Wealth Planning **Update**

Teaching your kids about money

10 ways to promote financial literacy for kids.

All parents want their children to be financially savvy and to make smart financial decisions. Money management skills are particularly important for kids from wealthy families who will likely inherit significant wealth, which can add complexity and unique burdens.

Nevertheless, many wealthy families fall short when it comes to teaching kids about money. One study[1] showed that 67% of wealth holders are apprehensive about sharing inheritance details with their heirs. And only 10% provide complete information to them. Some of the reasons they hold back include:

- Concerns that children will become spoiled and lack ambition
- Unsure what assets to leave them
- Waiting for them to get older
- Fear they will rely on wealth that might not materialize
- The belief that it's simply none of their business

While these are valid concerns, your children will need to understand how to manage wealth and, like any skill, money management must be taught. Few schools incorporate financial literacy into their curriculum, including universities. Only one-third of states require high school students to take a course in personal finance.[2] Plus, celebrities and others in the media are eager to influence your children, and their approaches may not align with your family's financial values.

Here are ten ways you can teach your children and other heirs about money and managing the wealth they may one day inherit.

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① Talk values, not figures

As soon as your children can comprehend basic money concepts, you can start instilling your family's financial values and priorities. There's no need to disclose your net worth or even your income. By focusing on values, you set groundwork that your children can rely on for years when managing money, whether it's money they've earned or inherited.

The book *Kids, Wealth, and Consequences* offers five financial values to consider teaching your children:

- **Handle hearing no.** Teach your children to learn how to accept "No" from you and also how to say "No" to others.
- **Differentiate between wants and needs.** What does your family consider a need? The lines can be blurry and may not be the same as your neighbor's. Help your children understand the difference.
- **Tolerate delayed gratification.** Although some children are naturally better than others at this, it's important to teach the benefits of waiting. For example, you could encourage your child to forego a small item today in order to save up over time for something more expensive.
- **Make tradeoffs.** Even if you can afford to give your children everything, it's important they understand that they can't always have what they want. This lesson teaches them to think before making a purchase and helps them avoid impulsive spending behaviors.
- **Develop a healthy skepticism.** Children are bombarded at a very young age by media and advertisements. Teach them to not believe everything they see and to research a large purchase before making one.

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② Model good behavior

Your spending habits speak powerfully to your children. Every purchase you make can teach your children what you value. Consider having conversations about the importance of a legacy and of responsibility to future generations. Finally, share stories of your financial failures as well as your successes. Your children can learn from your mistakes, too.

③ Open a bank account

Children can start putting money aside in a bank account at any age. Consider these ways to use banks and bankers to help your children learn about money:

- Open a custodial account and encourage children to make regular deposits to help establish a habit of savings.
- When appropriate, convert the account to a student account that can stay with your children through their college years, helping them learn to use a debit card wisely and make their own withdrawals.
- Take older children with you to visit your bankers and financial advisors. Many wealth management firms provide guidance and resources to their clients' children. Some even have formal education programs.

④ Teach budgeting

As soon as your children start earning an allowance or any income, teach them the basics of a budget. In a previous article, we introduced the "save/spend/share" jar system. Very simply, you set up three jars, one for each child to use for saving, one for spending, and one for sharing.

This helps them understand that choices have consequences, and lays the groundwork for basic budgeting. Consider matching their contributions to encourage them to save or share more.

⑤ Practice investing

The next time you're looking to invest new money, include your children in the decision-making process. Let them see how you analyze and choose an investment. Perhaps narrow the field and then allow them to make the choice. This lets them learn from their mistakes early before they inherit significant wealth. Depending on your children's ages, you could gift a small amount of money to them and allow them to invest it directly.

⑥ Establish credit

Encourage children to establish credit as early as possible. Many credit card companies offer low-limit cards to college students with part-time jobs. Otherwise, consider co-signing with them. They will likely make mistakes but it's better that they learn the consequences of misusing credit (such as monthly interest charges) while the credit limit and risk are still low. Also, when they inevitably do incur interest charges, consider having them pay those amounts with their own money.

⑦ Involve kids in philanthropic efforts

Many charitable organizations have junior boards and ways to involve the whole family. See *Preparing Heirs for a Lifetime of Charitable Giving* to learn more about teaching your children the role of giving in wealth stewardship.

⑧ Discuss college costs

Many young adults start out their lives with significant debt from student loans, which negatively affects their ability to save for their future. One of the greatest advantages of your wealth is the ability to fund your children's college educations in order to avoid this situation. However, making your children contribute gives them accountability and helps them see the value of their education. Discuss mutual expectations about upcoming college years and put a dollar amount against the expense to set a savings goal for your children to meet. Resist the urge to pay for everything, especially extras, so your children can experience the pride of contributing.

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⑨ Explain employee benefits

One of the most valuable financial lessons your adult children can learn is how to make the most of the benefits their employer provides. They can learn a lot from your experience with various types of benefits, including:

- Health, vision and dental care
- Flexible spending accounts
- Health savings accounts
- Life and disability insurance policies
- Employer-sponsored retirement plans, such as 401(k) plans

Discuss the power that compounding can have on retirement savings, and when it makes sense to maximize 401(k) contributions. The Rule of 72 can also be helpful. With this simple formula, you divide 72 by the expected annual rate of return to see how many years it will take for your money to double. This can help encourage your children to start saving early and often. Remember to emphasize the impact of employer matching contributions as well as Roth contributions.

⑩ Support a first home purchase

From lending or gifting money to your children to co-signing on a mortgage, you can use your wealth to help your children secure their first home. Home buying can be challenging in many markets in the United States, and your children will likely need to borrow a portion of the cost, either from you or from a bank. However, just like college costs, it may be wise to require your children to contribute a portion of the cost, at least the 20% down payment needed to avoid PMI. Be sure to consult with your financial and tax advisors before you lend a helping hand financially, as there may be tax implications for you.

Talking about money with your kids may be uncomfortable, but the benefits of teaching them money management skills before they inherit the family wealth can have lasting importance. Furthermore, teaching kids about money doesn't mean you have to divulge specific numbers, such as your net worth or income. Financial literacy for kids starts with instilling your family's financial values, which they can pass on to their own children. For more information, speak with your financial professional about these and other ways to teach your kids about money.

How to answer the tough questions about money

At some point, your children are likely to ask you about your wealth and income, possibly well before they're old enough to understand the value of a dollar.

- **How much money do you make?**
- **What are you worth?**
- **How much will I inherit?**

When you're stumped or taken off guard by their questions, try replying with one of your own: "Why do you ask?" This gives you time to thoughtfully prepare an answer. They may be worried by news of a family in need or thinking about asking you for an expensive gift.

According to *Kiplinger,*[3] you can try a simple, straightforward response: "We have enough money to buy the things we need and also save some of it."

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[1] Campden Wealth, the Institute for Private Investors, and Wilmington Trust. "Navigating the Wealth Transfer Landscape." May 10, 2017.

[2] Council for Economic Education. "2018 Survey of the States: Economic and Personal Finance Education in Our Nation's Schools."

[3] Bodnar, Janet. "When Your Kids Ask How Much Money You Make." Kiplinger. February 19, 2015.