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Family Wealth Education: A Guide To Securing Your Family Legacy

SEQUOIA FINANCIAL GROUP

How clear, consistent communication and education can help your family beat the “three generations curse.”

FAMILY WEALTH EDUCATION

TABLE OF CONTENTS

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A GUIDE TO SECURING YOUR FAMILY LEGACY

Many high-net-worth (HNW) and ultra-high-net-worth (UHNW) families worry about their heirs' capacity to manage, maintain, and grow the money and business assets they will inherit. And, as research points out, it's not without reason.

In a one-of-a-kind study, The Williams Group followed the finances of more than 3,200 families over 20 years. The results were startling: seven in 10 families tend to lose their fortune by the second generation, while nine in 10 lose it by the third generation.[1]

So, where's the disconnect? What's preventing these families from securing the future they've worked so hard to secure? Contributing factors that lead to unsuccessful wealth transfers include trust and communication breakdowns (60%), failure to prepare heirs (25%), lack of family mission (10%), and other causes (5%) {poor business management, world events like pandemics, etc.}.

In short, poor communication and poorer family wealth education could disrupt everything you worked and planned for.

By The Numbers

In research conducted by Edward Jones, Morning Consult, and NEXT360 Partners, 61% of survey respondents who will receive an inheritance report feeling gratitude around receiving a windfall, but only 25% feel prepared to accept and manage the inheritance, and 19% feel anxious.[2] Largely, feelings of anxiety and unpreparedness stem from a lack of financial confidence and education and the fear of mismanaging funds.

And it's no wonder why. In a study cited by Eide Bailly, 55% of parents never—or very rarely—talk to their children about finances. This avoidance is even more common in families with significant wealth.[3]

Talking about money and wealth with your family may seem daunting, but it doesn't have to be. In this paper, we'll outline the importance of family wealth education, break down topic areas into six major age groupings, and show why each area is essential to avoiding the "shirtsleeves to shirtsleeves in three generations" proverb.

Elementary School (Ages 5 - 12)

As family members of elementary school-aged children can attest, it's around this age that children become self-aware and curious. Kids start to become aware of others at this age, too. Have you ever had a child ask a profoundly personal question that stops you? That's entirely normal in this age group.

Around this age, children also develop a sense of right and wrong and understand that their choices can have good and bad consequences.

Guidance and Real-world Applications

- **Needs Versus Wants**: Explain the difference between "needs" and "wants." "Needs" are necessary for survival and maintaining health and security. "Wants" are things that are nice to have but that you can live without. Call out several things (water, chocolate, a home, a puppy or kitten, a healthy diet, a cell phone) and ask your child to identify each. Stress the importance of meeting needs before moving on to the want items.

- **The value of a dollar**: Chores are a fabulous way to teach children that work and money go hand in hand. Room cleaning, packing lunches, or helping clean up after dinner are easily monitored and tracked tasks. (Helpful hint: use dollars and coins to help your young one learn to use each.) When it comes time for them to spend their money, be sure to be close by to answer any questions they may have.

- **Financial Awareness**: Help your child organize a family bake sale. Invite your extended family and friends to participate and enjoy some sweet confections. You can assist your child in making a profit and loss statement so they can list their expenses and determine if they made a profit.

- **Delayed Gratification**: Help your child set up four jars labeled "SPEND," "SAVE," "INVEST," and "GIVE," and explain the importance of each jar. Let your kid set a "spend goal," and once they've reached it, help them purchase their "spend item." (Helpful hint: make sure your child knows you aren't doing this exercise because you can't afford the item, but because it is essential to save, set goals, and make choices about what items to purchase.)

- **Budgeting**: Set your child up on bill pay. At least once a month, pay them for their chores with a physical check, then take a trip to the bank and help them deposit their money. You can even set them up with their own savings account

- **Simple Interest**: Give your child a little treat (a piece of candy or a small toy) and explain that you will pay them interest if they wait to engage with the treat. If they wait 15 minutes, you will pay them 100% interest (so they'll have two pieces of candy or two small toys). Explain that this is how interest works; you delay using something to earn more of it.

Family Meeting

Talking about money rarely comes easily or naturally to most people. Growing up, many were taught that it was impolite to talk about money. But that's not the case. Normalizing conversations about money and finance helps create an environment where children are encouraged to ask questions, gain insight, and feel comfortable seeking answers in challenging or sensitive subject areas.

