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Raising Financially Responsible Children:

A Conversation With Charles W. Collier

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Wealth adds another dimension to the already complex challenge of raising healthy, happy, motivated and emotionally balanced children.

Harvard senior philanthropic adviser Charles Collier isn't a big fan of "affluenza" as a label. "It appears to be a term in play in America to describe the negative aspects of money on children, including dependence and a lack of motivation," he says. "But I don't think it's very instructive or useful."

Collier argues that "affluenza" focuses only on the negative aspects of money and is a term used more often by the media than by wealthy families. True, children can sometimes become unmotivated and overly defined by family wealth, but assigning a "diagnosis" does little to help the family in trouble. "It's not a disease," he notes. Rather, wealth simply adds another dimension to the already complex challenge of raising healthy, happy, motivated and emotionally balanced children. "Parenting in America is difficult enough today," says Collier. "When you throw in significant wealth, with multiple houses and family cars, that raises the intensity of the challenge."

Families with both "new" and "old" money face similar challenges in educating their children about money. But it's not an impossible task. The way to tackle it, Collier suggests in the following Q&A, is through open and honest communication with children, positive role modeling, and a solid financial education beginning as early as the second grade. Armed with the right tools, children born into families of wealth can grow up to be independent and financially and socially responsible—as long as they're encouraged to be themselves, says Collier. "Parents who give their children permission to be different and lead their own lives raise great kids—period."

Private Banking and Investment Group

Merrill Lynch Wealth Management
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HOW PREVALENT IS THIS PROBLEM KNOWN AS "AFFLUENZA" AND WHO DO YOU SEE MOST PREOCCUPIED WITH IT?

It's a major concern to both kinds of families with money: the multigenerational family that has had the money for years, and the family of newer wealth, created within the last 20 years. The multigenerational families oftentimes know the risks of transferring wealth to future generations without any preparation, whereas the new money—families that have recently come into wealth—are still not quite sure what to do. In both sets of families, I see a huge underinvestment in financial education regarding their children.

WHY IS FINANCIAL EDUCATION FOR CHILDREN SO CRITICAL?

Some wealth creators today may have children who are not called to a career in financial services. They want to be schoolteachers and social workers, artists, musicians, windsurfers. They don't grow up and say, "I want to follow Dad into private equity." So if there is substantial money that is going to be passed on, there needs to be preparation so that those children learn how to be good owners and responsible stewards of the money. And it's not just preparing your children for an inheritance that is critical; it's preparing them to be financially literate. To survive in America economically, you must be financially literate.

TEACHING FINANCIAL LITERACY TO CHILDREN SOUNDS LIKE A DAUNTING CHALLENGE. HOW AND WHEN SHOULD PARENTS BEGIN?

Financial education should start early on and in earnest by 8 years old. By age 8, children should have an allowance, whether they demand it or not, because an allowance has only one purpose—to teach children how to use money. It's a financial education tool.

By age 8, you also can bring your children into the world of philanthropy by taking them to volunteer for causes you and they care about. You can introduce them to charitable giving by saying to them, "We want to give away $100 this year with your help. What do you think we ought to do? Which cause would you like to explore?"

Through the early and late teenage years and college, you move on to other things, such as funding your child's Roth IRA in their teen years and having them budget their spending in college. Credit cards are very useful in terms of giving kids practice with money and helping them get a handle on budgets.

But what's most important is that parents be willing to talk with their children about money in an easy-going, natural way, over time, and not be secretive or deny the financial part of their lives and their children's lives. That doesn't mean they have to have a program every week, but they should have a mindset where they're going to be open to talking about money in the family.

SHOULD CHILDREN BE TAUGHT HOW TO MANAGE MONEY PROFESSIONALLY?

I don't think so. Most of these children are not going into the investment business, so they're not going to manage the money. But they are going to have to learn enough about planning and investment so they can have coherent conversations with their managers and understand important investment concepts like asset allocation and total return.

Parents also can devise a set of core competencies they want their children to learn by age 22 around financial education. A great place to start is a wonderful book, *Raising Financially Fit Kids*, by Joline Godfrey, which outlines 10 competencies for children and age-appropriate programs to work on over time.

