Important Conversations: Talking to Kids About Money

Initiating conversations about money is not typically easy, and many high-net worth families struggle with determining when to broach this topic with their children.

Some parents may fear that by discussing their wealth with children, the younger generation may lack the drive to be independently successful, assuming that they are sure to get a windfall at a certain age. Although the data in this area is new, there is some evidence suggesting that children who grow up learning about how money is earned may be more empowered to make smart decisions than those who unexpectedly have their family's wealth thrust upon them later in life.

Of course, not all conversations about money are the same.

There are ways of engaging that may be more appropriate or effective at certain age levels. For example, many conversations that seem to have a financial aspect to them are really less about dollars and cents and more about values, decision-making and becoming a contributing member to society.

When discussing money with especially young children, most choose not to get into the specifics about the family's wealth. These early conversations can be geared toward building a value set around topics such as money or philanthropy. As children mature, a family may feel more comfortable offering more specifics about the family's situation.

Conversations with children: Financial lessons can actually start as early as three years old by slowly introducing the concept of needs versus wants in daily conversations. This little distinction can plant the seeds that may inform children's later financial decision making.

Teaching kids about the family history is another way to help them understand the family's wealth. For example, explaining that previous generations had very little and each generation improved on the one before could be one way to initiate the conversation. Parents may also want to introduce the concept of philanthropy by allowing children to select a cause to donate to each year based on their research or passions.

Conversations with young adults: Often by the time children have finished college, money conversations have been going on for some time. Before a child graduates, or otherwise goes off on their own, parents may want to set clear guidelines for how the family wealth will be used. Parents may decide to help with bills or fund the occasional flight home, but paying for lavish expenses, such as vacations and dinners, may be out of the question. These decisions, as well as the reasoning behind them, could be a valuable learning opportunity.

As children progress through their twenties, parents may opt to discuss more specifics of their financial situation with them. Under some circumstances, it may even be appropriate to introduce the child to the family's advisors to help provide a greater understanding about the family's goals and strategies, even if specific numbers are not discussed.

Conversations with adult children: By the time children are in their thirties -- and possibly parents of their own -- money conversations may be more specific. At this stage, families are likely thinking about the eventual wealth transfer, even if it is more than twenty plus years away. Adult children can participate in certain financial planning meetings so that they are fully apprised of the family's situation and if necessary, are prepared to participate in decision-making.

By setting a foundation early, parents may find that these conversations become easier and more natural as the child grows. Relying on the family's trusted advisors to help facilitate difficult conversations and discuss wealth transfer strategies can help make the situation less daunting.

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