Financial Conversations with Family

Wealth Planning Insights

Although it affects many aspects of family life, money is often a difficult topic to discuss openly. Parents sometimes struggle with both how and what they should teach their children about finances. The first thing to recognize when talking to children about money is that this topic is filled with a wide range of emotions. Over your life you have had many experiences with money, both positive and negative. These experiences color your view on the topic, and may affect your children's views as well. Your spouse may have a very different relationship with money than you do. No matter your personal experience and family dynamic, money should not be a taboo topic in family life. Although you do not want it to be the center of your family relationship, it should be acknowledged and discussed at appropriate times throughout the growth and development of your family — both before and after your children have become adults.

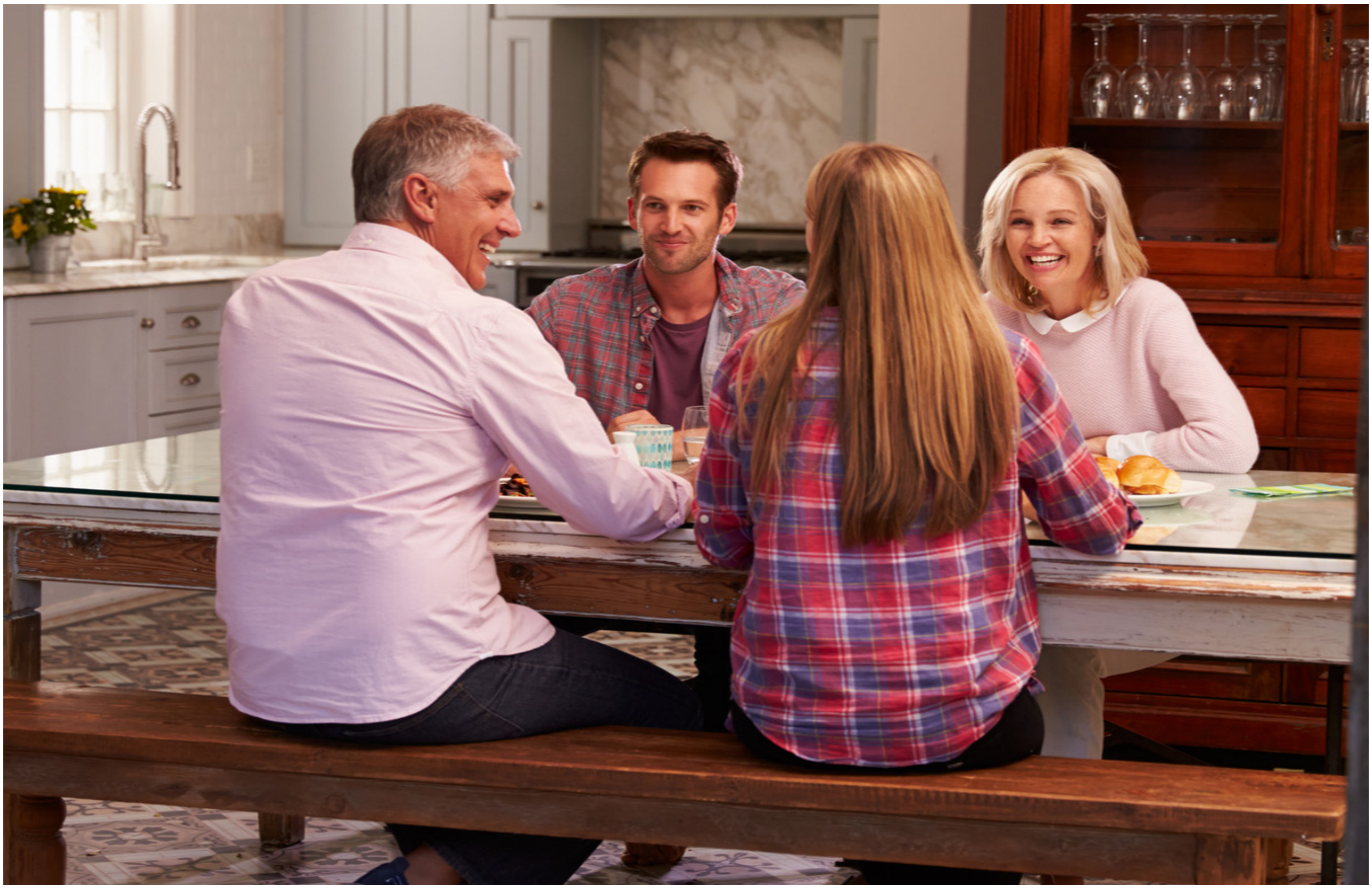
Learn More:

For more information on Fiduciary Trust visit:

www.FidTrustCo.com

or contact:

Jody R. King, CPA
Vice President & Director of Wealth Planning
jking@fiduciary-trust.com
617-574-3424



Providing children with a weekly allowance can be an opportunity to teach patience, self-control, delayed gratification, money management, and philanthropy