HOW CAN PARENTS BEGIN TO MOTIVATE THEIR CHILD'S CAREER AMBITION EARLY ON?

If your son or daughter says he or she really wants to be a firefighter, encourage that initial passion and say, "Let's go see the firehouse and the fire trucks and see if we can talk to some firefighters." While you're there, the kids may ask, "Well, how do you get paid?"

It's important to start exposing children to income implications at an early age. Fact is, most college students have no idea of the financial implications of their career choices. They don't know the variety of careers open to them, nor do they have an idea of the salary ranges for entry-level jobs in certain careers. Different career options and the financial impact of these options really ought to be explored early and often.

EVEN IF THEY DON'T REALLY *NEED* TO WORK?

Yes. Because everybody needs to work. Everybody should work—whether they have money or not. As Thomas Aquinas said, "To work well is to live well." It doesn't necessarily have to be work for wages, but work is very important for a healthy life course, a balanced self-esteem, and for making a contribution to society.

I see parents who have made money in the markets in the last 15 or 20 years who retire and neither one works. The message to the kids is: Neither mom nor dad works, so either they have nothing they're interested in or there's so much money that, gee, I'll never have to work. So even if they can afford not to work, it is important for one parent to leave the home to go and work while the children are under 18, so they can see that model of work.

LET'S TALK ABOUT INHERITANCE. HOW MUCH IS THE RIGHT AMOUNT OF MONEY TO GIVE CHILDREN?

There is no easy or "right" answer, only what's right for that family. Two of the questions parents ought to ask themselves as they begin to wrestle with this challenge are: What do you want the money to accomplish for your children? And, what will the effect of this money be on their lives? Not easy questions.

Some parents list and define how much would be appropriate for their children for specific purposes. For example, they might want to move an inheritance downstream for children to (a) fund their college and graduate-school education; (b) make a down payment on their first house; (c) have the family's vacation home transferred to their name, and then receive an endowment to help pay for its maintenance; (d) donate money philanthropically from the family fund; and (e) have access to what I call a "business opportunity fund," or a fund that will provide financial security in the event of divorce, unemployment, serious health issues.

This fund should also serve as a "family bank" where entrepreneurial sons and daughters can be encouraged to create wealth or start a business and come to this business opportunity fund to get some money for the enterprise.

WHEN SHOULD PARENTS DISCUSS INHERITANCE WITH THEIR CHILDREN?

Once their children are in their early to mid-20s, parents can be a little more open around the process. I see too many estate planning decisions made in a vacuum between parents and their advisor, with often little rigorous discussion about how much money to give the children, how to give it to them and when. At some point, the best way to get more variability into that discussion is to include the children themselves in the discussion of their inheritance. Not all families are able to or willing to do this, but I know more and more families that eventually do talk to their children, who are in their late 20s and 30s, about the inheritance and ask for their advice on how much money they think they need, when they want it, how they want it and for what purposes.

Giving adult children a say in their own financial inheritance sends the message of, "We trust you and you can handle the information." It also continues to foster the openness around money. Of course, children shouldn't have the decision-making power; ultimately, it's the parents' decision. But I've seen families benefit tremendously by including their adult children and, in some cases, their spouses in these important conversations.

WHAT DO YOU ADVISE PARENTS WHOSE CHILDREN ARE WELL INTO THEIR THIRTIES AND HAVE NOT BEEN PREPARED FOR THE FAMILY MONEY?

I would say this is clearly an issue for many families, but in most cases, it's never too late if children are irresponsible with money. My hope is that parents would try to see this as an educational opportunity to help children even in their 30s or 40s get competent and responsible. That is, to work on the competency and responsibility through some continuing education rather than just putting special incentives into a trust or putting money into a highly restrictive trust.

WHAT'S AN EXAMPLE OF HOW TO HANDLE THAT?