In your first family meeting, discuss the next year of life for the family and set some goals. (New Year's Day offers a convenient opportunity to forecast the next year, but don't put off family wealth education to start on a specific day.) Talk about the chores each child will handle throughout the year, and continue to use the "SPEND," "SAVE," "INVEST," and "GIVE" jars. Check in with your family regularly and review the progress, what's stopped, and how to rebound.

As your first year of family wealth education wraps up, have another family meeting and ask everyone to share their input about what to do with the money set aside throughout the year. This exercise will help get your child used to making family decisions, which will be necessary for the rest of their lives.

Family meetings will appear throughout this paper. They will evolve as your family grows and you decide what is best for you. Remember, these conversations can feel tough, but starting and having them frequently will help ease that tension and create a safe space for your family to learn.

Middle School (Ages 13 - 15)

At this time in their lives, young people are starting to push boundaries and explore the notion of independence. Their horizons are expanding, and peer acceptance is paramount. While they may be consumed by the "here and now," they're also starting to think outside the box and draw more profound and meaningful connections, promoting maturity.

Guidance and Real-world Applications

- **Necessary and Unnecessary Expenses**: Ask your child to track their monthly expenses (you'll need to help a bit because this should include the expenses you pay for, too). Back-to-school clothes, cell phone bills, activities with friends, recreational activities, personal grooming expenses, gaming system improvements; it all should be listed. At the end of the month, sit with your child and go through their portion of your expenses: rent/mortgage, heat, gas, electricity, internet, etc. Give them a hypothetical monthly salary that is less than all the costs and ask them to prioritize the expenses as necessary and unnecessary. Remember, the necessary expenses should include a "SAVE" category.

- **Forms of Payment**: Set your child up with a debit card through your bank or Greenlight. (Greenlight allows you to monitor their account and set flexible controls.) Whatever method you use, just be sure that the money is FDIC-insured.

- **Entrepreneurship**: Talk to your kids about what type of business interests them. Do they want to start a carwash, babysit, or handle yardwork? Feel free to nudge them to make decisions about marketing their services (flyers in mailboxes or posts on neighborhood social media pages). Once the money starts coming in, talk to them about what they want to do with it and encourage them to put some back into the business so it can grow.

- **Career Versus a Job**: Help your child apply for their first job. Talk to them about your first job: what you did, what you earned, how many hours a week you worked, how that job differs from your career, etc.

- **Stocks and Bonds**: The concept of stocks and bonds is likely something your middle-schooler is equipped to handle. Stock and bonds are both things companies (or entities) issue to raise money. They are very different investment vehicles, but both have a place in a well-diversified portfolio.
    - *Stocks*: When you purchase a stock, you purchase a piece of that company. There is no finite timeframe; you share in the ups and downs of the company for as long as you own that stock.
        - Generally speaking, stocks are riskier than bonds.
        - Ask your child to name a few of their favorite companies, then look up the stock to show them how stock prices change over time.
    - *Bonds*: When you buy a bond, you loan money to that company. The company agrees to pay you a set interest rate at regular intervals. The bond has a maturity date when the entire loan must be repaid. The company's performance will not impact a bond unless it goes bankrupt.

- **Compounding Interes**t: Put $10 in a bowl and tell your child you will pay them 10% interest on that money. Add $1 each day for ten days. Starting on day 11 (when there's $20 in the bowl), you'll add $2 each day. At the end of day 40, you'll have $110 in the bowl, a significant jump.

Take the $110 and do something fun as a family. To illustrate this lesson, choose a dollar amount that suits you and your family.

- **Philanthropy**: Talk to your child about giving back to their community and how they can do that with money or time. Ask them to think about what is important to them regarding volunteering. What types of charities are important to them? Do they want to help kids who are less fortunate, or animals, or work for environmental causes? Once they've decided on a direction, help them find a charity they can volunteer with. Not only will the experience be rewarding, but it also looks great on a college or continuing education application.

Family Meeting

During this age range, consider having your child find a charity they'd like to donate their "GIVE" money. They'll research philanthropic organizations to decide where they want to volunteer. Now, they can decide if that same charity is where they want to give money or if it's a different organization so they can impact more causes than just one.

High School (Ages 16 - 18)

High school students are known for fiercely pushing for independence and believing they know best. They're also beginning to make important life decisions and recognize how their decisions impact their future (to some extent). This is a critical stage for wealth education, especially since they're just a few short years away from being " adults."

Guidance and Real-world Applications

- **Budgeting 2.0**: If your kid is still doing chores, now may be a good time to transition them to monthly payments. They're likely getting paid once or twice a month if they have a job. Now is a great time to help your child establish a budget. Don't forget to set up auto payments for recurring bills, and encourage your child to monitor their bills to ensure they're accurate and in line with the budget.

