FINANCIAL LITERACY FOR THE RISING GENERATION AND BEYOND

It is very common for families of affluence to have competent professional advisors to help them manage their investments, their legal affairs, and their business operations. If a family member is not planning on a career as the Chief Executive Officer or Chief Financial Officer of the family business, or is not planning to manage his or her own investments, then why do they need to be financially competent?

The answers to this question could determine future family prosperity. Even if they are not taking an active role in the family business, family members need to be able to manage their own household, be prepared to step into a more active role managing finances if circumstances change and have the financial literacy to ensure continuity of the family wealth.

THREE REASONS TO FOCUS ON FINANCIAL LITERACY

First, family members either have or will have their own household. While everyone should strive to be financially literate, high net worth individuals may have been raised in an environment where money was never an obstacle, and thus they never needed to learn how to manage money. It's important they understand that wealth is not limitless so they can manage their own finances individually. Everyone should be able to manage their own household in a way that achieves their short and long-term financial goals.

Second, if the past year has taught us anything, it is that life circumstances can change in a moment. A person could suddenly lose a parent, a spouse, or an advisor, and find themselves responsible for managing substantial wealth and financial matters. When one has relied on others to handle the finances, these new responsibilities can range from daunting to outright frightening.

Third, and most importantly, [empirical evidence](#) shows that heirs who are unprepared to manage the wealth they inherit is one of the leading reasons why wealth dissipates from generation to generation. Clearly, there are compelling reasons why everyone should be financially literate.

> *Before anything else, preparation is the key to success.*
>
> ALEXANDER GRAHAM BELL

A couple had considerable wealth from the exercise of the wife's stock options at a technology company. The wife's husband handled all the family finances throughout their marriage, as she focused on her interests and passions during their retirement. The husband passed away from a sudden heart attack in his late 60's, leaving the surviving spouse to manage their various real properties, make investment decisions and estate planning decisions. Unfortunately, the wife was not prepared to tackle these new challenges, adding considerable angst to an already difficult and challenging situation.

WHAT IS FINANCIAL LITERACY AND HOW CAN PARENTS HELP THE NEXT GENERATION ACHIEVE IT?

What do we mean by financial literacy? Our definition is this: An understanding of financial terms, concepts and practices that matures to a depth commensurate with the competence level required to match the individual's circumstances. This simply means having the knowledge necessary to manage your own responsibilities. Not everyone needs the same level of financial competence or literacy. A Chief Financial Officer or Chief Investment Officer will need a level of financial literacy far greater than most. But everyone should be financially competent to accomplish what their personal responsibilities require or likely could require.

What should affluent parents consider when helping their young children become financially literate? The first thing they need to understand is that they are teaching their children about their financial values everyday—whether they realize it or not. Children pick up quickly on a parent's attitudes and values about money and spending. They listen to what you say and, perhaps less obvious, they watch what you do. Parents should be intentional and purposeful when teaching their children about their financial values, and remain aware that their children are picking up on, and perhaps mimicking their own habits around money.

Parents have an opportunity to teach their children what money is and what it isn't. It's not a piece of plastic or an app on a phone. It is good for children to understand that money comes from somebody's hard work, that it can be used to purchase needs and wants and to help others, and that it is not limitless. Financial values can be instilled at a young age to help children appreciate the family wealth and help shape proper attitudes toward it.

The best way to develop competence in financial matters is to combine topical learning with practical experience that reinforces the learning.

Where to start? Besides basic business and investment concepts and practices, a well-rounded approach to finance is essential. From macroeconomic factors that shape finance in the larger economy (including government and business), to microeconomic matters that touch their lives directly (such as personal financial responsibility, taxes and trusts), financial literacy encompasses a broad range of topics.

In conjunction with teaching children about financial values and managing money, parents should develop a maturity and age-appropriate "training" program to help reinforce what they have been taught. Early on it could consist of training a child to save, spend and give a portion of their allowance. During the teen years it can be managing earnings from a summer job or helping them manage a neighborhood yard-mowing business. Later, it may be participating in the investment or grant committees of the family foundation. Regardless of the life stage, practical experience will reinforce what they have learned.

It is important to keep in mind that financial literacy can be developed at any stage of life. Affluent parents would be prudent to discuss with their financial advisor how best to begin to prepare their heirs for the wealth they will inherit, regardless of the ages of their children. The financial advisor and other professionals may play key roles in the education process, not only to avoid what might seem like parental lectures, but to introduce or deepen the relationship between the children and the parents' professional advisor network. If parents have delayed having open financial conversations with their children, it is never too late to start.

Raising the Next Generation is a wonderful experience. We all have hopes and dreams for our children, and we want the best for them. We try to teach them our values, how to deal with life's difficulties, and provide the best education we can for them. Parents should be purposeful about educating their children about financial matters— these are essential life skills regardless of your level of financial affluence.

5 TAKEAWAYS FOR RISING GENERATION FINANCIAL LITERACY

1. **Be purposeful** about teaching your children your **financial values**.
2. **Make learning fun and interesting**, maturity and age-appropriate. Be careful about who you select to teach them!
3. Be comfortable with a plan that spans a number of years and **adapt your plan if helpful**.
4. **Reinforce their learning** with practical experiences.
5. It is **never too early or too late** to begin to learn financial competency.

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