How to Prepare Children for Wealth

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We have all heard the famous proverb “shirtless to sleeveless in three generations,” In an effort to avoid this scenario, parents aim to provide children with the experience they need to manage the wealth they will inherit. These parents often themselves stuck between a rock and a hard place. On one hand they want their children to experience a normal childhood and introducing the idea of wealth early in life may seem contrary to that goal. On the other hand raising children in the context of the family’s wealth can help ensure the child is prepared for the responsibility and is able to live a happy life.

By giving children a strong financial education parents are helping them beyond learning critical skills like saving and investing. Parents are helping children see what their money can truly accomplish. They are helping them find their purpose and identify their passions. A purposeful life comes from reflection, choices and decisions. Helping children uncover their purpose is an essential part of a their financial education.

Another important reason to provide a financial education is to help protect children from people who might try to take advantage of them because of their wealth. Children with a financial education are able to more easily spot potential predators, audit their auditors and think critically about financial matters. Such children are less vulnerable to manipulative acquaintances, potential spouses with unworthy intent, and business “opportunities”.

Children set to inherit wealth need knowledge and experience to make the decisions that accompany an inheritance. Many parents find themselves worried as the moment of wealth transfer approaches, not knowing if their child is prepared. This guide is designed to walk you through the process of creating a financial curriculum that will help prepare them for the privileges and responsibilities they will inevitably face.

The Blueprint:

The 3 basic pieces of a solid financial education are:

- The Family Mission Statement
- Skill Building
- Practice

Creating a family mission statement is the first and more important step. This statement should answer two questions:

- What are my hopes for my children?
- What values do I want to instill in them?

When writing your family mission statement keep in mind that financial education is not just about money, it's also about raising children who share your values and goals. One way to ensure this is by including your children in the process of creating the statement. By including even the youngest members of the family (usually those12 and older) they will feel included and much more likely to uphold the statement after they inherit. It also may be easier to have this conversation with a moderator who has experience facilitating this process, like a financial advisor or estate-planning attorney. Keep in mind that fostering a relationship between your children and your most trusted advisors early on will provide them with additional resources to ask questions to or to lean on later in life.

Skill Building:

Once you have established your family mission statement identify the skills your children will need to uphold it. For example your list might look something like this:

- How to invest
- How to keep track of money
- How to talk about money
- How to budget
- How to give to charities
- How to protect and save money

Keep in mind that although starting the financial education process early will make it easier for children to adopt the skills they need, skills need to be adapted to their age. Consider age when determining the skills they should be acquiring. For example, younger children can learn skills related to budgeting by managing an allowance, while a teenager might be tasked with identifying a charity they want to contribute to and preparing a case for giving them money. In this way, children accumulate knowledge and gain self-confidence as their skills become more complex.

Practice:
Now that you have a family mission statement, and have identified the skills your children need to develop we can move onto the practice step.
As we mentioned earlier, an allowance can be one of the most helpful tools a family can use for practicing basic financial skills. The first decision is how much to give. An allowance can be introduced as early as age five, but the appropriate amount will vary depending on what you expect the child to pay for at age. For example for a younger child they may use the money for an occasional treat while a teenager might be expected to pay for their own clothes or trips to the movies. It’s also important to introduce the allowance as something the children earn, and not something they are simply entitled to.

Even young children can understand that the purpose of an allowance is to help them develop good financial habits.

With the allowance in place as the basis of your plan, you can shift focus to teaching the other skills you've identified. Don't be afraid to have fun while teaching, after all children will be more engaged if the activity is fun. For example if you want to teach your children about charity try arranging a visit to a local charity like an animal shelter or a soup kitchen so they can see how and where the money would be used. For older children you could also set up a small investment account and allow them to try investing with your guidance or with the help of your financial advisor. You can also use regular outings, like a trip to the grocery store, as an opportunity to learn comparative shopping or to expose the trucks of marketers trying to increase sales.