Reading and Writing and … Finances?

November 2021

The Case for Children Learning About Fiscal Responsibility

Veracity Capital's work with families teaches us time and time again that one of the biggest risks to the continuation of wealth is not poor investment performance, but the lack of preparedness in the inheriting generation. In this sense, the financial education and literacy of children is vital to an enduring legacy of wealth.

According to the National Bureau of Economic Research, only one third of adults worldwide understand basic financial concepts. Worse yet, roughly four in seven Americans are deemed financially illiterate. A 2018 study by the Financial Industry Regulatory Authority (FINRA) found financial capability, stability and confidence are not improving. And although thinktanks and governments around the country recognize the need for financial literacy, less than 17 percent of students were required to take at least one semester of personal finance in high school as documented in June 2021 by the Council for Economic Education. These statistics are troubling and do not bode well for improving economic disenfranchisement. While there has been increased effort to incorporate financial education for individuals in educational settings, we believe more must be done within communities and at home.

Every family has different financial circumstances and a unique set of family dynamics. For many emotional and cultural reasons, parents may find it uncomfortable and difficult to reveal their circumstances. They sometimes might even hide the true nature of their financial standing. Furthermore, although parents may strive to instill a variety of lessons in their children, exposure to topics relating to finances at home is usually severely limited, extending only as far as daily chores and monthly allowances.

> "Financial education is a process that should begin at an early age and continue throughout life. This cumulative process builds the skills necessary for making critical financial decisions that affect one's ability to attain the assets, such as education, property and savings, that improve economic well-being."
> - Alan Greenspan, Economist and Former Chair of the Federal Reserve of the United States

All of these factors make it challenging to teach the next generation what they need to know to properly manage finances once they become adults. As a result, parents often avoid the topic altogether, assuming their children will learn about finances at school (or on their own). Unfortunately, this lack of financial literacy has the potential to prevent them from flourishing financially as adults since eventually they will be expected to know how to do all of the following tasks:

- Pay bills.
- Save for retirement.
- Maintain a bank account.
- Rent or buy a home.

Without appropriate guidance and support, such tasks can be unnecessarily difficult once these children become adults themselves, leading to needless stress and anxiety.

When is the right time to discuss financial education with your children?

It is never too early to start introducing age-appropriate financial concepts. Early lessons establish a foundation that a family can build upon throughout childhood.

Preschoolers

Setting up a play store with a cash register where children can pretend to buy and sell goods for different prices is a great option for preschoolers. Utilizing "story time" learning by selecting books with financial themes is another easy way to introduce the importance of saving and being financially aware. For example, "The Berenstain Bears' Dollars and Sense" by Stan & Jan Berenstain or "The Giving Tree" by Shel Silverstein are two great choices.

Elementary School

Once children develop a clear understanding of some basic concepts about money, it is beneficial to introduce the idea of setting goals and earning an allowance. Encouraging children to set a goal and save money to achieve that goal will teach them about the value of a hard-earned dollar as well as the benefits and drawbacks of spending and saving.

An allowance is a way for parents to encourage children to contribute over and above their basic responsibilities within a family's day-to-day life. When properly communicated with commensurate expectations, an allowance will teach children to appreciate the fruits of their labor, including material possessions or other valuable objects that come from their own efforts, hard work and diligence.

Pre-Teen/Teen

As children get older, they have more opportunities to accumulate funds, which inspires them to cultivate their own ideas about saving and spending. By the time they become pre-teens and teens, children will need to engage in open discussions with their parents about fiscal responsibility and judgment. Parents should openly establish guidelines so that their children have the freedom to deal with money how they want without making immature or irrational decisions that could be financially irresponsible or harmful.

Many families find that creating a budget for their children might work well. A good rule of thumb is to suggest your teens designate 85 percent for spending on shorter-term goals; 10 percent to savings or longer-term goals; and 5 percent to "share" with a charity they would like to support. A structure like this is a window for pre-teens into what awaits them as adults. Balancing the needs and wants of today with those of the future enables them to tap into their values and the question of what it means to give back. There is a real opportunity at this age for parents to share their own values with their children, including speaking about their own childhood, both the good and the bad choices they have made as well as the consequences of those choices.

College/Young Adult

College students or new graduates entering the workforce may be presented with opportunities involving the extension of credit for the first time. Managing credit and debt appropriately is critical for this age group since mistakes can have lasting repercussions unbeknownst to many young adults. Having a strong foundation in money management in your teens, then maintaining that discipline while at college or when starting a career professionally, is important.

Not all debt is bad debt and knowing when to use this fact to your advantage and when to refrain are crucial along with developing a plan for repayment. While student loans are a means of bridging the gap in college costs, remember this money is not free and will eventually need to be repaid. Having a good idea of what to expect in the future relative to expenses and income can help with smart decisions during this life phase.

Since this period is usually when children begin to become more independent, it is important to have frank, frequent conversations with your young adult. Be sure to support good decisions through appropriate guidance and counsel during these discussions, but do not get so involved with their finances that you prevent them from exercising good decision-making about money on their own. In other words, give them sound advice about financial matters, but do not bail them out each time if they are in a bind. More often than not, young adults can be resourceful enough to figure these issues out the hard way with proper guidance from you as opposed to taking the easy way out with some supplemental funding from their parents.

Should a focus on financial education continue beyond childhood?

Financial education in the family does not end when the child leaves the nest. Raising a financially responsible child is a great achievement, particularly with the limited educational resources currently devoted to this subject. But continuing the lesson into adulthood can be equally as important. For families fortunate to have accumulated wealth, critical decisions include when, how and *whether* to leave that wealth to their heirs. Deliberating intently on these issues can be particularly challenging in a family where money conversations are limited or absent altogether.

Lack of communication may be due to a fear that wealth may lead to entitlement or lack of motivation, avoidance of confrontation on differing opinions within the family or simply the assumption that the child can handle the outcome without distress. In many cases, this approach leads to negative outcomes ranging from hurt feelings, spend-thrift behaviors or increased familial conflict. In some circumstances, such conflict can even escalate into serious litigation.

One way to avoid these pitfalls is to foster open communication within the family about a potential future inheritance and the responsibility that comes with it. Doing so will set the stage for responsible behavior and stewardship for years to come.

On one hand, family wealth is a source of extraordinary opportunities for children:

- It offers them plentiful travel opportunities, enabling a broad exposure to myriad cultures.
- It gives them access to top-quality education.
- It encourages the freedom to pursue a variety of careers and other endeavors.

However, on the other hand, family wealth has its drawbacks too. For instance, family wealth can lead to serious challenges, such as:

- The overwhelming responsibility and stress of managing complex wealth.
- Potential social vulnerabilities, including:
  - Isolationism
  - A sense of entitlement that inhibits empathy
  - Other issues with personal relationships
  - Incumbrances to self-actualization

Lessons in financial literacy may begin with activities as simple as a pretend play "store" or a conversation about allowance, but there is much opportunity to build on that foundation throughout one's life. The continuation and evolution of these financial lessons will not just help the future generation adapt more easily to the economic pressures of adulthood, but they may also allow for the continuity and sustainability of a family's wealth, unity and legacy.

For more information, please reach out to any of the professionals at Veracity Capital.

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