Teaching Responsibilities and Values

Money can be a terrific teaching tool. Providing children with a weekly allowance can be an opportunity to teach patience, self-control, delayed gratification, money management, and philanthropy. Although there is no magic age to start an allowance, many families begin somewhere between ages 7 and 11. A combination of your children's ages and the expectations you have around the uses of their allowance will often dictate the amount. Some families view an allowance as money earned for chores, such as making beds or helping with dishes, while others believe these tasks are required of children to be contributing members of the family group and do not want them tied to compensation. Either way, an allowance is a tool that can help children begin to understand the value and power of a dollar. If you want to instill that saving for the future is valuable, set a required amount or percentage that must be saved from their allowance each week. Once this amount gets large enough, help your children open an account so that they can begin to learn investment basics. You may want to fund a modest account for each of them to begin this sooner. If you want to teach the value of philanthropy, set an amount or percentage of their allowance that must be given to the charity of their choice. After setting aside amounts for savings and philanthropy, give the individual child the discretion to spend the balance. Early on they may use the money in ways that you may not agree with — such as at the candy store — but even this will help them learn that what you spend today is not available for tomorrow and that your choices today affect your ability to make choices in the future. This is a good time to set limits, and let them realize that if you spent it yesterday, you may have to go without tomorrow. As hard as this can be to watch, it is a very valuable lesson to learn.

As your children grow older, encourage them to earn their own money. Maybe they can provide childcare, mow lawns, work at a local restaurant, caddy at the golf course, work in the family business or even start their own business. It is still reasonable to require your children to save a percentage of what they earn and to give some amount to charity from their earnings.

Another way to teach values and responsibility with respect to money is to get your children involved with your family's charitable giving. If you have a family foundation, involve your children with both charity selection and discussions about how the foundation's assets are invested. Even if you do not have a foundation, having your children involved in charity selection can be a great way to teach them about researching charitable entities and to provide an opportunity for discussions around money and the value of giving. If you have more than one child, consider allowing them to collectively select a charitable beneficiary to receive some amount of funding. By asking them to explain the reasons for their choice, you can be assured that they have worked collaboratively and that conversations about money are becoming part of their relationship.

Your Beneficiaries

Children often learn from the behavior of their parents, and the handling of money is no exception. Despite concerns about anticipated inheritances ruining a child's drive or ambition, most families recognize that it is important to deepen their discussions around family wealth as children mature. It is true that a relatively small amount of wealth can sound like a lot to young adults, but if you have been talking to them openly about finances over time, they will be more likely to realize that the $100,000 you may have saved for them is not enough to create a life of leisure. If you expect your children to be educated and obtain gainful employment, they should know this. If you expect your children to be stewards of the family's wealth, and possibly even add to it, then they should know that also.

If your family has significant family assets, it may be important to discuss the idea of premarital agreements with your children. The best time to introduce this concept is when children are young adults, such as around age 15, and definitely long before their fiancés enter the scene. Bringing this up early and without a particular person in mind can help take some of the emotion out of what can easily become an emotionally charged discussion. You should realize, however, that a premarital agreement will require some disclosure about the assets your child will likely inherit. This makes it important that you continue to talk to your children about your family's wealth as they become more responsible.

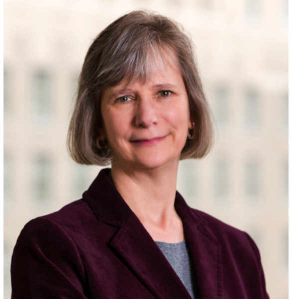
If you have been talking to them openly about finances over time, they will be more likely to realize that the $100,000 you may have saved for them is not enough to create a life of leisure

Your Legacy

Despite detailed planning and well drafted documents, many estate plans are ineffective because the next generation is not adequately prepared to receive and become stewards of the family's wealth. Just like a CEO would never turn over the reins of a business to someone who had no idea what the business does, parents should not plan to turn over the family wealth to children who do not understand it. The depth and frequency of family discussions may vary with the level of wealth, but the discussions need to occur regardless. You should not wait until you can clearly envision your passing to begin to prepare your children for what may (or may not) be coming their way.

Parents sometimes struggle with whether they should leave assets for a particular child's benefit in trust or give it to them outright. Often, trusts are desirable because future circumstances are unknown while the desire to keep the family wealth for the benefit of descendants is clear. Properly drafted, trusts can be flexible and can easily adapt to future circumstances. Having honest discussions with your children about your reasons for utilizing trusts can help them understand the many protections afforded by trusts while helping to ensure that your values and legacy benefit future generations.

Author



Jody R. King, CPA
Vice President & Director
of Wealth Planning

One way to prepare children is to have all of you meet with trusted family advisors. Meetings like this usually evolve over time, with initial meetings being carefully planned with your input as to what information is presented. Discussions about asset allocation can be a terrific way to educate the next generation. Estate planning vehicles can be discussed without numbers until it is appropriate to make more detailed financial disclosures. As time passes and everyone gets more comfortable with the topics involved, more significant information can be shared and your expectations can be communicated

Conclusion

As a parent, you can have a significant impact on your children's relationship with money. Responsible financial choices by you and open conversations with your children are important in making sure that money is not a taboo topic. Family discussions about money will help ensure that wealth can be successfully passed onto future generations, preserving your family legacy. As always, your Fiduciary Trust officer is available to discuss these topics. ■

Disclosure: The opinions expressed in this article are as of the date issued and subject to change at any time. Nothing contained herein is intended to constitute investment, legal, tax or accounting advice, and clients should discuss any proposed arrangement or transaction with their investment, legal or tax advisers.

Learn More:

For more information on Fiduciary Trust visit:

www.FidTrustCo.com

or contact:

Jody R. King, CPA
Vice President & Director of Wealth Planning
jking@fiduciary-trust.com
617-574-3424

Issue Date: May 1, 2010

FIDUCIARY™ TRUST