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Passing Your Values to the Next Generation

With great wealth can come great responsibility. Before you share the former, teach the latter.

In their 2003 book, *Preparing Heirs: Five Steps to a Successful Transition of Family Wealth and Values,* authors Roy Williams and Vic Preisser document a 20-year study of 3,250 high-net-worth families who went through the estate planning and wealth transfer process. Their findings: Seventy percent of wealth transitions fail — i.e. families lose control of their assets — by the second generation, and 90 percent by the end of the third generation. The principal reason, Williams and Preisser argue, is families' failure to transfer their values along with their wealth.

"In some wealthy families, the first generation might make the money, the second might spend it and the third might lose it," says Mary Martuscelli, West Region President for The Private Client Reserve. "Making sure the family money is tied to a sense of purpose may be key to preserving it."

Whether your children and grandchildren are 5 or 25 years old, passing along values also may help ensure they become active, contributing members of society as they grow up. "'If I give my wealth to my children, will it spoil them? How can I do it in a way that doesn't disincentivize them from their personal development and self-esteem?' These are the kinds of questions families wrestle with," says Paul Nourigat, Senior Wealth Strategist at The Private Client Reserve.

"Many people want their children and grandchildren to go far and be constructive, productive citizens who can survive and thrive in an increasingly complex and competitive global economy. That means making sure they've got the tools and values to succeed."

Here are some ideas that may bequeath the financial skills and sentiments your heirs need to potentially sustain both your assets and your legacy.

Define Your Values

Before you can pass down your financial values to your children or grandchildren, you must first understand and define them.

"Values are the motivators of our behavior," says Amy

Zehnder, Senior Wealth Dynamics Coach at Ascent Private Capital Management of U.S. Bank. “They’re the driving force behind our decisions and what we do.”

Wealth Transfer:

A Multigenerational Approach

The Private Client Reserve has worked with many families and their tax and legal advisors to transfer both their assets and their attitudes as part of the estate-planning process. While U.S. Bank and its representatives can’t provide tax or legal advice — you should consult your tax or legal advisor for information concerning your particular situation — your Wealth Management Advisor can help initiate conversations about money. He or she can even organize, host and facilitate meetings to support your family’s financial knowledge and discuss wealth transfer.

“Many schools try to provide some type of basic financial literacy education, but ultimately it’s up to each parent and each family to take upon themselves the responsibility of teaching their children about saving money and the values around it,” says Mary Martuscelli, West Region President for The Private Client Reserve. “Our Wealth Management Advisors may be able to help.”

Not to be confused with ethics or morals — there are no right values or wrong values — values are the principles and qualities that drive our actions. They can be influenced by our age, gender, culture, geography, socio-economic status, religion, temperament or education. They can inform how we treat others, how we do business and how we spend our time. And, of course, they can shape our expenditures — financial, emotional and otherwise. They’re the “why” behind what we do.

“It could be integrity, health, loyalty, family, friendship or spirituality,” Zehnder says. “If it’s really important to me, I want to make sure it’s important to my kids and grandkids as well.”

To identify your values, Martuscelli suggests developing a family mission statement that drives your family’s creation and transfer of wealth. This process may help you simultaneously discover and share the values that are most important to you. “When it comes to wealth transfer, many successful families have a mission that’s clearly agreed upon by different generations of the family,” she says.

Mission statements can be written as calls to action that encourage family members to implement agreed-upon core values and objectives. For example, a mission statement might suggest giving a certain percentage of the family money every year to a charity or setting aside money every year to host a big family gathering. “Whatever it is, it’s important that the mission statement present a larger vision for the purpose of family wealth, other than individual self-interest,” Martuscelli says.

Teach Hands-on Lessons

After defining your family’s values, you must actively teach them. “The challenge with just talking about values is it can become noise to a young person,” Nourigat says. “For that reason, you should offer context around money.”

