

# CHILDREN AND WEALTH

## PREPARING CHILDREN FOR A LIFE OF WEALTH

**Joline Godfrey**
CEO
Independent Means Inc.

Preparing for the privileges and responsibilities of wealth is not unlike training for the Olympics. You cannot expect high performance from a child haphazardly trained to shepherd financial and human capital, any more than you can expect the weekend athlete to make it to the national trials for Olympic competition.

Most parents want their children to experience a "normal, happy childhood," and introducing the issue of wealth early in life may seem antithetical to that desire. But raising children in the context of the family's capital and social assets is one way to help children live a happy life. And children prepared to live with and manage lives shaped by the reality of wealth are, like Olympic athletes, prepared for life in very unique ways.

### WHY WEALTHY CHILDREN NEED FINANCIAL SKILLS

There are important reasons to provide financial education for the wealthy child that have little to do with the specific (and critical) skills of saving, investing and giving money away. Those are tactics, a means to an end.

The heart of the matter is this: we give children financial education, not because they cannot afford to hire others to handle every aspect of their financial lives, but because we fail them if we do not give them training that is a requisite of living with the reality of wealth.

**TABLE 1: FINANCIAL TRAINING GOALS**

| Effective financial training for children should achieve three important goals: |
|---|
| 1. To help children achieve a purposeful life; |
| 2. To give them the tools for self-protection; and |
| 3. To help them become active participants in the family's 100+ year plan. |

Parents who remark, "My kids are set for life, they don't have to worry about money," may unintentionally deny their children an opportunity to explore money as a vehicle for achieving a purposeful life. Children raised in a permissive atmosphere in which "anything is possible," will have a tough time sorting out which possibilities are more important than others.

In their book "Just Enough: Tools for Creating Success in Your Work and Life," Harvard Business School professors Howard Stevenson and Laura Nash maintain that, "A sense of right purpose is one of the most powerful sources of energy and commitment to be found."

A purposeful life comes from reflection and conscious choices and decisions. Helping children uncover their own purpose and meaning is part of the process of a thoughtful financial education.

And Charles Collier, senior philanthropic advisor at Harvard University and author of "Wealth in Families," urges parents and grandparents to "... focus on each family member's discovery and fulfillment of his or her life calling by dedicating your family's human, intellectual, social

CONTINUED

***Children who will inherit and eventually manage wealth need plenty of practice before the trust comes due.***

and financial capital to that higher purpose." He further reminds families that, "The desire for meaning and genuine connection will always transcend wealth."

Providing a financial education for your children will also help protect them throughout their lives from people who might try to take advantage of them because of their wealth. Children raised to be financially literate are better able to audit their auditors, read the small print and think critically about financial matters. Such children are less vulnerable to manipulative acquaintances, potential spouses with unworthy intent, and business and charitable "opportunities" fraught with risk.

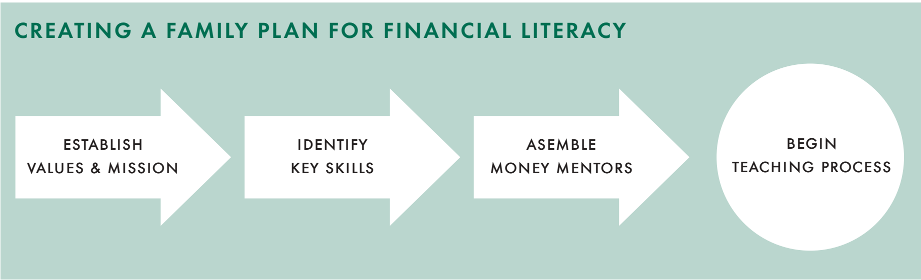
To make false the cultural proverb 'shirtsleeves to shirtsleeves in three generations,' many family offices now encourage the creation of 100+ year strategies aimed at shepherding family wealth. Involving the younger generation in this family plan is an excellent way to not only give them a financial education, but also to provide them with the experience they need to manage the wealth they will inherit.

Children set to inherit significant wealth as young adults need knowledge and experience to make the decisions that inevitably accompany such an inheritance. Many parents find themselves worried as the moment of wealth transfer approaches for a child unprepared to manage significant assets, and regretful they did not provide the financial education their child needed.

In his classic book, "Family Wealth: Keeping it in the Family," wealth advisor Jay Hughes, makes this point: "... a family without educated human capital can receive the most timely financial information but be unable to do anything with it." Such is the fate of young people who have not received the guidance they will need to participate as caretakers of family capital.

## CREATING A ROADMAP

Even the most talented prima ballerina has spent time in the corps learning basic ballet steps. And children who will inherit and eventually manage wealth need plenty of practice before the trust comes due. To get started, families must create a roadmap to guide them.