- **Auto Expenses**: Your child should be prepared for the additional personal and financial responsibility of a car. While you review budgeting with your child, include car expenses. We all know cars are expensive, but there's a good chance your child won't know to what extent until you go through the expenses with them. Those expenses include monthly payments, registration fees, insurance, gas, maintenance, and repairs.

- **Preparing for College**: All the financial literacy you've done with your child to date will certainly help them be ready for college, but there are still some items to cover. Read Sequoia Financial Group's "**Preparing for College**" article. This is broken down into each year of high school and includes action items for you and your child. Spend time talking to your child about their goals after high school, what they view as their strengths and weaknesses, and how that may apply to picking a major and career.

  It's important to share how much your child has available for college or continued education. Help them decide if they could get excess funds if they chose a less expensive school, an in-state school, or if a scholarship could offset some of the cost.

  Now is also a critical time to explain student loans and debt. Help them understand how student loans work, repayment plans, and the dangers of defaulting on debt.

Family Meeting

Now is a great time to consider having your child look into investment ideas. Have them pick a stock (or bond if you're more conservative) and let them pitch you what they want to invest in.

It may also be a great time to share with your child why you chose the college, course of study, and career that you did. Explain the journey you took from the beginning of high school through sophomore, junior, and senior years, the application process, and your decision to attend the university you did. Would you have changed anything? How has your time in higher education paid off?

College
(Ages 18 - 22)

As formative experiences go, college and continued education rank among the top for young adults. For many, it's their first and most significant time away from home, and they become independent, self-reliant young adults. They also develop their value system and appreciate autonomy. They can recognize the responsibilities they must fulfill and start dreaming of their plans for the future.

Guidance and Real-world Applications

- **Credit Cards**: Credit card companies are still permitted to market on college campuses, but restrictions exist to protect young adults, mainly the Credit Card Accountability Responsibility and Disclosure Act (CARD Act) of 2009, a federal law that protects consumers from unfair credit card practices.[4]

  By now, your child knows their finances but is likely not as well versed in credit because they haven't had a credit card or has been working within a budget. Here are a few tips to help your child understand credit cards:
  - Credit cards let the user borrow someone else's money at a premium (aka interest) to buy something now.
  - When selecting a card, look for the lowest interest rate and low fees (annual, late payment, over the credit limit, etc.) and if they can get something out of the card (cash back, travel miles, etc.)
  - Make sure your child truly understands what it means to have a credit card. Can they pay the full credit card balance when it is due? If not, what is the actual cost of the item once interest is factored in? Is the item still worth it? Or should they save and purchase the item another time?

  Credit can be a slippery slope, and it can sometimes feel like playing with monopoly money. Stress the importance of not letting debt get out of control and continuing to budget.

- **Bill Pay**: If your child is still financially dependent on you and has relied on you to pay their bills, now is a great time to shift that responsibility to them. If your child is in college full-time, you may want to continue to support them, but they can make time to pay their bills. Learning this habit early can help prepare them for the financial responsibilities later in life.

- **Building Credit**: Your child is likely not contemplating big purchases like a house or a car, but what they do now can and will impact their ability to get these items later in life. Opening a credit card and using it responsibly will help your child build credit, which will ultimately help them buy things.

  Most items stay on your credit report for seven years. One way to illustrate this is to tell them about getting your mortgage. Chances are, even with a credit score of 835 and you were late on one obscure payment 6.5 years ago, the bank asked you to explain it. One late payment is easily explained, but when those add up, banks will run in the opposite direction or charge much more interest to take on the added financial risk. What your child does and doesn't do now will save them aggravation in the future.

- **Identity Theft**: Every 3 seconds, the identity of an American is stolen.[5] As your child develops their own financial life, they must keep the risk of identity theft in mind. Here are a few best practices to safeguard against identity theft:
  - Create strong passwords
  - Do not share any personal information (including login information) with others
  - Do not overshare on social media platforms
  - Never share your social security information with a third party
  - Set up alerts for banking activity
  - See if your credit card offers free credit monitoring (if it doesn't consider a paid service like LifeLock)

Family Meeting

Goal setting and discussing financial decisions are still critical in your family's wealth education and, in fact, maybe most impactful in later years as your child starts to imagine what an independent life looks like.

This is also a great opportunity to talk about how college is going, as well as about special interests and extracurricular activities. How are classes going? Which is the most and least interesting? Are they still interested in the same major/profession, or has their interest changed?

