

## TAKING TIME TO TEACH

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Raising Responsible Children Amid Affluence



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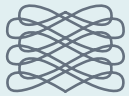
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# Taking Time to Teach

## Raising Responsible Children Amid Affluence



*“The best thing to spend on your children is time.”*

Louise Hart

### Introduction

One of the greatest concerns among wealthy parents is that the family’s great fortune might inadvertently lead to misfortune for their children. Responsible parents worry about raising kids whose exploits are splashed across the tabloids or mimic a contemporary version of Tommy Manville, the Manhattan socialite who wed 13 times, collecting a \$1 million trust distribution payable upon each marriage.

Abbot Downing recognizes that significant wealth requires not only careful management of assets but also preparation of family members for the implications and complexities of wealth. Our Family Dynamics and Education practice reflects our strong commitment to helping parents realize the goal of raising responsible children who have a healthy self-esteem. We help clients define their family’s values, communicate openly, and educate their children about topics ranging from understanding their family’s legacy stories to financial fitness fundamentals. This white paper offers practical ways to teach children about wealth, in particular by seizing opportunities in daily life to prepare them for responsible living.

### The Power of the Teachable Moment

Like learning to read, financial literacy is a long-term process that best starts in early childhood. This means taking the time to educate our children in the fundamentals of money management, just as we prepare our children for other skills in adulthood. We cannot assume our children will learn good money attitudes and skills unless we take the time to teach them.

A study conducted by the Jumpstart Coalition, a non-profit focused on financial literacy, illustrates this point. Researchers found a discrepancy between parents and children when asked how young people learn about the role of money and wealth: 80% of parents believed that their children learn everything they need to know about money in school, and 90% of these students said that whatever they know about money they learned from their parents.<sup>1</sup>

A key to raising responsible children in affluence is finding or creating teachable moments in everyday life when money lessons can be shared. Most people think wealth brings more of these moments than in middle-class life. Unfortunately, the opposite is true. The modern conveniences of wealth actually make these moments more elusive, stealing opportunities for children to gain money skills.

Consider a typical story: A mother had taken her seven-year-old daughter to the girl’s first book fair at their private school. The school thought they were helping by making book buying easy for the

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parents and for the school. Beforehand, the school had asked the mother for her credit card number and a limit (for example, \$30) for her daughter's purchases. Her daughter navigated the fair, picked out several books she liked, and took them to the register. The salesperson entered some figures on a laptop and gave the books back to the girl, who then turned to her mom and proudly said, "Buying books is easy!" Her mother laughed, struck by how invisible the entire money transaction had been to her daughter.

This example suggests that parents consider resisting the lure of convenience in order to seize on teachable moments for their children. This mother and daughter had missed a chance to introduce useful money skills—to show the girl what \$30 looks like, to have her handle the bills, to figure out that three \$9 books cost \$27, to watch the salesperson add on tax and make change, and to connect an upper limit—\$30—with the inability to buy a fourth or fifth book. Instead, the child was insulated not only from the transaction but from an opportunity to learn how money works.

Young children must first learn about money as a tangible thing—holding, counting, giving away, and receiving money as a part of life. This includes the experience of making choices about purchases and encountering limits when one has spent all the cash on hand. Mastering these basic skills with cash lays the groundwork for later being able to make the transition safely to more abstract money transactions using credit cards, ATMs, check-writing, and mobile phones.

The middle years of childhood are especially important for their role in money-skill development. Up to age eight or so, children need the basics: love, attachment, a sense of security. The next period from ages nine through 12 is the best time for sharing lessons about money, yet often these teachable moments are ignored by parents. This is when children can learn not only the fundamentals of how money works but also obtain a sense of initiative to propel them through life.

Children in this pre-adolescent stage are interested in learning about money and may be more teachable than they will be during adolescence. Making it a game, they will enjoy being shown how to calculate tips in a restaurant, how quickly they can estimate 25% off in a sale,

or how to compare the value of two sizes of snack foods. This may seem trivial to multimillionaire parents who know their children will never have to worry about the food budget. Nevertheless, we have to look at the world from the child's point of view, not our own. These are things a child is interested in, and can learn from. Research shows these early experiences lay the groundwork for self-responsibility, good money values, and a critical eye for what things are really worth.

### Allowances as Tools for Teaching

At Abbot Downing, we often field questions from families about whether to give their children allowances. An allowance rubs many families the wrong way. Many have acquired significant wealth during their lifetimes. These parents may have grown up in tough circumstances without allowances, forcing them to earn money from an early age which then led to success. Or they bridle at the notion of giving their kids a handout or a "salary" for chores. They may say, "My kids should do chores because they're part of this family, not for money."

True, an allowance should not be a gift, a salary, a reward for grades, or an entitlement. Yet you may want to introduce your children to an allowance. Why? An allowance is invaluable as "a tool for teaching children how to manage money," according to Joline Godfrey, author of *Raising Financially Fit Kids*.<sup>2</sup> An allowance is a constant source of teachable moments, giving you a way to foster your child's financial training. Approaching an allowance this way shifts the focus from what the child has done to "get" the money toward what the child plans to "do" with the money.

