending it."

MuchMusic, which joined forces with MasterCard this spring to launch the new payment card aimed at teenagers as young as 13, sure knows its target market. The last thing adolescents want is to be treated like children. They are struggling to exert their independence. And they're also bigger spenders than ever before, online and in malls. Both companies are hoping to cash in on that combination.

The new MuchMusic card is best described as a payment card that can be loaded and reloaded with funds and then used like a credit card. Kids ages 13 to 15 can get one using their parents as account holders. Those 16 and up can apply on their own. It's among the latest products on the market that make it easier than ever for teenagers to spend money.

It's also one of at least half a dozen arrangements MasterCard has facilitated to offer prepaid cards in Canada. (While Visa Canada doesn't specifically market to teens, it does offer a Visa Gift Card that cannot be reloaded.)

Not long ago, financial institutions didn't much care about the under-18 set. But younger teens, now acknowledged as the driving force behind family spending decisions on items ranging from cars to fast food, have become a sought-after group in a card-saturated marketplace.

As well as being big consumers, today's kids have been raised in an era when debt at a young age is considered inevitable rather than something to be avoided, especially for

post-secondary students. So it's not a surprise that lenders want to build brand loyalty early with these future borrowers.

Prepaid cards aren't the same as credit cards because funds available are bought in advance and there is no risk of accumulating debt. But some experts say they still should be used with caution. Mixing teenage impulsivity with easy access to cash can pave the way to dicey situations.

"It develops the shopping habit of `you put down a piece of plastic and you can buy anything,'" says Frank Wiginton, a certified financial planner, in Toronto.

However, he says there are positives about the prepaid cards, if they are used carefully. They can be a useful tool for parents to distribute allowance, track kids' purchases and teach them about budgeting. They can be a low-risk way for teens to take on some financial independence; they are good to have on hand for emergencies. "But it has to start with a conversation and there have to be ongoing conversations."

Otherwise, Wiginton warns, teens raised on instant gratification and inadequate financial planning instruction are at risk of getting into trouble once they start living on their own and make the transition to credit cards.

To Max Valiquette, president of the Toronto-based youth marketing and research firm Youthography, "pseudo credit cards" like prepaid cards and the huge assortment of gift cards available for everything from iTunes to American Eagle are priming kids to become future borrowers. "That jump to a credit card is an easy transition," he says.

There will be no shortage of opportunity, either. By the time they turn 18 or set foot on a post-secondary campus, teens are bombarded with credit card offerings.

But MuchMusic director of marketing Susan Arthur says the company doesn't consider prepaid cards the gateway to credit cards. "Certainly, that was not our intent," she says.

She says the company has been approached about sponsoring financial products for more than 15 years and the prepaid card provided an opportunity for "brand extension" in a safe way. The card gives thousands of kids access to buy ringtones, videos and other products from the network's website.

Elena Jara, education co-ordinator with Credit Canada, a non-profit credit counselling agency in Toronto, has seen her share of teens in financial trouble. She says most kids don't grasp the difference between prepaid cards, debit cards and credit cards "until they get the bill."

Take the case of Janet, 22, of Toronto. Janet, who doesn't want her real name disclosed, says her parents were big savers and always warned her about debt, though she didn't get much day-to-day financial advice.

When she moved out at 16, she soon got into trouble with an unpaid cellphone bill that bloomed to \$900, so she signed up for a couple of credit cards to tide her over. Soon, her student Visa was at its \$1,000 limit. She dropped out of school to work to pay her bills.

"I was using the credit cards to shop for whatever I wanted and then only paying the minimum balance," she recalls. "I always thought I'd be able to handle it (cards) but I

was proven wrong."

Last fall, Janet sought the help of Credit Canada, where she learned how to budget and got a program to help her repay her debts. She's back at school part-time as a mature student and holding down a job; she expects to be debt-free by next summer. But it will take much longer to rebuild her tarnished credit rating.

Janet's advice: Teens should avoid using credit cards for shopping. If they have to get a card for emergencies, keep it at home. The same goes for prepaid cards, she says. She's wary of the endless pitches for any kind of money card because "it just makes teens want to spend."

Jara takes a different approach. She says teens have to learn to take responsibility for their finances and it makes sense to start using cards once they have a part-time job or head off to college. "And let's face it, at 18, you don't want to be monitored (by parents)."

She says credit cards with low limits aren't a bad way to start learning about money management and establishing a credit rating - as long as parents don't make a habit of bailing their kids out for poor spending decisions.

If they don't learn early, says Jara, teens with student loans often load up credit card balances and think they'll pay everything back after graduation. Then they find themselves in a low-wage first job, trying to cover the rent but required to repay loans.

"It can be a vicious cycle."

That's a sobering counterpoint to Danny's TV message on the MuchMusic prepaid MasterCard ad, in which he urges fellow teens: "It's time to free yourself."

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## Money responsibility needs to be taught

While not all experts agree on the merits of prepaid cards and credit cards for teens, they are unanimous on one thing: Kids need to be educated about financial planning.

A survey last year conducted by Youthography for Visa Canada found fewer than one-third of graduating high school students had maintained a budget. Agencies like Credit Canada, a non-profit credit counselling service in Toronto, are attempting to address the gap by running seminars at schools and universities. Many financial planners favour mandatory courses in high schools. In the U.S., summer "money camps" are popping up to teach kids about budgeting before they get saddled with debt.

Parents and students who need help with the basics should check the following websites:

**Credit Canada**, [creditcanada.com](http://creditcanada.com), has plenty of resources and links. Contact it directly for its booklet "Money 101: A financial guide for students" and other educational material. The organization is hosting a series of seminars for students in Toronto in November (visit [crediteducationweekcanada.com](http://crediteducationweekcanada.com)).

**Financial Consumer Agency of Canada**, [fcac-acfc.gc.ca](http://fcac-acfc.gc.ca), has information about specific products, the financial industry and consumer habits and trends. There are tables comparing rates and features of prepaid cards and student credit cards. Or click on

"Publications" and order free pamphlets about prepaid cards and how to shop for a credit card.

**Financial Planners Standards Council**, [cfp-ca.org](http://cfp-ca.org), has a range of material, including the downloadable "Focus on Your Finances" aimed at Canadians ages 15 to 25. Click on "Public" and then "Resources" and scroll down to "Educating Youth."

**Visa's website**, [practicalmoneyskills.ca](http://practicalmoneyskills.ca), has a section for post-secondary students that includes information on credit cards and debt.