

Raising Financially Intelligent Children

Ten Money Questions Your Kids May Ask You

Dr. Jim Grubman is an internationally recognized consultant, speaker, and educator in the multidisciplinary field of wealth counseling. He helps families work through the natural dilemmas of acquired and inherited wealth, and he has worked closely with Northwood Family Office and our clients. The following white paper was first published by Jim and State Street Global Advisors as a guide for affluent parents on raising children of affluence. It offers highly practical advice on addressing some of your child's typical questions about money, wealth, and responsibility, helping you teach the values and healthy attitudes that are the foundation of good money skills. His suggestions are reprinted here with permission.

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Introduction

One of the challenges for parents trying to impart money lessons to their children is to thoughtfully answer some common—and occasionally awkward—questions around family finances. Working with Dr. James Grubman, a wealth psychologist who consults to high-net-worth individuals and families, we pulled together answers to a few of the more frequent questions your children might ask.

There are a few basic rules parents can follow when discussing money with their children. First, taking the time to pinpoint why your child is asking a specific question can often help frame your answer in a way your child can easily understand. Second, taking the time to directly and clearly address your child's questions will set the stage for prudent financial decision-making in the years to come. Finally, don't be afraid to pose questions to your children. This type of dialogue can serve as a great opening to deeper conversations that help teach values and healthy attitudes—the foundation for good money skills.

1. How much do you (Mom & Dad) make?

Parents are often taken aback by questions like this one. Remember that your child is not trying to assess the net worth of your family. As a result, your first step is to let your child know that this is a personal, but not necessarily inappropriate, question. In order to form your answer, you'll want to find out what elicited the question, since your answer will vary accordingly. The reason your child is asking a particular question may surprise you. Most kids ask

out of concern for their security. In fact, the book *Silver Spoon Kids* asserts that “[your child's] underlying concern is ‘am I secure?’ and ‘are you going to be able to take care of me?’” Particularly in shaky economic times, kids can worry. If this is the problem, your answer doesn't have to be a number. You can say, “well, there are really three levels of having money: not enough, enough, and more than enough. We have enough.” Or, “we have more than enough” if you are fortunate to have some affluence. If the family is not that secure, you can be honest and say, “we sometimes struggle to have enough. That's why we have to work together as a family to make our money go as far as possible. And you can help.” These answers provide the basic information your child may really need.

Your child may say something like, “Tommy said his parents make \$75,000. What do you make?” This type of dialogue can lead to a useful conversation. First, talk about the fact that what people earn is a private matter that is to be entrusted only to immediate family members. Next, you can say that what people earn is only half the story. How people manage their money is even more important than what they make. This is a teachable moment that can reinforce the balance between what people take in and how much they save, how they decide to spend their money, and even how your family chooses to help others.

2. Why don't you just get more money?

This is a common question for young children who don't yet have a firm grasp on the origins of money. Try sincerely asking your child where you should or

can get more money. They may say “the bank” or “an ATM” because they see you get cash there. Explain that in order to take money out of the bank, you need to first put money into the bank. Make the connection between going to work each day, earning money, and putting the earned money into the bank to be taken out at a later date, when needed. Teach that the bank doesn’t simply hand out money to anyone who needs or wants some, and although the bank can loan people money it always needs to be paid back. Impress upon them that money is not in limitless supply, and that you need to be responsible with the amount that you do have. Finally, keep in mind that all of this talk may not have much meaning to your child. Have them tag along when you make a paycheque deposit and show them how you can cash or write a cheque to get your own money back. This will help to make the concepts real. As your kids get older, engage them by opening up a savings account in their name.

3. Why can't I have that (insert coveted item here)?

“Because I said so” is often a parent’s knee-jerk response, or “we can’t afford it” even when you can. Unfortunately, that doesn’t really answer your child’s question. As a result, your child may continue to press you with similar questions. Telling a child “no” is most effective when you explain *why*, in terms your child can understand. Tell your children that the item is too expensive or that, as a family, you don’t believe in buying everything you want at the moment you want it. Remember—you don’t have to justify endlessly to a child that your reason is valid. People (including parents) have a right to choose how they want to spend their money. You can say, “when you have money of your own, you can make your own decisions about spending and saving yourself, just like I do.” This—combined with learning through an allowance system (see sidebar on how to best integrate an allowance system into your children’s development)—imparts the lesson that we all have to use good judgment to distinguish between wants and needs. Letting your child choose to spend her money on what she wants is a better way to have her develop skills about spending, rather than simply paying for all purchases yourself. Involve your child in the buying process and she will see that in order to get the toy she wants, she must part with a portion (or perhaps all) of her spending money. The toy does

not just magically appear, as it might seem to when the parent buys it for her.

