FROM ALLOWANCE TO INHERITANCE:

HOW TO TALK TO YOUR CHILDREN ABOUT FAMILY WEALTH AT ANY AGE

A GUIDE TO QUALITY CONVERSATIONS FOR PRESERVING VALUES AND PROMOTING PEACE OF MIND

Truepoint
WEALTH COUNSEL

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WHEN IT COMES TO FAMILY WEALTH, CONVERSATIONS COUNT

For their many differences, nearly all wealthy families have a few things in common:

1. They want to raise financially literate children who make good decisions about money.
2. They want to preserve their wealth across generations, and perhaps even establish a legacy through philanthropy, community service or a family business.
3. They find it difficult to talk about their family wealth or financial matters.

The likelihood of achieving the first two goals increases for those families who can get comfortable talking about money with their children and grandchildren.

Quality conversations about family wealth start with financial literacy, which must begin at home. Consider that:

93%

of Americans believe all high school students should be required to take a class in financial education

4

states require high school students to take a semester-long course in personal finance (Missouri, Utah, Tennessee and Virginia)

Because children aren't learning about financial matters at school, families must be the source of quality information and essential lessons. With a little forethought and a willingness to seize teachable moments, you can be a positive influence on your children's financial lives, starting at a very early age.

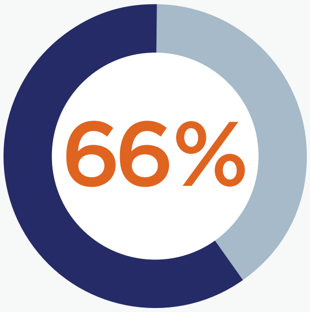
Talk Isn't Cheap. In Fact, It's Invaluable.

WHY IT'S HARD TO TALK ABOUT FAMILY WEALTH

Money stirs up complex emotions for most people, especially the wealthy. The awkward feelings may include:

- A sense of unease about what they have
- An urge to keep wealth a secret
- Reluctance to make children feel different than their peers
- Fear of creating a sense of entitlement in their children or damaging their work ethic

Having age-appropriate conversations about money and family wealth can be a healthy and productive way to deal with these emotions. For instance, allowances can be used to teach that money is a tool and a regular part of life to be managed. And if children are going to receive an inheritance, it's best that their parents explain where it came from, how and when they will receive it and the best ways to manage it.



of wealthy individuals are "apprehensive about sharing inheritance details"

66%

of intergenerational wealth transfers fail, mainly because of communication breakdowns

19%

of ultra-high-net-worth parents say they have provided their children with formal training or education in family financial matters

Sources: Wilmington Bank, Williams Group, SEI Private Wealth Management

WHAT TO TALK ABOUT WHEN YOUR KIDS ARE 3-5 YEARS OLD

Start the conversation early to instill good habits (and easier conversations) sooner.

TIPS & TOPICS

- **Explain the role of money:** Once they know how to count, young children can understand basic concepts, such as being paid for work and buying groceries.
- **Use money as a tool for teaching:** Providing young children with an allowance helps them get comfortable with money as a part of everyday life. Consider using jars (or piggy banks) labeled "Spending," "Saving" and "Giving," with allowance divided among them. Using cash helps them gain a concrete sense of money (in ways that credit cards, digital payments or direct deposits can't), while clear glass jars help them see how money accumulates when it is not spent.
- **Don't be afraid of tough questions:** Children are naturally curious and will want to know what different things cost: from cars and houses, to food and clothes, to family outings and vacations. These are teachable moments. If you aren't sure how to respond, simply say, "Why do you ask?" which is a good way to advance the conversation and learn what your kids already know.

GOOD ANSWERS TO TYPICAL QUESTIONS

Q: "Why can't we buy this?"

A: "We choose to spend our money in other ways."

This answer helps children understand the need to make tradeoffs and set priorities in spending. It may also be an opportunity to explain the family values that guide purchasing decisions.

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WHAT TO TALK ABOUT WHEN YOUR KIDS ARE 6-12 YEARS OLD

As kids learn more, the questions will be more specific.

TIPS & TOPICS

- **Open a banking account:** Having children visit a bank branch or website to set up an account and deposit money helps them learn how the financial system works.
- **Include them in budgeting decisions:** Reviewing monthly expenses or the plan for a family vacation is a good way for children to learn the basics of budgeting.
- **Consider volunteering:** As children get older, volunteering can help them understand your values and the importance of giving back (not to mention the causes that are meaningful to you).
- **Take on more financial responsibility:** Require that your children use their own spending money to buy clothes, or pay for weekend entertainment. Factoring in such costs will assist in determining an appropriate amount for allowances.
- **Have your kids watch you pay bills:** Whether you pay bills online or by writing checks, have your children observe your process, noting the amounts, frequency of payments and purpose of the different bills. They may be surprised to learn what water, electricity and other basic services actually cost.

