Wealth Management
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Raise financially responsible children

Strategy 3 – Avoid "affluenza"

When someone hears the word "affluenza" for the first time, the first thought that typically runs through their mind is some type of infectious disease. But "affluenza" is the term used to describe the concern shared by many parents that raising children in a privileged environment could give them a distorted sense of value and make them less motivated to work hard to build their own financial resources.

Most people who have built a relatively high level of wealth have done so through hard work, often as a business owner, executive or professional. Despite the challenges they likely overcame to build their wealth, and the experiences they will pass on to their children, many of these people remain concerned that their children won't grow up to recognize the value of money or hard work. While some may take steps to restrict trust funds and inheritances, the best way to protect your children from affluenza is usually to prevent it in the first place or to "cure" it as early as possible.

Here are some strategies you can adapt for your children, whether they're still youngsters, in their teens or young adults.

Provide a reasonable allowance

An allowance can provide much more than a pool of spending money and is a simple way to instill the three "Ss" of money management: Save, Share and Spend.

For example, your 12-year-old might get $12 per week ($1 per week for each year of age can be a starting point), divided as follows:

- Spend (or accumulate) $4 allowance each week. Figuring out how to stretch this amount over the week will develop valuable budgeting skills.
- Share $4 with charitable causes. Children will develop a social conscience as they decide which organizations and causes to support.
- Save $4 each week for a full year. Introducing the concept of "paying yourself first" at a young age will help kids manage expectations and recognize the value of saving for the future. Along this line, consider having your children read well-known and easy-to-read financial planning books.

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This system is flexible enough to work for kids of all ages and can be easily modified to suit your family's specific objectives.

Set limits

Parents with above-average financial resources aren't able to say "No" with that old parental standby: "We can't afford it." But they still need to teach the lesson that we don't always get what we want. One solution is to sit down as a family and draw up a monthly or semi-annual budget that accommodates reasonable activities and purchases for everyone in the family. When the kids invariably ask for something that's not part of the plan, you'll have an ironclad answer: "No, that's not in the budget. But maybe we can include it next time."

Teach them about financial statements

When children start earning income, they should understand how to read and prepare their own financial statements. In general, they can prepare their own net-worth statement and cash-flow statements, which should help them with budgeting skills. You also can consider having them take part in preparing or reviewing the preparation of their own income tax return.

Educate them about money management

Instead of giving your children a large sum outright during your lifetime or after death, consider having your children sit down with an advisor to discuss strategies to invest their gift or bequest based on their own financial goals. Then, give your children the opportunity to spend all or a percentage of the annual income or reinvest it. Your children can access the capital at certain ages or after certain milestones are achieved.

Family wealth management tip

Establishing a family charitable foundation is a great way to instill philanthropic values and money management skills at the same time. The children can take an active part in determining the best methods for using the funds in the foundation to support charitable causes. They can also work with an advisor to determine strategies to invest the foundation's capital to meet the annual disbursement quota.

Request to see the Wealth Management Report "Strategy 7 – Charitable Giving" for more information on charitable foundations.