Many wealth consultants advocate a "Three Bucket Model":

- One-third paid in cash to be spent as the child sees fit—weekly for young children, biweekly or monthly by the teenage years.
- One-third deposited in a bank account or entered in a money-management program, like Quicken, to be built up in savings.
- One-third deposited or set aside for charitable uses to teach philanthropy.

During the teenage years, you may want to add a fourth bucket for investing.

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This system teaches many lessons at once. It underscores that the family's values include not only spending but also saving and philanthropy. By devoting a portion toward savings, you are teaching long-term planning and delay of gratification. And you are providing a vehicle for children to practice making their own decisions about money safely, learning from both successes and setbacks.

It's valuable to discuss this approach with your children's grandparents to give them an opportunity to align with you when they make gifts. For example, if they are going to give a cash gift, breaking the cash into smaller amounts makes it easier to put some of it into the savings or giving bucket and some of it into the spending pocket. Another helpful approach is for grandparents to set a "birthday gift budget" or a "holiday gift budget" before taking their grandchildren shopping with the goal of staying within the budget. Grandparents then have the opportunity to help their grandchildren become savvy shoppers—and the key learning opportunity is to stay within the preset budget.

Instead of being the "family bank" whose wallet funds all purchases, require your children to use their own spending money to buy at least some of the things they want. For a 10-year-old, this may be some sports gear, a special dress, or a video game. For a 16-year-old, it may mean gas money for a car, half the vehicle insurance and half of all repairs. If your child is to become a financially responsible adult, he or she must first practice being a financially responsible child.

Within broad guidelines, try not to micromanage your child's choices around spending. You may cringe at some spending decisions, but remember—the goal is to teach, not to control. You will be rewarded later when you see your son or daughter stops buying shoddy items or making impulsive purchases, learning from experience. You can and should exercise a "no" if the expenditure would violate the family's shared sense of what's right and wrong. Finally, don't revoke an allowance as punishment for other sins. This just teaches that you will use money to show anger or control behavior.

Please see the resources listed on page 5 for books and websites that offer additional ideas to help you raise financially responsible children.

## Setting Limits—and Enforcing Them

The real power of an allowance is in its ability to teach by experience. If your 12-year-old knows her allowance must last all month yet spends it all on clothes in the first week, then she must either do without or earn her spending money for the rest of the month. It's a lesson few children forget.

Here's where even savvy parents often trip up. They see their kids floundering, so they jump in and bail them out. The motive is good—they love their kids—but the message says, don't worry, you won't have any consequences for what you do. This is exactly the opposite of what you want to teach. Children are also masters at cajoling, making excuses, or throwing tantrums to get rescued from their actions. Sympathize, but hold steady. These moments are critical for developing self-discipline and discouraging entitlement.

## Fostering Your Teenager's Financial Literacy

The teenage years (13 – 18) pose special challenges for financial parenting, particularly if you've let those earlier opportunities slide by. The calmer waters of childhood give way to the fast-moving currents of adolescence. Your kids may turn into people you barely recognize, making increasingly risky decisions even they may regret later. Teachable moments begin to evaporate as peers and the media take over as major influences.

In an innocent effort to be helpful, family offices managing everyday transactions for ultra-high-net-worth families can too easily cross the line from helping, to removing responsibility from teenagers needing to learn financial discipline.

**Share information.** Use TV and print ads to create teachable moments about interest rates, both as fees on credit cards and loans and as income from bank CDs and bonds. Talk about compound interest. Demonstrate online investment tracking. Explain how to read monthly statements, starting with a smaller account that may already be in the child's name. Teach your adolescent how to write checks and balance a checkbook. These tasks, even if not needed later in life, provide valuable lessons about tracking what you spend. Online banking tools are also helpful in learning to track expenses.

**Set goals.** Adolescents set their sights on larger purchases, and they can handle budgeting for



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longer periods of time. Consider using large purchases (such as a mountain bike, gaming system, a vacation trip, or the like) to set a total amount that you'll support and leave it to your teenager to compare prices and figure out a plan to save for the total. Maybe match half the total purchase price. Again, let your children explore all the costs and resist the urge to bail them out if their eyes turn out to be larger than their wallets. As always, use these opportunities to create an environment in which they learn money skills and learn about themselves.

**Promote values.** In retelling the family history of how your wealth was created, emphasize the work and risk that were undertaken, not to instill guilt but to teach that work and risk are fundamentals of future success. As purchases get more expensive (e.g., cars, travel, parties), ask your teen to subsidize more of the cost. This demonstrates that the family hands over greater responsibility as the next generation matures.