NOTE FOR AFFLUENT PARENTS: Saying “we can’t afford it” when you simply don’t want to buy a child something may be convenient, but it could have negative consequences. Such a response skirts the reality that the family has good resources and security. Try to avoid the convenient answer: “we can’t afford it” and take the more difficult, but potentially more rewarding path, by saying “no” based on values, choices, or useful limit-setting. “I think that is cheaply made and isn’t a good value” teaches more than “we can’t afford it.”.

4. Grandma gave me \$50 for my birthday. Why can't I spend it the way I want?

Kids need a combination of structure and freedom when it comes to learning good money skills. In addition to having an allowance system, a child’s financial development should include a fair amount of problem and resolution exercises. For example, when receiving money as a gift, it may be best to give your child the responsibility of using a portion of those assets for their own purposes. Gift money can be approached as part of the allowance system, possibly using the common “3 Bucket Model” of saving, spending, and charity divisions (see sidebar on allowances).

When it comes to kids’ spending, go ahead and let them make a few of their own decisions (within the limits of your values and resources) so that they can learn from their mistakes. Have your child explain what they want to do with their spending portion, have a short discussion if you disagree, but then go ahead and let them decide. This teaches many lessons. It says you will listen and be respectful of their judgment, that you will explain your own view, that you expect them to “make their case” on important decisions, and that you will not be overly controlling about money. If the spending choice works out, then more power to your child! But even if it doesn’t, the pain of making the mistake will teach your child through experience, rather than lecture.

NOTE ON GRANDPARENTS AND OTHER GENEROUS RELATIVES: There can be a delicious secretiveness to the bond between Grandma and Grandchild through a whispered “here, this is for you – and don’t tell your parents!” Within limits, usually no

harm is done. However, many a family fight has occurred over a relative's undercutting of a well-crafted money system that the parents are trying to instill in their children. A child caught between parents and Grandma (or anyone else who tries to circumvent a reasonable system) may come to identify money with family conflict. If possible, try to resolve these differences with relatives so that your child is less likely to experience the confusion and frustration that can surround family money.

5. How much does (our house, our car, other large item...) cost?

While telling a 9-year-old that their house costs \$(insert number here) may be accurate, it doesn't provide context. In fact, the number itself means little, if anything, to a child. Any amount of money over twenty or two hundred dollars will sound like a

The Importance of Allowance – A Key Teaching Tool

Think of an allowance as a vehicle for learning, and set up an allowance *system* with guidelines and restrictions. An allowance should be like a mini-economy within the home, emphasizing both income and expenses, and matching the two together. Match the allowance with your child's age and abilities:

YOUNG CHILDREN (AGES 5 - 8): Start with a small amount and use the allowance to focus on math skills like addition and subtraction. Here, the allowance should attempt to make money a tangible concept.

PRE-TEEN YEARS (AGES 9 - 13): Consider increasing the allowance and focus on the differences between needs and wants. Establish a system which gives the child the responsibility to make smaller purchases. And, if you are so inclined, now may be a great time to introduce the idea of charitable giving in terms the child can understand.

THREE-BUCKET MODEL - When teaching your child the ways in which money can fund a variety of needs, the 3-bucket model may be helpful. Divide the allowance into portions devoted to saving, spending, and charity. This will begin to develop your child's understanding of philanthropy and will also reinforce the idea that money has many purposes and can be put to work for individuals, families and the greater community.

TEENAGERS (AGES 14 - 19): At these ages, allowances begin to increase in accordance with the parent's wishes. The child may also have the supplemental income of a part-time job. As a result, the focus shifts to one of almost sole responsibility for their own expenses. Consider offering the child a debit or credit card, and setting limits while allowing for some level of independent decision-making.