Lastly, if you haven't introduced your kids to your Sequoia Financial Group advisor, now is a great time to do that.

First Career (Ages 22 - 25)

If the teenage/high school years are known as a time when children push their parents away, the "first career" stage is when many parents feel like their kids form a more adult, mature relationship with them.

Young adults in this stage generally focus less on peer acceptance and more on personal and professional goals. Their interests are more adult, and real-world experiences help to continue to define their values and beliefs.

Guidance and Real-world Applications

- **Taxes**: It's quite common that as your child begins their new career, they'll seek your guidance and advice because there are a lot of decisions to make; How should I complete my W-4? What medical coverage should I select? Should I participate in the company 401K?

  While it's always nice to be needed, it's important to remember your child is starting their life as an independent adult. Now is a good time to help your child help themselves.

  Your child is likely familiar with taxes at this point but may not be as familiar with withholding, the amount that will be held back from their paycheck that pays federal, state, and local income taxes.

They'll complete their W-4, the IRS form that tells the employer how much to withhold. Your child should know that this will all factor into the tax return they file in April. If they over-withhold (claim fewer allowances), they will get a refund; if they under-withhold (claim too many allowances), they will owe the IRS money. Filling out the W-4 correctly should minimize the variation around the amount due.

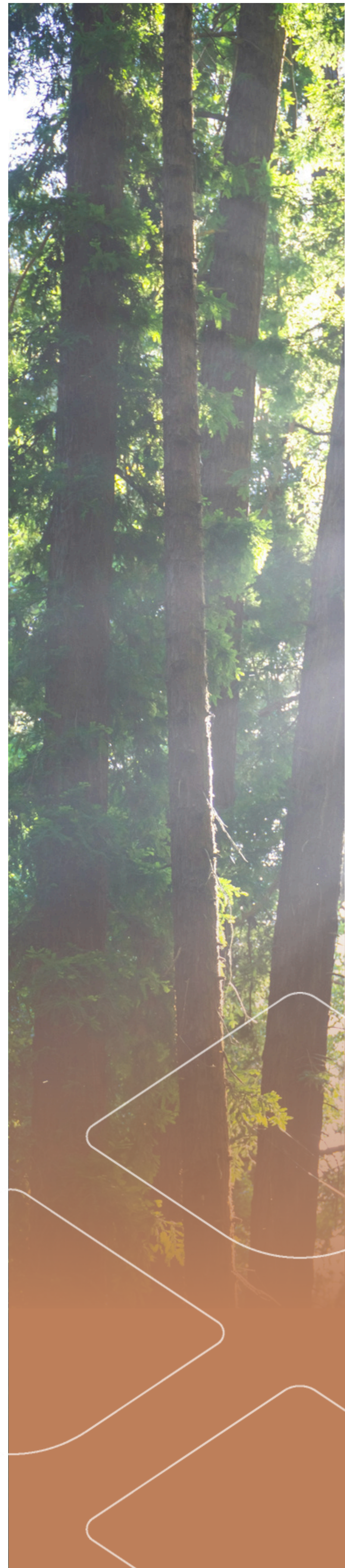
If your child needs to file their return, software like TurboTax may be all they need. However, if they have a slightly more complex tax return, it may be worth having a CPA prepare it for a relatively nominal fee.

Your child may wonder how much of their paycheck they'll see after paying taxes and health care premiums. There are several websites (ADP[6], smartasset[7], and PaycheckCITY[8]) that can help you and your child determine what the net paycheck will be. And, as a bonus, it'll help with budgeting.

- **Medical Insurance**: The coverage your child selects depends on their situation and the benefits being offered by the company. Typically, a company offers a high deductible plan and a lower, more expensive one. Many argue that the high deductible plan is the way to go if you are young and generally healthy. You'll pay less in premiums but more medical costs before your insurance starts to pay.

  If your child chooses the high deductible plan, ensure they set up an HSA and save pre-tax money for any medical costs. Because that account does not need to be used in the current year, it's a great tax-deferred saving vehicle.

- **Retirement**: If your child can save money in a company-offered retirement account, they should take advantage of that. Money may be tight at first, but they should always work toward saving the IRS maximum. The contributions are made with pre-tax dollars (unless they also participate in a Roth), and as they get raises, they should increase their retirement savings.



It can be hard to think about retirement as a young adult, but the sooner your child starts to save, the better off they'll be. Compounding (earning money on the money you put in and the accumulated earnings) makes a huge impact over a long period. The chart below helps put real dollars into manageable monthly savings amounts. The money saved in this vehicle grows tax-deferred until retirement, too.

