THE 20-SOMETHINGS: A DECADE OF TEACHABLE MOMENTS

The Importance of Financial Education

The pathway to responsible adulthood—and wealth responsibility—starts at home. And with the basics.

A bewildering array of choices. A smorgasbord of new experiences. An entry into years of formative life decisions and, possibly, lifelong relationships. A search for identity and independence in a personal journey separate from the family, a challenging of assumptions, a wrestling with questions. These are the 20-something years—critical, testing and thrilling, for both young adults and their parents. And those choices, experiences, decisions and questions often have as much to do with money, its meaning, its proper use and its potential as they do with starting a career, deciding where to live and buying a first piece of property.

If you're like most affluent families, as parents you have a lot of concern about your young adult children and wealth: What are the risks of giving money "too soon"?—and how young is "too soon"? How and when should we tell our children about our wealth transition plan? Will trusts make them feel less empowered and dependent on others' decisions? Will they understand what "affording" the "real" cost of something is? And how can we teach them what being a true steward of wealth really means? Add to these questions and concerns the fact that young adult children frequently are no longer in the same geographic area as their parents, much less under the same roof, making communication about the family wealth more challenging.

The Wealth Strategies Group at Atlantic Trust integrates estate, financial and investment planning through sophisticated assessment of goals with the objective of multigenerational capital preservation, family business continuity and strategic philanthropic objectives.

Goals for financial education

At Atlantic Trust, we talk a lot about preparing children for the money versus preparing money for the children. We also help guide clients through both the various financial strategies for transitioning wealth to their children and grandchildren and the family discussions needed for young adult children to feel empowered with and enriched by knowledge. We believe that families share the following goals for educating children on wealth:

- Helping adult children understand how thoughtful spending, investing and sharing money can contribute to a rich and lifelong sense of purpose.
- Removing mystery, emotion and conflict about money so that young adults can develop a sense of financial confidence about using wealth to enhance their own potential, rather than experiencing it as a stumbling block or negative influence.

- Equipping young adults with the skills they will need to educate their own next generation to receive, preserve, protect and growth the family wealth.

Ultimately, the goal for financial education of the next generation is to make them great owners of wealth: "There is no surrogate for the leaders of the nuclear family in the education of their children, an investment that can yield generations of high returns....*Strong parenting is the best estate planning tool.*"[1]

Laying an early foundation

The foundation for financial maturity by 20-somethings comes long before the magic age of "legal 21." According to a 2011 study conducted by Charles Schwab & Co., more than three-quarters of American teens aged 13 to 18 years old believe that they are knowledgeable about money management, including budgeting, saving and investing. But only 60% of the teens surveyed know how to write a check and only 32% said they know how credit card interest and fees work. Unfortunately, there's been a decline in financial knowledge since the first survey in 2007—for example, knowledge of "how to manage a credit card" declined from 64% to 39% and knowledge of "how credit card interest and fees work" declined from 43% to 32%.

The good news: According to the Schwab survey, nearly 9 in 10 say they want to learn how to make their money grow (89%). Almost two-thirds (65%) believe learning about money management is "interesting," and 60% say that learning about money management is one of their top priorities. And 82%of teens say their parents have taught them the basics of money management. Also, 77% say their parents are great role models when it comes to money management.[2] While the study wasn't necessarily aimed at teens in wealthy families, it presents a universal truth: When your children reach adulthood, they need as many skills as possible to stay financially whole and healthy and able to make decisions about influences, people and risks that are not in their—and the family's—best interests.

Experts in both family dynamics and in the science of learning encourage families to be dedicated to developing their children into financially knowledgeable and responsible young adults to inform, **engage, teach** and **empower**. Informing young adults is as simple (and as difficult) as good communication:

- Tell your children about the broad scope of the family's wealth and where it came from. Discuss what your expectations are for their share of the wealth. Should they support themselves right after college? How much control will they have over their own trusts?
- Encourage them to engage in discussions with your Atlantic Trust relationship manager so that they have the opportunity to get their questions answered and begin to establish their own relationship. Most impotantly, make sure ***you*** are engaging in regular discussions with them, letting them know you are willing to hear them out on their own ideas and plans for their life and how they might use the money.
- Teach your children about complex financial subjects—as they progress through their 20s and 30s, they will need to understand and make decisions on investments, mortgages, credit, insurance, taxes and charitable giving.
- Empowering your children to be responsible young adults means you need to balance the pros and cons of financial vehicles such as trusts. A trust can make your child feel like a permanent beneficiary—with only the power to receive and spend from the trust, not the ability to build the family's wealth.

A CONVERSATION FROM THE HEART

"As the advisor and relationship manager for the family, we can have the conversation with the young adult on the occasion of, for example, funds in a UTMA account becoming hers at age 18.

This is how I might approach it:

'You may not have known about this account, but it's one I've been carefully managing for you for 12 years, since your grandfather set it up. While I know you were very close to him before he died, I had the privilege of working with and getting to know your grandparents for many years, and I really understand their values about money. With every annual gift that went in to this account, I learned more about their hopes and dreams for you. Your grandfather highly valued education—you can see that through the educational boards he served on. His own story of growing up without the fine education you've been given is also part of why he values education for you. That was his soft spot, and he would really want you to take advantage of what is now your own money for continuing your education. When you're ready to start making your choices, call me and we'll talk more.'