When implementing an allowance, Dr. Grubman believes there is one key point parents should keep in

mind. An allowance works best when it is not treated as a reward for basic household chores. Dr. Grubman maintains that there are tasks that a child should perform simply because he or she is part of the family. An example of this might be putting away their toys or the responsibility of tidying their room. However, there may be larger tasks that merit extra payment and such responsibilities should be rewarded (e.g., a young child who helps wash the dishes; an older child who helps a younger child with their homework, etc.). Keep in mind that some children will not be motivated by money, so only withholding allowance for chores that weren't completed may not teach the lesson you're hoping to impart. Instead, if chores are not done, children may respond best to a system that employs monetary and non-monetary consequences (e.g., in addition to not collecting that week's allowance, the child is also not allowed to go out with friends, a combination that is much more likely to alter behavior).

Another approach may be a debit system of sorts. Children receive their usual allowance, but if they do not complete their chores, they must give a portion of it back. This may look the same to an adult, but to a child the experience will be quite different. In keeping with the idea of tangibility, it is easier for the child to see the impact when he/she must give a portion of his/her allowance back and feels the loss, rather than never seeing the allowance in the first place. When the allowance is withheld entirely, the child learns that money will be used to control things. Maintaining the base allowance preserves the allowance system as the vehicle for learning about money skills.

Use the allowance system to help instill some of the main skills for financial intelligence:

- Earning a paycheque
- Keeping track of money
- Living on a budget
- Handling credit wisely
- Saving effectively
- Spending prudently
- Investing to achieve goals and preserve wealth

fortune because at that age, dollar amounts are all relative to how much the child has in their piggy bank or hand. Instead, explain it in terms with which the child can relate. Perhaps something like: “It took us five years to save enough money so we could make the first big payment on our house” (remember—“down payment” is jargon kids don’t understand); or: “our car costs about as much as Mom earns in a year at her job.”

You can educate your child about what certain things may cost, if she is older and can be trusted to know some information about the family finances. Try to include some ranges for comparison: “New economy cars might cost \$12,000 to \$20,000, average cars may be \$20,000 to \$45,000, and really nice, luxury cars are in the realm of \$45,000 to \$75,000, or more. Our car is an average car.” This puts the numbers in context, and context enables learning.

6. Will you pay me if I... Get A's on my report card? Clean my room? Don't get in trouble at school?

This may seem like a powerful way to persuade your children to behave as you desire, but in the long run it often backfires and has the potential to send negative money messages. Bribing your children won't help them learn or change in lasting, fundamental ways. While society has long used money as a means to motivate adults, kids are not adults. As such, they need to learn to be motivated through non-financial rewards that have meaning to them. An allowance is a particularly valuable vehicle for teaching money skills when it's not used as an entitlement or a reward for basic tasks, like doing chores. Kids should be held accountable for basic chores because it is a fact of life, and money should not be used as the sole method of managing behavior.

7. Are we rich? (OR) The kids at school are saying we have more money than anybody else. Is it true?

This question often arises around the ages between 9 and 13, when kids begin to discover that there are economic differences in the world. Most parents cringe at this question and often will either lie or use adult “code” to deflect it, usually because they simply don't know what to say. If they tell the truth,

they fear their child will run off and repeat the information to others, a breach of the family's privacy. Yet, denying affluence can confuse those children who are surrounded by signs of affluence, especially if the parent is sending mixed messages. The key is to answer honestly while providing some detail. For example, the answer: “No, we're not rich; we are just 'comfortable'” does not provide the child with enough background to understand the situation. Kids have little idea of what “comfortable” means. A better answer is one that is honest but diplomatic, and uses a scale that children can understand (e.g., not enough/enough/more than enough). Such an answer is also vague enough to preserve the family's privacy. Telling your child that your family is fortunate to have more than enough resources to support yourselves is an easily understandable answer. Then, while you have your child's attention, you may choose to talk more about these resources, explaining how the family has achieved this level of fortune. (“Mom and Dad work very hard to build up the money we have” or “Remember, Grandpa was very successful at his business”). The conversation may then naturally evolve to discuss how the family works to preserve their assets: “we are careful with how we save and spend.” With the right approach, the “are we rich?” landmine can be sidestepped and transitioned into an opportune opening about important money messages.

