



## **Talking to Your Children About Wealth ... Taboo or Opportunity?**

By

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The current devastating financial crisis has caused many individuals, regardless of their level of wealth, to re-evaluate the role that money plays in their lives and has given families the perfect incentive to have realistic conversations about money. Even the wealthiest families have had to acknowledge significant financial losses. In some cases, the losses have taken financial dynasties to ruin. It has certainly humbled many. The strain within families has caused concern at all ages. Some children feel it instinctively; others will see the obvious change in parental attitudes and behavior. Above all, this phenomenon should not be ignored.

In spite of the ease with which the most intimate of subjects are thoroughly dissected by the media, money remains the last conversational taboo. It is interesting to note that as a family achieves greater economic security, their children are often less involved in conversations or decisions regarding money than would be observed in families of limited financial resources. In affluent families, “things” often just appear. New cars. New televisions. New vacation homes. In more modest families, where financial concerns often dominate family conversations, the statement “we can’t afford it” has clear meaning.

For many years, experts have warned society about the level of personal debt being accumulated. It was not uncommon for individuals and families to buy today with debt on the assumption that their incomes would grow sufficient to afford the repayment. That premise was severely tested in the current recession. What little economic cushion many had retained was quickly depleted.

Should you begin a meaningful money conversation with your children about money and the circumstances facing the family? How do you begin? How deep and specific should you go? Does this mean that family finances have to be an open book to all family members? Is this a good time to talk to your adult children about their future inheritance? The answers depend upon the current economic challenge the family is facing as well as the age and maturity of the younger members of the family.

While the circumstances today have highlighted the importance of these questions, it has long been the recommendation of family advisors and mental health professionals that the discussion be held. We call this financial parenting, and it takes on many forms.



Financial education begins with an allowance. This is the first financial tool for younger children. Generally children do not have a full understanding of money until they are around 8. However if you are giving an allowance to your 8 and 10 year old, the 6 year old will also want whatever it is that the older siblings are getting. Allowances should be given in three parts...one for immediate spending, one which has to be saved for at least one year and a portion to be given to charity. Children should be permitted to make their own choices (excluding specific restrictions such as candy) regarding the spending portion of the allowance. If they make a poor choice or spend too hastily they will learn from the experience. These additional strategies build the important skill of financial competency which is an important life skill regardless of the net worth of the family.

There are many ways that parents can reinforce important financial education principles.

- Take children shopping and discuss the comparative cost of items. Even better, invite your children to go on-line and use the host of price comparison websites (like "pricegrabber.com", "pricewatch.com", or "pricecomparison.com"). The kids love doing this and they will learn a lot about looking for the best value.
- Teach younger children how to make change and give them the opportunity to experience this when you are shopping together.
- Give gift cards for presents and permitting the child to make the purchasing decision while limiting the choice to whatever amount is on the gift card. No additional funds should be added.
- Open a savings account and educating children about interest they earn.
- Create opportunities for children to earn money by posting jobs around the home for pay so that they learn about working for purchases they might want to make and which would not be possible from an allowance.

By the time children are in high school, serious attention should be given to their financial education.

- Invite your high school student to submit a yearly budget over which you maintain line item veto rights. Your student needs to stay within these limits unless he or she earns additional money beyond the budget or if a special family function necessitates a purchase which was not anticipated. Requiring a budget but allowing your child to ignore the consequences of exceeding the budget, is teaching a very harmful and counterproductive lesson.
- When appropriate, place funds in a checking account which children must successfully manage avoiding any overdrafts. Require that the account be balanced every month, before the next allowance is added. On-line banking and software like Quicken can help to organize the cash flow. You may not be as conversant with the



computer as your child, but using available software to help manage the budget is not only efficient, it can be great fun.

- Start a family investment club and become educated in the world of investing as a group. You'll be surprised how much your young children can learn about the world of stocks, bonds, certificates of deposit, and money market accounts. You may learn a few things yourself!

As soon as the children are in their teens, and certainly by the time they go off to college, parents should focus on their responsibility for financial education. By manage the children's financial expectations and teaching the fundamentals of cash management (i.e. budgeting and credit) and wealth management (investing and risk management), the next generation will be better prepared to make sound financial decisions. This type of education is important for all families regardless of the degree of the financial resources. Sharing actual numbers is not necessary at this age. What is important is that your teens understand fiscal responsibility and the role money plays in life.