Monthly Savings	Time Period	Est. Return	Est. Total	Deposits	Earnings
$100	40 years	5%	$153,238	$48,000	$105,238
$200	40 years	5%	$306,476	$96,000	$210,476
$500	40 years	5%	$766,189	$240,000	$526,189
$1,000	40 years	5%	$1,532,379	$480,000	$1,052,379
$1,500	40 years	5%	$2,298,568	$720,000	$1,578,568

- **Housing Expenses**: Unfortunately, there is no one-size-fits-all answer to whether your child should rent or buy a home. There are hundreds of things to consider before making this very big decision. There are several interactive tools you can use to compare the costs of renting versus buying a home (The New York Times[9], NerdWallet [10], Realtor.com[11]). These tools also help highlight the many factors that go into deciding if you should buy a house.

  Things like home price, length of time you plan to live there, mortgage interest rates, property taxes, potential appreciation, and maintenance fees all have a part to play when deciding to rent or buy. While buying a home provides the potential for equity, there are perks to having something break and calling a landlord instead of fixing it yourself.

  Your child should consider their current lifestyle versus how they picture things in a few years. This is a huge decision that shouldn't be rushed, and your child should carefully consider the details before making a decision.

- **Emergency Funds**: An emergency fund is, as the name suggests, savings if something unexpected happens. Generally speaking, your child should have three to six months' worth of expenses set aside. This could help cover medical expenses, general living expenses, maintenance repairs for the home or an automobile, or any other additional expenses in an emergency (like job loss).

- **Student Debt**: If your child has student debt, now is a great time to review their total loans and make sure they have a plan to pay them off. The first step is ensuring they know the loan requirements and are budgeting to pay at least the minimum payments. Encourage them to pay more if their salary allows.

Family Meeting

Your child probably has a lot on their mind, so think about what they care about in life and determine what may be a couple of good items to have on the agenda for your family meeting. Or, better yet, your child knows the drill by now. Ask them to set the agenda, what's important to them, what topics they want to discuss, and what action items they will have worked on by the next family meeting.

Mature Adult (Age 25+)

Your child is a mature adult; they can control their emotions, respond appropriately to situations, and behave like adults while dealing with stressful or anxiety-causing situations and others.

You've done all you can to prepare them for the following stages of their lives. It's at this point that the family wealth planning curriculum be self-led. Here are a few topics to help get your child started on their self-guided education.

- **Financial Goals**: Encourage your child to start to think about short (up to three years), mid (three to nine years), and long-term (none years and more) goals.
  - Fully fund and maintain an emergency fund
  - Contribute and ultimately max out 401k contributions
  - Pay down credit card debt
  - Establish a savings plan for taxable money
  - Consolidate and pay off student loans
  - Save for a down payment on a house
  - Obtain life insurance
  - Save for kid's education
  - Plan a successful retirement

- **Surplus Cash**: When starting off in their career your child may not have a lot of excess cash but knowing what's most important to them will help dictate how those dollars should be saved. As surplus cash grows, they'll know their next priority for saving.
- **Estate Document**s: Your child will likely remember setting up powers of attorney before heading off to college, but now is a good time for them to review those documents and ensure the appropriate people are still listed. If your child has a spouse, that person may be less than thrilled if something happens to your child and you, the parent, are legally responsible for all decisions. If your child now has children of their own, they need to have guardians named if the unthinkable happens.
- **Family Goals**: If your child now has a family of their own, now is a great time to encourage them to think about their own wealth messaging. Think back to the beginning of your wealth education journey and ask your child what worked, what didn't, and where they want to improve upon the education. Now, it's their chance to raise financially educated and prepared children.

Conclusion

In today's world, money is much more than dollars and cents. It can mean financial freedom and opportunities to create a legacy. Transferring your knowledge to your child helps preserve the wealth you created and pass on your family values. How you take your child through a financial literacy journey will significantly impact how well they incorporate wealth and values into their life.

The key is to have these conversations early and often. When you teach your child about wealth and finances, you've given them a head start on something that many people struggle to understand even into their later years. Now is the time to let your children thrive in financial independence.

The journey of family wealth education is long and sometimes can feel burdensome—let us walk with you. Sequoia Financial Group advisors manage each family's unique needs and dynamics. We're happy to dive deeper into any areas you and your family need assistance with, no matter your child's age. Contact **Sequoia Financial Group** now.

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