**Cultivate decision-making skills.** Teenagers can be natural-born debaters, not always to their benefit. Foster healthy decision making by prompting your teenagers to “make their case” responsibly when they want something new, whether a BMW or a trip to Italy. This should not be an exercise in glib argument. Have them explain the reasoning behind requests, showing they've looked at costs, benefits, and alternatives. Stay open but firm. They will gradually learn how to think carefully about choices. You will be rewarded when they are able to drop an extravagant request after they've truly explored the alternatives. Of course, sometimes a purchase goes against deeply held family values. Then it's time to say “no” with an explanation. This way, you teach the crucial lesson that life doesn't fulfill every wish, even for wealthy children.

### Handling the Question “Are We Rich?”

At some point in middle childhood, your son or daughter will inevitably ask, “Are we rich?” or “How much money do we have?” Even the best parents can freeze in their tracks at this, caught between a desire for honesty and fears of disclosing too much. These questions can be handled with confidence as another teachable moment.

First, recognize that when they come from young children, these questions are not about money.

Your six-year-old is not angling to know how much he's going to inherit. These questions simply reflect a desire for comfort and security, maybe a curiosity about a friend or cousin. It is OK to draw out your child as to what's prompting the question, but don't respond with suspicion or concern: “Why do you ask?” or “Who told you that?” Your interrogation will only breed worry and shut down future discussion. Nor does it help to lie or dodge the question: “Oh, we're not rich. The so-and-so's are 10 times richer.” This comparison will make your child feel insecure or jealous, and eventually feel misled about the family.

Instead, accept this as an opening to introduce the simple distinctions among “not enough,” “enough,” and “more than enough.” Many families, you can point out, “do not have enough. Some have just enough for their needs, and others have more than enough. We are very fortunate to have much more than enough. That's why we are able to have many good things, and why we often share some of what we have with families who don't have enough.” In these brief comments, you let your child know that he or she is secure—you have more than enough—but you also reveal your family sees its bounty serving a good beyond its own needs.

Your children may ask follow-up questions about the source of your wealth or even its composition. This is another opportunity to share stories about the family and to promote positive role models.

“Your great-grandfather used his brain to make a wonderful invention” or “Your aunt worked very hard to build a large company and make jobs for hundreds of people.” Model that the best reaction to your wealth is responsible pride, not shame.

### The Hidden Issue: Privacy

These inquiries are also tricky for another reason—the need to teach children skills about handling the family's privacy. Too often, this is where the painful link between money and secrets gets forged. “None of your business!” is not a helpful response to a question about the family's wealth. You don't want to instill in your children a “don't ask, don't tell” inhibition about money. If they ask something too specific, explain that you'll share more information over time. You can use these conversations to teach that, just like your child, the family has things that are personal and

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private, not to be shared with people outside the family. Kids understand more than we think. If you start this lesson early, your kids will learn a good sense of boundaries, inside and outside the family.

These conversations about privacy will help to prepare your children for the inevitable questions that come up at any age, and particularly in middle school. That's an age when students often make observations and ask questions about each others' circumstances. Your children will benefit from your help in practicing responses that keep information private, and aren't defensive.

### Just the Beginning

At Abbot Downing, we believe these suggestions about teachable moments are just the beginning of financially responsible parenting. It is a life-long task requiring patience and persistence. While no one can replace you "on the ground" in keeping watch for these moments, we can help prepare you with reading materials, online resources, and consultation. Our Family Dynamics and Education practice can also help you with age-appropriate financial education to reinforce your children's money skills. Most importantly, your entire Abbot Downing team is here to support you as you undertake the important challenge of raising financially responsible children.

## Additional Resources

### Books

Eileen and Jon Gallo  
*Silver Spoon Kids: How Successful Parents Raise Responsible Children*  
New York: Contemporary Books, 2002

Eileen and Jon Gallo  
*The Financially Intelligent Parent: 8 Steps to Raising Successful, Generous, Responsible Children*  
New York: New American Library, 2005

Joline Godfrey,  
*Raising Financially Fit Kids, Second Edition*  
Berkeley, CA: Ten Speed Press, 2013

Lee Hausner  
*Children of Paradise: Successful Parenting for Prosperous Families, Second Edition*  
Irvine, CA: Plaza Press, 2005

Myra Salzer  
*The Inheritor's Sherpa: A Life-Summiting Guide for Inheritors*  
The Wealth Conservancy, 2005

### Websites

The Inheritance Project:  
[www.inheritance-project.com](http://www.inheritance-project.com)

More Than Money Institute:  
[www.morethanmoney.org](http://www.morethanmoney.org)

Hands on Banking®:  
[www.wellsfargo.com/handsonbanking](http://www.wellsfargo.com/handsonbanking)

### Endnotes

<sup>1</sup> *Making the Case for Financial Literacy*. Jumpstart Coalition, 2005.

<sup>2</sup> Godfrey, Joline. *Raising Financially Fit Kids, Second Edition*. Berkeley, CA: Ten Speed Press, 2013.

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