8. Can I have another \$20? I need more money, my allowance isn't enough.

This question can also be answered in a way that uncovers a teachable moment. True, your child may simply be angling for a handout or a bailout. But a little investigation may be warranted. When was the last time the allowance was adjusted? Have their expenses changed in a way that might warrant an increase? What are they planning to do with the additional money? What happened to the money they already have been given? If they have simply squandered away another week's allowance, remind them their allowance is set for a reason—so they know how much money they will receive and can budget until the next installment. Let the consequences of being without money help change their behavior to save more or make wiser spending decisions. Simply handing over an extra \$10 or \$20 every time your children overspend will only teach them two things: 1) they can get more money without

much thought to their mismanagement; and 2) you, the parent, will not hold to a plan you set. Neither of these are good lessons.

9. All my friends have new cars and I need a car to get to school. Will you get me one?

There are two ways to approach this, depending on your read of the situation. One is to stand firm in the face of an adolescent's natural sense of entitlement. They may be facing peer pressure that they are having trouble resisting. They may be jealous or embarrassed. Or, they may just be testing limits. Go ahead and say no if that's what's reasonable.

Another way is to turn this into another teachable moment. Use this as an opportunity to open your teen's eyes to money realities and informed decision-making. Say, "let's explore together what this would mean," even if you know what you both are going to discover. Without promising anything, research cars and prices together. Account for insurance, registration, and maintenance costs. Don't fall for your child's empty promises about getting a job, or cutting back on other activities, etc. Have your teen demonstrate in advance at least some positive saving or income-earning behaviors. Some parents require a minimum amount to be earned before monies will be matched, or the purchase won't go forward. In general, don't let a car-buying discussion become an argument. Rather, ensure that it becomes an opportunity to learn about a major purchase and to identify whether or not the necessary skills are in place for it.

10. Why should I get a job? We have plenty of money.

One on-the-mark response is, "My wealth is not your income!" Just because the family has money doesn't mean it is endlessly available to the teen. You can push back on a teenager's sense of entitlement – teens often need that, whether they show it or not.

But if you want or need your child to take a part-time job, make sure you explain why. Make certain your message emphasizes that this is only partly about having money. It's also for learning about money, and learning other skills useful for life such as reliability, perseverance, collaboration, and self-discipline. Plus,

a teen who has a job and earns income will get to experience the satisfaction of being paid for their hard work, making the distinction between "free money" that is simply handed to them and money that is truly theirs because they have worked hard for it.

As a parent, if you are worried that your child's job might impact school performance, consider providing an allowance during the school year. Then, encourage a summer job so they start to accumulate savings and stay busy. Make sure to talk about how their earnings will be handled. Will it all go into savings? Will the job help to save for a particular purpose, such as a car or for university expenses? Does your teen have the right to spend it any way she wishes? Working out these questions has the double benefit of helping your teen's decision-making and preventing unnecessary arguments. 🌊

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Dr. Jim Grubman is a psychologist, consulting to ultra-high-net-worth individuals, couples and families about the impact of wealth on personal and family dynamics. He is a frequent speaker and consultant to wealth management firms about family dynamics, the integration of psychological services with financial services, and training of advisors to improve client relationship skills. He designed and taught the first graduate-level-only course in the US about psychology and financial advising at Bentley University, and he is a faculty member for the Certified Private Wealth Advisor certificate sponsored by IMCA and the University of Chicago Booth School of Business. A member of the Boston Estate Planning Council, the American Psychological Association, the Society of Trust and Estate Practitioner (STEP), and the Family Firm Institute, Dr. Grubman has earned the Family Business Advising certificate and provided training for the Family Wealth Advising certificate. He has been featured in print, online, and television media along with publishing multiple journal articles. Dr. Grubman has a doctorate from the University of Vermont and a master's degree from the University of Michigan. More information is available at www.jamesgrubman.com.

Northwood Family Office LP

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Northwood's mission is to bring direction, perspective and confidence to the everyday management of our clients' net worth. We help our clients to define a clear sense of the direction they want to take, and to develop a broader and longer-term perspective. We work closely with our clients' existing professional advisors to ensure that everything is coordinated and integrated.

We are hands-on managers with a 'get things done' orientation. With strong emphasis on building a long-lasting relationship with each of our client families, we believe regular, ongoing communication is essential. And throughout the entire process, Northwood maintains absolute confidentiality with respect to our clients and their private information.

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