GOOD ANSWERS TO TYPICAL QUESTIONS

Q: "Are we rich?"

A: "We have more money than many people, but money isn't the only measure for wealth."

Transparency is usually best, but the age and maturity of a child must be considered when answering. This may also be a great time to discuss family values and the origin of family wealth.

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GET CREATIVE
MAKE MONEY FUN AND INTERESTING FOR KIDS

You know your kids better than anyone else. You know how they learn and which incentives they'll respond to. The following approaches may open their eyes to financial realities and make key principles stick.

Bring home dollar bills

Author Ron Lieber *(see page 12)* tells a story of a man who converts his paycheck into a huge pile of one-dollar bills, which he puts on the dining room table. His kids are astonished by the huge pile of money. Then, the father sorts through the family's expenses, peeling away the dollar bills to pay for each so the kids can see where the money goes and recognize what everything costs.

Make a game of savings

At the grocery store, have your kids find the best deal on milk, juice or cookies. Offer to split the "savings" from the difference between the highest and lowest cost.

Encourage initiative and entrepreneurial thinking

If your kids ask for a new toy or more allowance, instruct them to identify a non-routine chore around the house and encourage them to negotiate their payment. This is about encouraging them to be resourceful, even entrepreneurial, to associate work with rewards and to learn the valuable skill of negotiation.

Start a family investment project

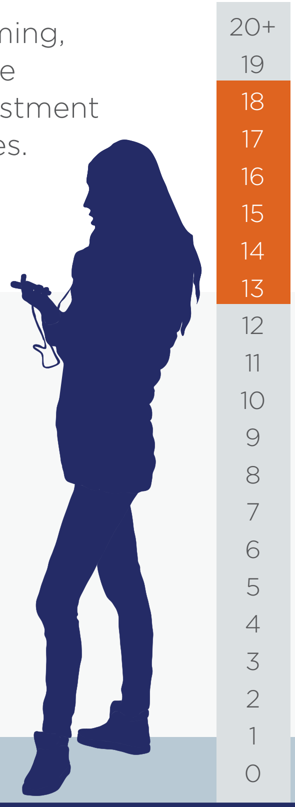
Have different members of the family put money into a family limited partnership (or other relatively simple vehicle, like a charitable fund) and then work together to manage it so children learn basic investing principles.

WHAT TO TALK ABOUT WHEN YOUR KIDS ARE 13-18 YEARS OLD

The teen years may be awkward, but money conversations don't have to be.

TIPS & TOPICS

- **Give kids more responsibility:** These are the years when kids can, and should, start using checking and savings accounts, debit cards and credit cards. (They may prefer mobile payment apps. Maybe they can teach you!)
- **Work with the acquisition habit:** Teens always want new stuff, like fashion, electronics and cars. Have them work within a budget for back-to-school clothes. If you're giving your child a car, consider having them pay for gas and maintenance.
- **Consider a part-time job:** Even a low-paying job can be a first step for teenagers to manage their own money, learn about payroll taxes and balance savings goals with spending. And the sooner they start working, the sooner they can start saving for retirement. Beyond teaching financial management, introducing kids to the notion of having a job and taking pride in their work can provide a foundation for long-term career success. And if you're worried about the impact on academics, rest assured that research shows that kids with part-time jobs typically do better academically.
- **Discuss the cost of college and clarify who's paying for what:** No matter the plan to pay for college, your kids should understand the cost, the tuition levels at different schools, the different methods for paying for college (including 529 plans, student loans and scholarships) and the need to cover living expenses.
- **Introduce the inheritance question and custodial accounts:** Explain what's coming, when, and why it matters to you and to them. Now's the time to outline how the inheritance should be managed over time. Teenagers should also learn key investment concepts, like having a long-term plan, risk vs. reward, and types of asset classes.



BEFORE-COLLEGE CHECKLIST

MASTER THE BASICS & MAKE A PLAN

- ✓ Manage a checking account
- ✓ Use a debit card responsibly
- ✓ Get legal documents in order
  Powers of attorney, HIPAA authorization, wills
- ✓ Build the college budget

THE COLLEGE YEARS

Financial knowledge should be an essential part of higher learning.