One way to possibly create context around money might be to give children hands-on opportunities to earn and manage their own funds. The tactile education that comes from physically handling money can demystify it in a way that makes money approachable rather than intimidating. That might result in kids, teens and young adults who respect money instead of fear it and who use money instead of abuse it.

“The most important thing is to guard against entitlement,” Martuscelli adds. “You don’t want the younger generations to think the money will take care of itself and them. Instead, you want them to know how to take care of themselves first and the money second.”

One potentially effective way to give younger children hands-on experience with money is to give them an allowance. Zehnder recommends paying allowances not for everyday chores — some tasks can be required as kids’ contribution to the household — but for tasks above and beyond the normal call of duty. She suggests paying less for easy tasks and more for difficult ones.

If you want to instill a spirit of philanthropy in your children, consider the three piggy bank method: “Have kids divide their allowance, and anything else they receive, between three piggy banks for spending, saving and sharing,” Zehnder says. This strategy can simultaneously teach children the self-esteem that may come with earning money, the satisfaction that may come with saving it and the responsibility that may come with sharing it.

As children get older, you can teach them money management by requiring them to pay some of their own expenses, such as clothing, entertainment and cellphone costs. Zehnder recalls a family that gave each child a monthly $100 allowance, beginning in the third grade. “That’s a lot of money to a third-grader, but they also decided and told the kids that the amount would not change until they went to college,” she says. “As they got older, they had to pay for more things on their own — car, gas, insurance. It taught the kids the importance of saving and the value of budgeting from a young age.”

5 Financial Lessons to Teach Your Family

Endowing your children and grandchildren with the gift of financial literacy might help mitigate the risk that your wealth will spoil them, says The Private Client Reserve's Paul Nourigat. He encourages all children, teens and young adults to learn these five pillars of financial literacy:

Earning

Know how to earn money, the importance of earning money and the self-esteem that comes from earning money.

Spending

Understand that money is a finite resource and learn to make choices and prioritize.

Debt

Know when and when not to use debt.

Giving

Learn the importance of giving back to communities and sharing in ways that create positive change.

Security

For older children, understand the many technologies and tools that can help them with their money. Recognize and protect against the potential risks of these tools.

Show and Tell

As important as it is for children, teens and young adults to have experience handling their own money, it's equally important for them to witness you handling yours.

"One of the primary ways you can teach wealth stewardship is as a role model," Nourigat says. "How you manage your affairs and how seriously you take the stewardship that you have can help your family learn and absorb the values most important to you."

Among the values you might model are:

- **Restraint:** "You might realize that just because you can afford that pair of designer jeans doesn't mean you need to buy them," Zehnder says. "Teaching your children the ability to walk away can be very powerful."
- **Achievement:** "Help kids develop an appreciation for what their grandparents or parents built by involving them in your productive years, even if it's just bringing them to the office periodically so they can see you work," Nourigat suggests. "When you help them understand that the money in the bank today didn't just arrive there, the accumulation of wealth becomes real. It shows them that your wealth came about through the combined efforts of parents, grandparents and other individuals."
- **Wisdom:** "You can help your children make good spending decisions in the future by showing them how you research big-ticket items and by talking about the products you buy in terms of how the products perform. In other words, just because something's expensive doesn't mean it represents the best value," Martuscelli says.

A simple errand, such as going to the grocery store or stopping by the ATM, can be a powerful learning tool. "Parents can find opportunities to integrate their children into financial tasks, such as going to the bank," Nourigat says. "Doing so can create an open dialogue regarding money and give children the mechanisms they need to understand it."

In fact, dialogue is the linchpin of successful values transfer, Martuscelli says. She suggests holding regularly scheduled family meetings during which children can be involved in age-appropriate conversations about family finances. "Communication can be the most important piece," she says. "If you encourage inclusive collaboration and seek input from all family members, the chance that you're going to preserve your wealth — and your values — through the generations may be that much greater." ■