### *Values and the Family Mission Statement*

First, establish your values and define your family mission statement. What are your hopes for your children and the values you wish to instill in them? Financial education is not just about the money. It's about raising great kids with values in concert with the family's mission and goals.

One dilemma shared by many families, especially if the spouses came to their marriage as fiscal unequals, is when parents hold different values and ideas about the management of money. "How," they wonder, "can we make sure our kids learn to behave responsibly when the two of us cannot come to any agreement on our own shared values?"

Giving kids mixed messages will undermine most attempts at passing along responsible habits and values. If parents want children to behave thoughtfully, that behavior must be modeled, discussed and explored in the context of explicit words and deeds demonstrated by family members. For this reason, establishing your family values is perhaps the most important element of a financial education program, and the area in which outside help can be most useful.

Families approach this task in a variety of ways. When creating a family mission statement, include the youngest members of the family (those age 10 and older) in the process. A discussion with all of the cousins, facilitated by someone experienced in the process (a professional advisor or an aunt or uncle can be extremely helpful) is one way to teach children about the family's values and establish a family mission statement.

Such inclusion, when introduced early, establishes for children a sense of normalcy and tends to defuse the "secrecy" sometimes associated with family meetings and adult gatherings.

For some it is an active process of keeping a family history and sharing it as a video, a book or a series of photograph albums. While this is an important part of every family's identity building, for the family with significant wealth, it is also a means of helping ground children in the identity connected to that wealth.

**TABLE 2: TEN FINANCIAL SKILLS EVERY CHILD NEEDS**

The basic skills every child needs to master by the age of 18 include:

| |
|---|
| 1. How to save. |
| 2. How to keep track of money. |
| 3. How to get paid what you're worth. |
| 4. How to spend wisely. |
| 5. How to talk about money. |
| 6. How to live on a budget. |
| 7. How to invest. |
| 8. How to exercise an entrepreneurial spirit. |
| 9. How to handle credit. |
| 10. How to use money to change the world. |

From "Raising Financially Fit Kids," by Joline Godfrey

Family story-telling is another strategy families employ to communicate the values inherent in the family legacy. This may mean setting aside time at family meetings to share with the children stories about the source of the legacy and the stewards who have kept it alive – and to what purpose.

Parents who believe they can, or should, conceal family wealth from their children underestimate the intuitive and observational skills of kids. Helping children put their lives in the context of great-great-grandparents who established the family fortune, or providing an understanding of how Mom grew up with modest means but built the company that has given them all unique opportunities, is important to helping kids understand who they are as individuals living in the midst of wealth.

### *Determine Which Skills You Want to Teach*

After you've established your mission and the values you want to share with your children, you need to work out a developmental plan. Just as mastering a new language is easier when you are young, so is financial education. But consider how old your child is when determining the skills he or she should be mastering. Ask yourself what are the developmentally appropriate financial tasks your child should master at this stage.

It is unreasonable to expect five-year-olds to calculate compound interest or nine-year-olds to understand taxation policies. But to give five-year-olds the building blocks of financial language, experiences and values is to give them tools on which they can build, year after year.

Develop a list of skills you want your children to master and focus on those. The list in Table 2: *Ten Financial Skills Every Child Needs,* can provide a starting point, which you can alter to suit your own family needs based on the values and mission statement you established. Defining a set of skills compels focus and gives structure to what is an otherwise daunting challenge: to become financially literate.



CONTINUED

*An allowance is not a salary or an entitlement; it is a tool for helping kids learn to manage money.*

Using the developmental stages of early childhood, adolescence and the teen years as distinct learning periods, you can design a strategy for teaching these basic skills that is manageable for the extended family as well as the children.

For example, families who meet throughout the year to discuss family business often choose a topical theme to introduce to the children in the family. Thus, all the children may be learning to manage an allowance one year or the basics of philanthropy the next, but each age group has its own appropriate activities and learning goals for the year.

In this way, children accumulate knowledge, gaining sophistication and self-confidence as their skills become more mature and complex.

### *Identify Money Mentors*

Just as the Olympic-bound athlete has trainers and coaches, the wealthy child needs an extended family of resources and role models. Busy parents rarely have luxury of becoming full-time financial tutors, and may not have the knowledge for such a task. But a team of mentors, intentionally assembled into a Money Mentoring Circle, will make raising a financially savvy child easier.

Whether an entrepreneur who has started a business from scratch, a philanthropist engaged in community activism, or the family advisor who can explain the difference between mutual funds and speculative stocks, these are the people who can be a support team for your child.