TIPS & TOPICS

- **Focus on the budget:** While sticking to the plan to cover tuition, now's the time to help your children define a budget and track expenses. Especially if you are paying for room and board, it's a good idea to make kids accountable for other expenses.
- **Insist on savings:** Teach the "rule of 72" to illustrate the time value of money and the advantage of saving at a young age. By dividing 72 by the compound annual interest rate, the rule of 72 estimates the number of years it will take to double your money. For example, an 8% compound annual interest rate means you double your money in nine years. The sooner you start saving steadily, the faster and larger your money grows.
- **Consider a part-time job:** Even for families that don't need financial assistance, a part-time job can help young adults prepare for their "real-world" career and gain valuable time management and networking skills.
- **Establish good credit:** To avoid credit card horror stories, emphasize the importance of building good credit, which will be extremely important coming out of school. Define which expenses you are willing to cover if they turn up on a credit card bill.
- **Discuss financial implications of career choice:** No matter your child's interests or talents, it's best to be clear and realistic about the income prospects for different types of jobs. However, frame this conversation in the context of what success looks like, helping your child understand that financial success is only one element of a fulfilling career and enriching life.
- **Share more details about inheritances:** Don't leave this up to trust attorneys. Focus on the mechanics of the transfer, how distributions will work and your expectations for the trust (e.g., how many years it will last, the type of lifestyle it will support). Further, kids should be encouraged to protect and preserve this generational wealth by understanding it's not "free money." And continue to share more information about the values and story of the wealth creators (especially if they were from a previous generation).

DURING-COLLEGE CHECKLIST

STICK TO THE PLAN & BE SAFE

- ☑ Monitor the budget
- ☑ Build credit history
- ☑ Avoid costly mistakes
- ☑ Prepare for the next step

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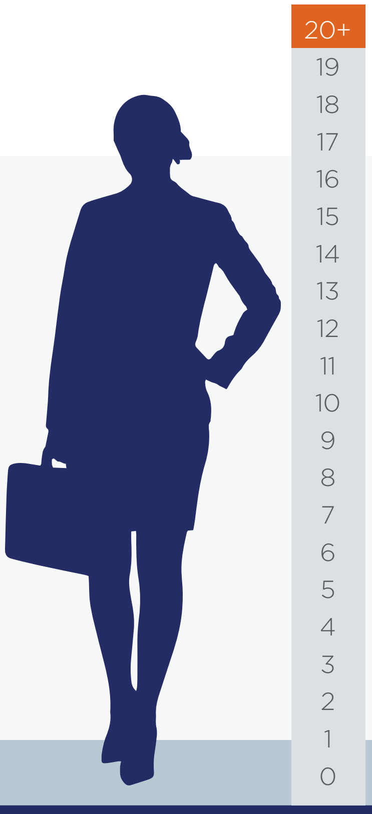
YOUNG ADULTHOOD

Entering the real world may lead to more questions than ever.

TIPS & TOPICS

- **Teach your kids to track:** It's no longer your job to micromanage, but help your kids build a budget and track expenses by using one or more of the very handy apps that are available. *(See page 13.)*
- **Establish an emergency fund:** Explain that you are no longer a safety net. Encourage your kids to save for rainy days and unforeseen events, with the goal of accumulating several months' worth of living expenses.
- **Save strategically based on priorities:** If they are just beginning to invest, make sure your kids understand the power of compounding and the benefits of diversification. Young adults should definitely know the differences between Roth IRAs, 401ks and other plans. And they should absolutely take full advantage of employer matching contributions. Young adults should aim to save 50% of every pay raise to avoid having their standard of living outpace their ability to pay for it, while still funding their retirement savings.
- **Build on the foundation:** Following up on the lessons from the college years (see previous page), encourage your young adult children to continue with budgeting, saving and retirement planning. Counsel them to protect their credit scores with responsible decision making. You may also encourage them toward more ambitious financial planning goals, such as saving for that first house.



AFTER-COLLEGE CHECKLIST

BUILD CONFIDENCE & EDUCATE YOURSELF

- ✓ Redefine the budget
- ✓ Control debt and spending
- ✓ Automate savings
- ✓ Invest for the long term

KEEP TALKING

Your kids never outgrow the need for quality conversations about money.

TIPS & TOPICS

The need for quality money and wealth conversations does not go away as kids reach their late 20s, early 30s and so-called middle age. If wealth is tied up in a family business, inheritances come in phases or shared family properties exist, there is a lifetime's worth of questions to be answered.

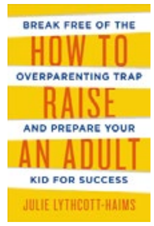
- **Seek trusted counsel:** People of means may be tempted by "exclusive" investment opportunities or aggressive sales pitches from a range of sources. Make sure your young adult children know you are there to discuss these situations, as well as whatever chatter they might hear from the financial media. You should also encourage them to seek advisors who are fiduciaries and have an intellectually honest investment approach that avoids market timing and chasing returns. As your children age, their needs for life insurance, estate plans, wills, tax planning and other financially-oriented services will grow.
- **Prepare for marriage, families and other life events:** Professional advisors are also critically important as children navigate marriage and pre-nuptial agreements, as well as adjustments to wills and estate plans as they have their own children. The higher the financial stakes, the greater the need for creditor and divorce protection of all assets. In all of these potentially stressful situations, clear, honest and emotionally intelligent discussions lead to better decisions.

