



Family Wealth Institute Preparing Your Children for Financial Competency

By
Douglas K. Freeman, J.D., LL.M.
Lee Hausner, Ph.D.

Are your adult children prepared for the responsibilities of income? For their careers? For the wealth that they may inherit? Do they have the financial skills to be responsible adults?

How would you assess their knowledge of and experience with

- Managing credit, debt, and cash flow?
- Maintaining a budget?
- Researching, comparing, and purchasing major assets, such as a car, home, or business?
- Acquiring and managing securities?
- Protecting assets from creditors?
- Understanding ownership in and rights to marital property
- Integrating philanthropy and public service?

Are they ready now? Will they be ready tomorrow?

National studies have confirmed that one of the most critical fears of financially successful families is the lack of financial skills of their children. But our children have expressed similar concerns. In a recent poll conducted for the Charles Schwab Foundation and the Boys and Girls Clubs of America, reported in *USA Today* (May 2005), 80% of teenagers believe that money management should be a requirement in high school. In another survey reported in *USA Today* (October 30, 2002), 70% of the parents reported that good money habits are essential, but only 28% say they have taught those skills to their children. Another study revealed that, in 2002, 75% of the graduating seniors didn't understand basic investment principles and only 10% of the schools in U.S. teach financial management.

The problem is not new to parents or their children. Most of us learned our financial skills the hard way. We lost a lot of money making expensive mistakes. But, for many of us, we started with little, grew our wealth on our own, and learned as we earned. The price our children will pay is likely to be much greater. Salaries are higher. The cost of goods and services are higher. Credit is more available than at any time in history. Bankruptcies are at their all time high. Divorce affects nearly 60% of marriages. The amount of wealth that will be transferred to them is the greatest ever seen in history.



The lack of financial skill is more than just an economic problem. Whether as a child or an adult, an individual's sense of self-worth, what we know as self-esteem, is the result of two key conditions – competency and confidence.

Competency is not an inherited trait. It cannot be transferred by gift. No estate plan can provide it. It's the result of learned skill. But if a classroom could fill the gap, we would have solved the problem long ago. To be competent requires experience, i.e. applying the knowledge learned to real life challenges. Often, our greatest learning comes from the mistakes we've made.

Confidence is the result of these trials and errors. Every parent can relate to the day the training wheels came off the child's first two-wheel bicycle. On that first ride, most children will tumble into a tree, bush, or cement sidewalk. But, after a few harrowing rides, balance is achieved and your child experiences a new found freedom. The joy of that ride will translate into many more challenges to be overcome.

Adults who lack financial literacy and skill and who find themselves dependent on parents, advisors, trustees, and salespersons for all things financial will never feel self-reliant and independent. They will never know the freedom of riding without those training wheels.

Financial competency requires knowledge and experience in four distinct quadrants, what we call the “*pillars of wealth*”.

- *Managing wealth*
Managing wealth focuses on the cash management aspect of wealth. It means that the wealth owner can set financial and lifestyle goals, which are consistent with and appropriate to the individual's resources for both the short and long-term.
- *Building wealth*
Building wealth refers to increasing the financial assets of the wealth owner, whether that is to assure the long term security of the individual, or to maximize the wealth that might ultimately pass to future generations or to philanthropy. It considers the spending needs and desires of the wealth owner, market risks, costs and inflation,
- *Protecting wealth*
Protecting wealth focuses on managing the various types of risk to that wealth, including the obvious ones – calamities (such as fire, accident, and health), personal and business creditors, and disgruntled or former spouses- and the less obvious ones, such as income and estate taxes.



➤ *Transferring wealth*

Transferring wealth refers to those planned gifts of wealth, such as lifetime and deathbed transfers to family, friends, and philanthropy, and unplanned transfers, such as that which comes from divorce.

It's not enough to identify what must be taught. It's essential that the teaching process be relevant, age-appropriate, and geared to the learning style and capacity of the adult learner.

We know that adults just out of college have a different learning style and interest than those who have been in the work force for many years. This doesn't mean that the knowledge needed is different, but how that knowledge is acquired, retained, and applied may be very different. What is relevant to a 35-year-old may not seem as important to a 25-year-old at least at that point in his or her life. Purchasing a car may be the most important major purchase of the younger adult, while purchasing a home may be more pressing to the older adult.

We also know that some individuals are auditory learners, that is they learn by listening. Others are visual learners. They learn best by seeing. Still others are kinesthetic learners. These individuals must do something physically to learn and retain. Most of us have combinations of these learning styles.

How rapidly we learn is another factor to keep in mind. Madison Avenue recognized long ago that we remember what we hear seven times or more. Few educational institutions offer their students seven chances to learn their material.

In other words, the skills essential to financial competency can be learned by most anyone, regardless of their age or IQ, and regardless of whether they were achievers in school or struggled throughout.

Remember ...

- *Self-esteem is earned, not inherited.*
- *Learning is lifelong. It's never too late.*
- *Knowing the answer is not nearly as important as understanding the process.*



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To contact the authors, please call the toll free number at 866-833-1112.

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