To create your own Money Mentoring Circle, contact five to 10 significant people in your child's life – aunts and uncles, cousins, grandparents, god-parents, best friends, nannies or colleagues – who can offer information and experiences that will enrich your child's financial education. Invite them to serve as a mentor at least twice a year. Ask each to take your child to lunch or to work for a half day, or to send him or her an email with a bit of financial wisdom once in a while. Recruit adults who will reinforce the messages you want your kids to hear, observe and experience.

In addition to people you may include in your Money Mentoring Circle and your own wealth advisors, many resources exist for parents who are committed to giving their children as much preparation for financial competence as for mastering tennis or learning how to play the piano.

You can find resources on financial education ranging from books and web sites to summer camps and organizations devoted to helping children become financially savvy. (See *Resources* on page 7 for more information.) Determine which resources will be the most valuable for your plan, based on your goals and the skills and values you are hoping to teach your children, and assemble these in advance.

## GETTING TO WORK

Now that you have drawn up the blueprints for your financial education plan and assembled your resources, you are ready to put your plan in action. An allowance may be the most useful vehicle a family can draw on for mobilizing the financial education of children, and is a good starting point for your financial education plan. The allowance functions as a mechanism for learning basic financial skills.

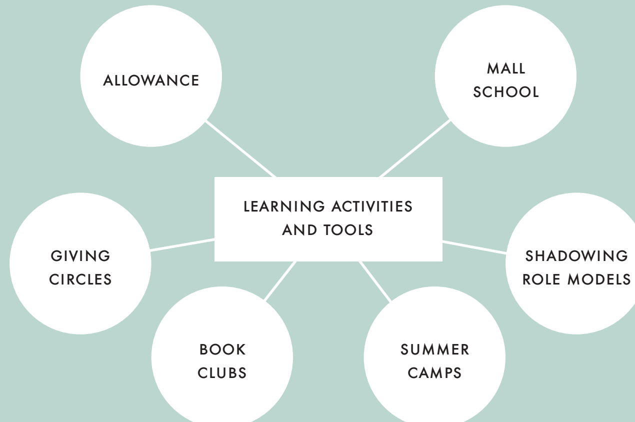
"How much?" is often the first question parents ask in regard to the allowance. An allowance can be introduced as early as age five or six, but the amount appropriate will vary for each child. Basing the amount of an allowance on age, or pulling a number from the air is, frankly, more confusing to a child than helpful. Rather, the amount of the allowance should be based on what you expect the child to pay for at each step of the learning process. It will be different for a five- to eight-year-old than for a nine- to 12-year-old, and so on. The key is that the process is consistent and based on reality.

How the purpose of the allowance is communicated is also important. An allowance is not a salary or an entitlement; it is a tool for helping kids learn to manage money. Children can understand at an early age that the purpose of an allowance is not to transfer cash from parent to child, but rather it is the vehicle for helping them learn to develop discipline and good financial habits.

An allowance is a process, not a weekly event. And parents not prepared to stay with the process will miss the allowance's potential as a tool for teaching. How kids learn to manage their allowance, and later, additional income (from gifts, earnings, trust income, etc.) will be a significant factor in the development of their character and values.

**TEACHING FINANCIAL SKILLS – A PARENT'S TOOLBOX**

*When you are ready to begin teaching your children, choosing the right activities can help capture their imaginations and make learning fun.*




## MAKE IT FUN

With the allowance in place as the basis of your plan, you can begin to focus on teaching the other key money skills you've identified. According to futurist Watts Wacker, 80% of the life skills we acquire are learned through play. Certainly the success of Leap-Frog learning toys, the arrival of the next-generation amusement park Wannado City and the popularity of financial camps for teens are sure signs that education, when made fun and challenging, can capture a child's imagination in a way that a lecture or text seldom can. Fun is important; playful experience essential.

Children who are engaged by a small business venture, an internship or a fundraising activity acquire a deeper level of learning than most classroom experiences allow. And children who participate in site visits to potential family philanthropic investments gain an understanding of the importance of the family's philanthropic efforts and the issues involved in making these gifts. Participating in a financial scavenger hunt with cousins is a lot more fun – and memorable – than reading an online explanation of stocks or spending an hour with granddad's trust attorney, no matter how nice he or she is.

The plan that incorporates fun and adventure, communicating joy in the process of discovery, is the plan that, over time, will have the greatest effect on young lives.

All of the 10 money skills discussed earlier can be honed through engaging experiences. A sample of some of the activities you can use to help young people learn these skills include:

- **Giving Circles.** The youth philanthropic movement has gained momentum in the last few years, and children all over the world are becoming active in both local communities and international causes. Invite children, divided into groups by age (such as 9 to 12; 13 to 15; 16 and 17; 18), to gather once a month (or more often) and contribute a set amount to a fund (between $5 and $10 each week or month). The kids then work together to manage the accumulated fund and explore the process of choosing beneficiaries, learning about the


CONTINUED

organizations and honing their philanthropic skills early. The KIDS PLUS: Youth In Philanthropy Program based in Duluth, Minn. is one example of this growing movement.

