



## How to Teach Your Kids Fiscal Responsibility in Uncertain Times

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Recently, through the ongoing market turmoil, I've been thinking about my own children, and the children of our clients, and how wholly unprepared they may be for the events of the past few months.

The reality is that they will live in a world that may be substantially different than the one in which we have been living. It's quite possible that they may not have the same opportunities we've been so fortunate to have.

The tax structure will surely be different, if not only because of the approximately \$50T (yes that's *trillion*) of promises we have made between Social Security, Medicare, and Medicaid. Investment returns may also be muted in the future because of a variety of issues, not the least of which is a long and painful recovery from the period we are battling through now with our dysfunctional and perpetually overleveraged financial infrastructure.

On the other hand, many of our clients have preserved capital, have done a significant and sufficient amount of financial and estate planning, and have already begun to make substantial gifts. These might range from organizing Family Limited Partnerships and purchasing life insurance to setting up Grantor Retained Annuity Trusts, or GRATs – which has never been a smarter strategy in this record-low, depreciated stock environment. In many cases, the children of our clients will receive substantial assets, but the question is:

How they will deal with the responsibility that wealth brings? And how will they avoid the disease commonly known as "Affluenza?"

Affluenza, in case you aren't familiar with it, is that condition that strikes many children (of all ages) of the wealthy. The symptoms range from silver spoonitis (a lack of work ethic) to "we'll take care of it" syndrome, where expectations of trust funds and infinite sources of capital will buffer the need for fiscal responsibility.

How can a parent create an environment that is immune to Affluenza? One way is prepare one's children to be financially ready to take care of themselves.

A smart way to start with younger children is to set up a properly structured allowance, whose purpose and structure encourages kids to:

1. Think reflectively.
2. Postpone gratification
3. Obtain budgeting skills

With an allowance, parents shift the responsibility of paying for things that they are already paying for over to their child. And more importantly, kids are held

accountable through an allowance contract, which reinforces the importance of work ethic. The contract in essence, supports the fundamental belief that all of us are responsible for what we accomplish (or don't), and that what we *are* accomplishing is worthwhile.

The development of a work ethic is the No. 1 one determinant of adult mental health, according to a 40-year-long Harvard study that culminated in 1981. In his article in the *American Journal of Psychiatry*, George E. Valliant, the director of the study reported that the single biggest predictor of adult mental health was "the capacity to work learned in childhood." In other words, the development of a work ethic is preventative medicine for overindulgence.

In the 1939 Harvard Study of Adult Development, 248 Harvard students and 500 young men from working class neighborhoods in Cambridge were put under a microscope, tracking their lives for over 40 years. They filled out questionnaires every two years, provided records of physical exams every five years and were re-interviewed about every fifteen years. Their wives and children were also interviewed. Socioeconomically, the group was diverse. This study was one of the longest prospective studies of physical and mental health in the world.

Men who Valliant described as "competent and industrious at age 14" — men who had developed a work ethic during the Industry Stage of development — were twice as likely to have warm relationships (both family and friendships), five times more likely to have well-paying jobs, and 16 times less likely to have suffered significant unemployment.

Our experience with thousands of families over the years confirms Valliant's conclusions. Time and again, we've seen the positive impact of a work ethic on children's maturity and success and the negative impact when kids lack this work ethic.

So how can children build a work ethic? They probably are already doing this, with your support, without even realizing it. The best tools of the trade are generally already in place but perhaps not fully appreciated by parents or kids: family chores, part time jobs, extracurricular activities and homework. (I don't think you need me to elaborate on any of these!)

And then there is the HUGE opportunity for exposing one's family, no matter what age, to philanthropy. Getting your kids involved in a favorite family charity will benefit you, the donor, and your partner in philanthropy — your kids — just as much as those people and groups who on the receiving end of your gift. By engaging your kids in an organization that is special to your family — whether it is breast cancer research or a family foundation or local crisis center — you can help teach your kids a valuable lesson in empathy and charity.