For children in their 20s and 30s, if significant money is involved, you can have those children be co-trustees of a trust with another trustee, so the child is not only a beneficiary of the trust, but also co-trustee. First, that sends a message to the adult children that you trust them. Second, you're putting a very safe platform for financial education under this child. A child who is both a beneficiary and a co-trustee has to learn the responsibilities and rights of trusteeship and being a beneficiary—signing the trust tax return, fiduciary responsibility, understanding the investments in the trust—and all this can be done in the safe harbor of Merrill Lynch, for example. My preferred structure is to have the young adult child be a trustee with two other trustees, one of whom would be a lawyer, investment person or institutional trustee who will worry about the money, and the second trustee recruited as a mentor with the help of the beneficiary. That person will not worry about the money but about the life course of that child.

HOW CAN YOU TREAT KIDS EQUALLY, IN TERMS OF FINANCIAL INHERITANCE, WHEN ONE OR THE OTHER IS BETTER OFF FINANCIALLY?

It can be challenging when you have, say, a corporate lawyer and a social worker or an investment banker and an elementary-school teacher—two children with very different money styles, different marriages, different vocations. Those natural and wonderful differences in your children are to be celebrated, but how parents navigate the decision of whether to give the same amount of money or not is one of the great inheritance questions that wealthy families must face.

There is no right answer, of course, although I have seen some parents start by helping out all their children with education, graduate school, money to learn how to invest, money for philanthropic activities, and so on. Then they may give different amounts to different children based on their different financial needs as they move through their 30s. One child, for example, may need more of a down payment for a house. Another may need more money for elementary-school private education. These amounts given during the parents' lifetime may be quite different from child to child, but when it comes to substantial financial inheritance—in my view, over $1 million—those inheritances are typically going to be made on an equal basis. When the children are in their 50s, a wealthier child may ask his or her parents to direct more of the inheritance to the less-well-off sibling. But that kind of conversation typically happens only in families that have been transparent and open over time.

IS THERE A LIMIT TO HOW MUCH YOU CAN TALK TO YOUR CHILDREN ABOUT THE FAMILY WEALTH?

I don't think there's a limit, but timing is an issue. I think it would be inappropriate to tell your child of 13 what they're going to inherit and how much they're worth. But it may be perfectly appropriate at 25 to tell them what they're going to inherit and at 35, to tell them what they're worth. Every family is different, but there are some best practices.

HOW CAN A FAMILY'S PHILANTHROPY PERPETUATE THE FAMILY'S VALUES?

Family philanthropy is a wonderful enterprise because it is an incubator of skills and competency in the family that carry over to the rest of life. Involving your children in your philanthropic decision-making teaches skills from working together, to learning about money, to perpetuating the value of generosity of spirit and doing a bit of good in the world in a strategic way. Most importantly, family philanthropy can help people work together as well as encourage the individuality of family members. For example, in some foundations, 80% of the money is given to causes that the whole group works on, a focus for the family, and maybe 20% is divided up between the directors or family members to give to causes they want to support on their own. That is a wonderful "tip of the hat" to the rich individuality of families.

WHAT ELSE, BESIDES FOSTERING OPENNESS AND PROVIDING A FINANCIAL EDUCATION, CAN PARENTS DO TO ENSURE THAT THEIR KIDS UNDERSTAND THE VALUE OF MONEY?

Parents have to set boundaries. No matter how much money you have, and whether the kids are young or in their teenage years, that is really important. To say, "We could buy you a bike every six months, but we're not going to because we don't value that." Or, "You have a car and it's three years old. That's terrific. I'm not going to buy you a new car even though we can afford to, because it's not what we value." I think some parents get into trouble when their children grow up and see no boundaries, no limits on the use of the money.

And this is where modeling is so critical. Because it's not so much what parents say or espouse, but what they model that's important. If you buy a car every two years, what does that tell children? That the money is endless, and that the money is the most important thing in life. I know people who build 20,000-square-foot houses and I know others who live in 7,000-square-foot houses because they want to set a model for their children that is not over the top. Parents are the most important example their kids are likely to follow, so how parents earn, save, invest, spend and give away money is the most critical component to raising children with a healthy attitude and practice around money.

The Private Banking and Investment Group at Merrill Lynch understands the responsibilities that come with substantial wealth. Your Private Wealth Advisor is singularly positioned to discuss these issues with you and your children and to implement solutions on your behalf, from financial education to personal trusts and family philanthropic strategies.