- **Book Clubs.** One of the most effective ways of helping kids acquire financial language is to make their reading adventures relevant. Whether it is a group of teens reading "Bonfire of the Vanities," or exploring Jane Austen's novels from an economic rather than a literary perspective, a book club with a financial bent can help young people develop a more sophisticated perspective on business, money and values.
- **Summer Camps.** These days, summer programs for teens interested in exploring their entrepreneurial spirit are available all over the country. A journey that gives kids a chance to exercise independence AND learn about money will have multiple payoffs. Particularly for children growing up in a family business, having a chance to explore their skills and interests outside the spotlight of the family can be a liberating experience.
- **Shadowing Role Models.** Accompanying an adult friend to a foundation meeting, having a chance to observe a business meeting or going to lunch with a respected role model with whom they can converse openly gives young people a sense of self respect and of being taken seriously.
- **"Mall School".** A trip to the department store or grocery store offers multiple opportunities to teach the skills of critical thinking, comparative shopping and the math of retail vs. wholesale, volume sales, and the tricks of marketers trying to increase sales. Kids love to teach, show what they know and demonstrate prowess. Though it may take a few more minutes in a busy schedule, the time spent will be well returned in knowledge acquired.

## REAPING THE REWARDS

Coaches preparing athletes for peak performance help their charges manage choices and avoid excesses that will interfere with their goal of attaining Olympic-level potential. Likewise, parents put limits on what their children can do and when they can do it because that is the task of being the grown-up: to exercise judgment and set boundaries for children not yet able to do it for themselves. Such is the responsibility for families intent on helping children grow up responsibly in the midst of financial abundance.

There is a school of thought that argues, "Children growing up in extreme wealth may never ride on a commercial plane, will have unlimited disposable income and never need to work. These children are living in a very different world and such plebian concerns as an allowance are irrelevant to their lives."

Of course that's one way to raise children, and those families will likely not be very engaged in creating a financial education plan for their kids. But financial education is more than a medium for preparing children to manage and lead lives of significant wealth, it is a way to help them learn about who they are and what is important to them.

Fortunes come and go. Illness, economic turmoil, divorce and life's practical jokes may leave even the most financially secure person suddenly on his or her own. Learning to manage money is one of the easiest ways to give children a set of life skills that will serve them throughout the vicissitudes of life.

### *About the Author*

Joline Godfrey is the CEO of Independent Means Inc., based in Santa Barbara, Calif., and an internationally respected expert in the field of financial education. She is the author of three best-selling books on financial education, including the critically acclaimed new book, "Raising Financially Fit Kids." She holds a B.S. in Child Development from the University of Maine, an MSW from Boston University and an honorary degree from Bentley College.

Formerly an executive for a Fortune 500 company, Godfrey is the subject of a popular Harvard Business School case. Her work has been featured on NBC's Today Show, Oprah, the CBS Early Show, in *The New York Times*, *The Wall Street Journal* and *International Herald Tribune*, as well as in *Business Week* and *Fortune Magazine*.

Since 1992, her company, Independent Means Inc., has created and delivered financial education experiences for the nations' top families, private schools, and family offices.

### *Resources*

In addition to your own wealth advisors, the author recommends the following resources in the field of financial education for children:

#### *Books*

- "Wealth in Families," by Charles Collier
- "Raising Financially Fit Kids," by Joline Godfrey
- "Family Wealth: Keeping It in the Family," by James E. (Jay) Huges, Jr.
- "Just Enough: Tools for Creating Success in Your Work and Life," by Howard Stevenson and Laura Nash

#### *Organizations/Online Resources*

- Independent Means (www.independentmeans.com) provides family-centered financial education products and programs, including on-the-ground programs, camps, seminars, books, newsletters, games, and other activities for kids, parents and mentors, and the companies that serve them.
- KIDS PLUS: Youth in Philanthropy Program (www.mcf.org/mcf/forum/yip.htm) is a program based in Duluth, Minn. designed as a way to teach young people about the art of giving and the importance of civic involvement and to infuse young people into leadership and decision-making roles.
- Wealthbridge Partners (www.wealthbridgepartners.org) designs and implements comprehensive learning initiatives for wealthy families through which family members gain technical and personal skills and greatly enhance their decision-making capability.

#### *Camps*

- Independent Means offers a variety of summer camps, including, Camp $tart-Up, Camp $tart-Up for Girls in the Family Business and Summer$tock (800-350-1816).

Q9466 (9/07)