This is really the essence of being a fiduciary: I'm stepping into the grandfather's shoes. I'm relying not only on what's in the documents, but on what I know about this family and what they have asked of me. One way or the other, somebody is asking me to look out for them or their loved ones."

Martina Frangis, Managing Director
Atlantic Trust, Boston

[1] From *Family Legacy and Leadership*, Mark Haynes Daniell and Sara S. Hamilton, 2010, John Wiley & Sons.
[2] "Charles Schwab's 2011 Teens and Money Survey Sheds Light on New 'Recession Generation'", *The Wall Street Journal*, www.wsj.com, May 24, 2011.

On the other hand, a trust can be a great opportunity for your 20-something to be mentored about financial matters from a trusted and caring trustee and acquire knowledge, skills and confidence over time.

What do they need to know?

Financial education for young adults generally follows a series of typical life events—coming of age and coming into money previously held by parents in a custodial account, beginning a career and using budgeting and credit, purchasing a first home and understanding their role in the family's long-term wealth plan and putting in place financial plans for their own young family.

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Investments 101

They've come of age at 18 or 21, depending on your state. They've received money from a custodial account such as a Uniform Transfer to Minors Act (UTMA) or are going to receive money from long-term trust accounts. They need knowledge to make good decisions. This is the foundation knowledge they now need:

- **Asset allocation:** What it is, the classes of assets, how to build a portfolio
- **Understanding investment terms and concepts:** Getting past the jargon, understanding stocks and bonds, investment risk versus return, investing for growth versus investing for income, the power of compounding
- **Understanding risk:** Volatility, risk and reward, your tolerance for risk, reducing risk through diversification
- **Stocks, bonds, mutual funds, alternatives:** What they are, their benefits, how to evaluate them, understanding performance

Budgeting, cash flow and savings options: Using money wisely

The seminal event of the first job in a career path brings with it questions on and decisions about taking advantage of financial tools such as a 40l(k) or an IRA, setting a spending plan, choosing savings tactics, and understanding and using credit. In short, it's the threshold opportunity for your 20-something to establish confidence about creating and managing self-generated wealth. This is the foundation knowledge they need:

- Establishing a **credit history**
- **Borrowing options:** The advantages and tradeoffs of credit cards
- Choosing the right **credit card**
- Understanding a **credit report**
- **Cash reserves, savings accounts, trusts**

Becoming a Homeowner

"What can I afford?" may seem like a question that young adults from wealthy families don't need to be asking. But helping your young adult children spend wisely on their own first home is a big stepping-stone in financial maturity. The questions go beyond just "Is that the kind of house I should put that much money into?" and encompass the real costs of homeownership, as well as what's really in those legal documents.

- Understanding **mortgage options**
- **Types of mortgages**
- **The fine print:** Clauses and covenants

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Their Own Estate Plans and Their Place in the Family Wealth

Your next generation now has its own next generation. And so the family continues to go toward the future—and so does the need for continuing plans, strategies and wealth skills. By the time your adult children have turned into more financially mature 30-somethings, they need to put into place their own estate plan, as well as to have a more complete understanding of and role in the stewardship of the family's wealth. Your children should now: know the family values, mission, and story; understand the legal obligations conferred by the documents supporting each owner; know how to make competent decisions in partnership with a financial advisor; and understand the expectations for their participation in family meetings relating to their ownership of wealth. In addition, they now have enough perspective and life experience to really understand how different generations of the family have "experienced" wealth and, most importantly, how the accumulation of experience has helped each member, and the family collectively, integrate wealth into their lives.

- **Basic estate planning:** Trusts and trustees
- Beginning a **charitable giving plan**

A MODEL OF LEARNING FOR THE NEXT GENERATION

Family meetings, financial boot camps and conversations with the family's relationship manager all have a valuable place in the path to developing financial skills and maturity for today's young adults. And so does what could be considered their most pervasive influence and tool: technology.

According to the Family Wealth Report, 84% of wealthy parents thought the next generation would benefit from talking to a financial professional, but more than half had never introduced them to the professionals who manage their own wealth. Meanwhile, young people are increasingly turning to technology—specifically, social media—for advice.[3] The U.S. Department of Education's National Education Technology Plan Technical Working Group recommends an engagement and empowerment learning model in schools, built around technology, that has much relevance to and applicability for helping young adults become financially savvy. The model's center is the individual – and is supported by technology that allows and encourages knowledge-building tools, learning communities, peer groups with common interests, expertise and authoritative sources and personal learning networks.[4]

Your teen and 20-something may already be exploring some of the popular websites and forums on money, wealth and investing. One of the most useful ones for helping young adults manage their own money is Mint (www.mint.com), which is owned by Intuit, the maker of Quicken money management products. Mint lets you bring financial accounts together online, automatically categorizes transactions, lets you set budgets and helps you achieve savings goals. "Mint Life" is the site's blog, which offers articles on credit, investing, financial goals, savings and trends. Mint was chosen as one of the 20 Best Money Websites by *Money* magazine. ■

[3] "The Importance, Issues Of Working With Younger Generations," *Family Wealth Report,* www.fwreport.com, May 12, 2011.
[4] "Learning: Engage and Empower," U.S. Department of Education, http://www.ed.gov/technology/netp-2010/learning-engage-and-empower.

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