But you may be wondering, how do I as a parent make it *concrete*? How can my kids' involvement and support really make a difference? Here's your chance to discuss what the world would look like with only 100 people.

Here are just a few ways for you to help them make it real:

- Take your kids to the non-profit gift store. Explain that all the proceeds go back to charity.
- Get involved in a charity event or walk.
- Get involved in friends' private foundations.
- As part of your kids' Christmas presents, select a dollar amount that they can give away. Take them to the location of the charity, and let them see firsthand what their money can do.

## Part II – Customize it

What are the causes that really resonate with your kids? If you're like most parents, you might only be able to guess. But having a conversation with them about the issues and initiatives they really care about can be quite eye-opening.

Once you identify their favorite cause, you can work with them to customize a philanthropic game plan. This isn't just giving away money, but can include time and talent, integrating family fun and sharing as well.

For example, one acquaintance just took his son on a Habitat for Humanity trip to Africa. This is an example of a growing trend towards Volunteer Vacations, which you can book through [www.volunteermatch.org](http://www.volunteermatch.org).

By combining entrepreneurial endeavors with philanthropy, work ethic meets creativity, for productive and meaningful results. Another friend's daughter, a dog lover, raised money with a lemonade stand and then donated her proceeds to an animal shelter.

How can you help your child become an adult through increased fiscal responsibility? When you look at what it means to become adult, it comes down to three basics:

1. Taking responsibility for one's actions
2. Making independent decisions
3. Becoming financially independent

Unfortunately, the proliferation of credit cards among our children may have had the reverse effect. While in 1990 about 43% of all Americans had credit cards, now about 85% have at least two credit cards. If we know our kids will be out there using credit cards, how can we as parents provide the right type of credit vehicle that helps teach our children to be financially independent?

The best two options are the checking account/debit card and prepaid credit card, in which parents deposit the child's allowance into a checking account, switching to a monthly allowance. But the lessons don't stop there – parents must participate by monitoring their use and discussing their purchases.

Once your children are young adults, it's helpful to teach them about their potential sources of income and the amount they can expect, with the goal of ultimately managing their own expenses. How can they avoid the fear of running out of money? Parents can easily start with a virtual money management account. The key is to make it as simple as possible for them -- be basic, ask simple questions, check with them to see what they understood.

Think about the types of questions your own financial advisor is (hopefully) asking you? What are your goals? What keeps you up at night? What are your resources? What are your plans for the future? These questions can all play a role in creating a personal balance sheet for your child.

Once they have grasped the concept of a personal balance sheet, it's time to move into investments, teaching your kids about stocks, bonds, risk, etc. You might allow them to manage real money through the establishment of an investment account. Or alternatively, set up a GRAT, and let your child help manage the GRAT.

You can give them the ability to learn responsibility and planning at the same time, by allowing them to be co-trustee initially, becoming sole trustee once they have demonstrated an ability to manage the account.

If your family has its own foundation, you can empower your kids to help in the management of that foundation's investments and disbursements.

Finally, when it comes to giving to your own kids, make sure your child knows whether your gift is conditional or unconditional. Your giving should be fueling independence, not prolonging dependency.

Eileen and John Gallo, co-authors of "Silver Spoon Kids: How Successful Parents Raise Responsible Children," once noted about their own giving philosophy to their kids, "What we leave in our children should concern us more that what we leave to them."

"The years bridging adolescence and adulthood are a testing ground for all the assumptions we have about ourselves," notes author Terry Apter in her bestseller *The Myth of Maturity*. "Every young person confronts a series of challenging questions: "How will I manage as one of *them* – one of the grown-ups? How do I measure up in a larger world-pond? Will I be able to learn what I need to know?"

By teaching our children responsibility through financial management, we can help them learn what they need to know to manage in the "grown-up" world.