Family Financial Fitness: Recruiting the Children as Apprentices

When a change in circumstances forces a change in responsibilities, sometimes the related parties are not necessarily ready to assume responsibility. In instances when the family member who typically takes care of the finances falls ill and is unable to continue, a child may need to step in.

(This is a continuation of Part 1: Strengthening Spouses' Involvement in Financial Affairs).

Make it a family affair. While keeping both spouses on the same page can ease the pressure of financial responsibility, it is often the case that bringing children into the discussion can also help alleviate potential disruptions down the road. Many parents are reluctant to reveal their financial balance sheet to their children. While the children may have an idea of an overall net worth, they often do not know the full extent of the family's wealth. There are ways that parents can educate their children on financial fitness and involve them in the family's finances without disclosing all of the specific details. The conversation can begin with parents discussing family financial values and goals with their children.

Educate family members about asset types. When it comes to estate plans, parents may not want to disclose the amount that their children will inherit. However, it may be useful for the children to understand the manner of asset distribution. If a child is to inherit real estate or a piece of art, there are considerations unique to those assets that should be understood. Additionally, for a variety of reasons, parents may distribute wealth unequally among children. This type of matter may be a good topic to discuss while the parents/decision makers are alive to avoid surprises and complicated issues when the parents are gone. Children may not understand why they did not receive the same share of wealth, and depending on the relationship, this can cause emotional unrest or tension between siblings. Having a family meeting to go over estate plans is a great opportunity to explain why asset division is uneven. This strategy can proactively help safeguard family unity after the parents are gone.

Set the tone for family planning early. Once the children are teenagers, it may be an opportune time in their financial education to discuss best practices regarding marriage and prenuptial agreements. If this is determined to be a family requirement, discussing the decision and the logic behind it early on may help make it easier for children to convey this message down the road to a future spouse. Bringing a prenup to future spouses for the first time during wedding planning could cause some discomfort. Families can include a prenup discussion as part of their financial education for their children so that they grow up with a shared understanding of the family's financial values and plans.

Give them first-hand experience. Another way to educate children without disclosing the family's balance sheet is through a family foundation or charitable giving. Since foundations have similar aspects to other businesses, children can learn financial responsibility and planning in a non-threatening environment. Children can participle in family foundation meetings where they can discuss the goals of the foundation, budget, and investment results. They can learn about money management, the stock market, and dealing with financial and other professional advisors. There are plenty of opportunities for children to participate in meetings and exercise decision-making powers, such as deciding how charitable distributions will be made and presenting proposals to campaign for particular causes or organizations. Such participation gives them experience researching and presenting at family meetings while also teaching them the value of the foundation's money. They may feel productive and helpful to others, which may align well with the family's values and goals.

If the family does not have a private foundation, another vehicle to use may be a donor advised fund. Donor advised funds are pools of money to be distributed to various charitable organizations. With this arrangement, children can be given the power to decide who receives the contributions. This may deepen their interest in the family's financial activities and allow the children to act according to family values. Since setting up foundations and using a donor advised fund can be an intricate process, it may be helpful to seek the assistance of an advisor.

Frequently, one person in a family assumes the bulk of the financial responsibility. Providing education and guidance prepares spouses and children to assume responsibilities and avoid making poor financial decisions if and when the need arises. For further discussion, contact your Anchin Relationship Partner or Mela Garber, Tax Leader of Anchin Private Client, at 212.840.3456 or info@anchin.com.

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