Quality conversations about money can, and should, happen with kids of all ages. Demystifying money from an early age "detoxes" the difficult emotions around wealth and makes it easier on both you and your children to talk openly and freely. And the cycle of conversations starts anew with each generation. You may want to take a hand in helping to raise financially informed and responsible grandchildren.

ADDITIONAL RESOURCES

The Opposite of Spoiled: Raising Kids Who Are Grounded, Generous and Smart About Money

Ron Lieber

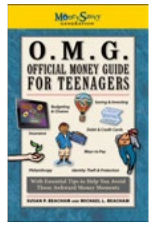


How to Raise an Adult: Break Free of the Overparenting Trap and Prepare Your Kid for Success

Julie Lythcott-Hains

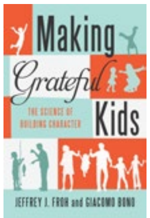
Mommy, Are We Rich? Talking to Children About Family Money

Barbara R. Hauser & Suzan Peterfriend



O.M.G.: The Official Money Guide for Teenagers

Susan P. Beacham & Michael L. Beacham



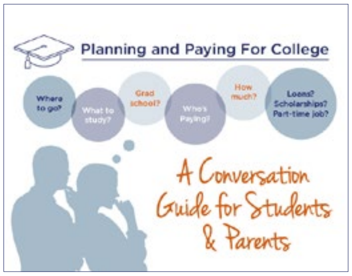
Making Grateful Kids: The Science of Building Character

Jeffrey Froh & Giacomo Bono

Truepoint eBooks and Infographics

Proven Principles for Preserving Legacies Across Generations >

5 Steps to Financial Empowerment: A Guide for Women >



Planning and Paying for College: A Conversation Guide for Students & Parents >

Real World Planning for Young Adults >

ADDITIONAL RESOURCES

There are many (perhaps too many) apps out there that claim to help with a wide variety of financial tasks. And new apps are launched all the time. The following are just a few that we like and may recommend to our clients.

Ages 3-5: role of money, basics of saving, spending and giving

Counting Money & Coins	Designed for young children, this app offers 10+ games that make learning about the value of money fun and exciting.
My PlayHome Stores	The app places children in a virtual town with ATMs and retail stores. Users navigate around the town, learn to withdraw money and purchase goods.

6-12: saving, budgeting

Savings Spree	Savings Spree teaches kids the importance of saving. They can see how small expenses add up over time and how savings compound.
Bankaroo	Children can take control of their savings. Parents can add allowance payments into the app, with kids deciding how to save, spend or donate their earnings.
PiggyBot	Kids can add pictures of things they want to buy and then manage their savings to achieve those goals, with options to "share" or "save" their money.

ADDITIONAL RESOURCES

13-18: saving, mobile payments, investing

iAllowance	This app allows parents to manage their children's finances with scheduled payouts and deductions. Parents can set up rewards to be paid upon completion of specific tasks, as well as customize how much control kids have over their financial information.

19 and older: more advanced budgeting, planning and investing

Venmo	The app allows users to pay friends virtually instead of with cash. Teens can sync their Facebook account with the app to find contacts and can complete payments instantly from a linked bank account.
Mint	Users can sync their financial accounts to set budgets, track spending and pay bills in one dashboard. The app also shows users' spending allocation and gives advice to stay on track for spending or savings goals.
Campus Books	Users can save money by comparing the cost of books across campus bookstores and online retailers.
RhineVest.com	Offering intelligent financial management to everyone, Truepoint's own version of "robo-investing" is a great tool for getting started with retirement planning and for meeting specific goals, like saving to buy that first house.

Note: Useful new apps appear all the time. Some require users to be 18 or older, so parents might have to help their children set up their profiles.

READY FOR A QUALITY CONVERSATION?

We Are Ready to Listen and Talk

In our experience, talking honestly and openly about money leads to clarity and confidence for wealthy families. These conversations also promote financial literacy, responsible behaviors and good decision-making in younger generations. That's why Truepoint focuses on the human, personal and emotional sides of financial planning and wealth management.

In fact, we believe that the most effective strategies for preserving family wealth across generations are qualitative, not quantitative. It's about good communication, not trying to beat the market.

Schedule time to talk to an advisor today. >

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