



of San Diego

HOME

PLANNER RESOURCES

## HOW TO TEACH YOUR ADULT CHILDREN THE FINANCIAL FACTS OF LIFE

Your children are grown, but they may still be kids when it comes to managing their money. Perhaps they have returned home to live with you because they can't afford to live on their own, or they're living on their own but are struggling financially because of poor money-management skills. So how do you teach your children the financial facts of life now that they're all grown up? Here are a few tips from financial planners, psychologists and other experts.

Talk about it. One reason children often don't learn what they need to learn about finances when growing up is that money is a taboo topic in America. And when parents do talk about money with their kids, it's often a one-time lecture on the financial birds and bees just before they graduate from high school. Consequently, the children miss the important "behind the scenes" finances of the household.

To make up for missed opportunities, listen to their concerns and problems, and tell them about how you personally dealt with similar financial challenges. Talk about your financial mistakes and your tough financial times, perhaps when you were starting out, just as they are, and had only entry-level jobs that barely covered rent and food, and couldn't buy "luxuries" like a television or new clothes. Sure, they'll roll their eyes, but they're listening.

Wealthy families sometimes write out family mission statements that provide a guide for future beneficiaries regarding the founder's money values, expectations and responsibilities.

Show financial tough love. Sometimes, say experts, you just have to cut the financial umbilical cord. Perhaps they're living at home "temporarily" or you're giving them some financial support while they're going through a rough stretch due to a job loss or divorce. There is nothing wrong with that. But if they're abusing your financial support—say they've been living at home for years!—it may be time to say enough.

Don't necessarily do it cold turkey, however. Make a plan for weaning them off your support, tell them the plan—and stick to it.

Bring in a professional advisor. A professional financial advisor can help in one of two ways. First, the planner may work directly with your child as a client to help them organize and improve their financial situation, and most important, teach them some financial basics such as budgeting and investing. Your child may be more open to listening to an outside professional than to you. If your child can't afford to pay for the planner, perhaps you can help them out.

Second, you might have your own planner work with you and your child. One planner worked with a couple and their unmarried adult daughter in her early thirties who was still living at home. The planner helped them work out a budget designed to instill self-sufficiency for her within four years, and it succeeded.

Use trusts to teach. The children of more comfortable or wealthier families are just as vulnerable to financial insecurities and financial illiteracy—sometimes more so because they never had to learn the financial facts of life growing up. Some families establish trusts for their children in part to teach them financial wisdom. For example, initially have the child meet periodically with the trustee (which may be you) and the trust's financial advisor, if you have one, to learn how the trust is being managed and why certain assets are invested in certain ways. Because it is the child's money that's being managed, he or she should be more willing to listen.

Later, you can have the adult child assume co-trustee duties so they can help make actual decisions. Eventually, the child can graduate to becoming sole trustee.

Incentive trusts, designed to promote certain beneficiary behavior by attaching strings to the trust distributions, can be another way to instill financial lessons or behavior. For example, some family trusts say a child can receive financial distributions only if he or she earns a certain amount of money on their own.

You might do the same thing with a business—require the child to work on their own for other employers before allowing them to work in your business and perhaps eventually inherit the business.

Teach them through charity. Wealthier families often involve their children in their charitable projects, such as a private or community foundation. This can teach money values and management skills.

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