Story Three:

# Nurturing Self-reliance in the Midst of Abundance

This is the third part of an initial 3-part Thought Leadership Series from Inverness Counsel authored by Joline Godfrey, an innovator in financial education for children and families, and author of *"Raising Financially Fit Kids".*

*Stories and names used are fictional, but based on experiences adapted for illustration purposes.*

**How do we develop self-reliance in children for whom abundance is normal? How do we help them be who they want to be while also building the financial fluency and confidence they will need to work with advisors and learn to manage abundance? If "we can't afford it" is not a true statement in the family, how do we teach children limits and good judgment?**

Kate dreaded confronting her fifteen-year-old daughter, Jess. Up to this point, Jess had lived a life pretty much unhindered by significant financial limits, which she had effectively warded off by exploiting her widowed mother's desire to "make her happy." But this lack of boundaries was beginning to catch up with her.

The issue was not so much her rate of consumption—the family resources could handle her wants and needs at this stage of life. It was Jess's lack of critical thinking when it came to making choices, her actual inability to choose in the face of multiple options, and what appeared to be a growing callousness, a lack of concern for others, that caused Kate to approach her financial advisor.

"Jess is a terrific, smart girl," Kate told the advisor. "But I'm worried that she won't be prepared for the responsibilities that will face her when trust distributions begin. I realize we have six years, but if I don't start now to build better financial habits, she won't be ready to manage those distributions."

By helping Kate become a more effective financial mentor to her daughter, the advisor could impact at least two generations—possibly more, if Jess passed along good stewarding skills to her own children one day. The advisor introduced the chart below, along with some notes on how to use it:

1. ***An effective allowance plan is a balance sheet, introducing income and expenses with the expectation of balancing.***
   Too often, kids are given money to help them learn to spend. This approach becomes confusing later, when they discover that they're also expected to pay attention to income! Introducing the full formula early on gives young people a greater sense of responsibility and builds financial fluency that will enable them to work more effectively with advisors later.

2. ***An allowance plan is developmental.***
   As children mature, they gain greater responsibility, just as they progress from learning to ride a bike with training wheels to balancing a two-wheeler on their own. And as they get older, they are expected to exercise judgment over longer time spans—receiving a weekly allowance when they are young and then monthly or quarterly income through college.

3. ***An allowance plan introduces complexity.***
   One of the most confounding statements kids utter is, "It's my money!" This is an abbreviation for, "I can do anything with it, and you have no say!" Parents who give in to this bullying open the door to years of power struggles. By clarifying that funds arrive in many forms (wages, allowance, gifts, windfalls) and must be managed as total income, we help young people grasp the idea that money has to be allocated wisely—not just hidden from their mean parents' control!

4. ***An allowance plan introduces the connection between money and policy.***
   Kids both need and resist rules. But policies can be introduced as structures for fairness and consistent behavior. When we establish policies up front, the allowance plan becomes more than just a means of helping kids learn to spend; it can help them think about the connections between fiscal policy and life opportunities.

> How we manage money is a direct reflection of our deepest values.

5. ***Spending becomes mindful rather than impulsive.***
   Impulse control is a developmental task that improves as the brain develops and the child becomes increasingly aware of the connections between behavior and consequence. While not over-taxing a child's ability to focus on multiple categories, we can help kids "reach" as they learn to make good decisions about spending, allocating their resources, and delaying gratification.

6. ***Saving becomes a life skill rather than a hit-or-miss activity.***
   For children who will inherit significant trusts, savings accounts may seem irrelevant. But the activity of saving teaches children the discipline of stewarding resources, a life skill that is critical regardless of the scale of wealth the family represents.

7. ***Philanthropy nurtures life purpose as well as offering a way to do good.***
   Purpose helps human beings define themselves. Whether that purpose is to improve human health, travel to the stars, underwrite the arts, build parks, or feed the hungry, children who use their resources (talent, time, and money) to make a difference tend to have fewer identity issues and be less self-absorbed than children for whom money is purpose.

8. ***Life happens.***
   In a volatile world, our offspring are subject to natural disaster, illness, loss, and other unexpected life events, no matter how well we try to protect them. Teaching the skills to be resilient and resourceful is a major protection families can bestow on their children.

9. ***Values align with financial behavior.***
   How we manage money is a direct reflection of our deepest values. Whether we grew up learning to "save for a rainy day," "seize the day," or "share the wealth," we reflect who we are with every financial choice we make. By teaching our children at every stage of development to be explicit about what they think, we can help them be self-aware and consistent so that their financial behavior and their values are aligned.

Kate's first reaction was to feel overwhelmed. She had not grown up with anything this complex herself and was suddenly daunted by the effort her advisor was describing. Yet the map made the process look manageable, and she knew that the longer she put off confronting her daughter's reluctance to mature, the harder it would be for both of them later on.

"My job is to help you grow up to become independent," Kate said to Jess. "That's why I'd like you to manage some of your own expenses this year." Kate did not say to her daughter, "You're spending too much" (though she worried that Jess was cavalier about her spending). Nor did she say, "I want to teach you how to live on a budget" (though that was true). Instead, Kate framed her goal—to help Jess acquire basic financial skills—in terms of independence.

| | STAGE 1 | STAGE 2 | STAGE 3 | STAGE 4 | STAGE 5 |
|---|---|---|---|---|---|
| **VALUES** | | | | | |
| **Income** | **5-8 (weekly)** | **9-12 (weekly)** | **13-15 (monthly)** | **16-18 (monthly)** | **19+ (quarterly)** |
| Allowance (practice money) | $10 | $15 | $300 | $600 | $3,000 |
| Earned Income (chores) | $5 | $10 | $50 | $100 | $300 |
| Gifts (birthday, holidays, etc.) | $20-50 | $100 | $200 | $225 | $1,000 |
| Windfalls (tooth fairy, loose change, tax refunds, gift from grandmother, etc.) | $10 | $15 | $200 | $250 | $300 |
| Policy | Gifts & windfalls over $__ go into savings.<br><br>Allowance is practice $; not a salary or an entitlement.<br><br>Allowance is not tied to chores.<br><br>Good allowance behavior = more money to practice with. | Gifts & windfalls over $__ go into savings.<br><br>Allowance is practice $; not a salary or an entitlement.<br><br>Allowance is not tied to chores.<br><br>Earned income is factored into savings and philanthropy plans. | Gifts & windfalls over $__ go into savings.<br><br>Allowance is practice $; not a salary or an entitlement.<br><br>Allowance is not tied to chores.<br><br>Earned income is factored into savings and philanthropy plans.<br><br>Longer term savings goals must be stated and met (trip, shoes, etc.)<br><br>Savings over $___ are to be 'invested.' | Gifts & windfalls over $__ or __ % go into savings.<br><br>Allowance is practice $; not a salary or an entitlement.<br><br>Allowance is not tied to chores.<br><br>Earned income is factored into savings and philanthropy plans.<br><br>Longer term savings goals must be stated and met (trip, shoes, etc.)<br><br>Savings over $___ are to be 'invested.' | Gifts & windfalls over $__ or __ % go into savings.<br><br>As income increases, allowances decrease.<br><br>Responsibility for personal and professional life increases.<br><br>Demonstration of good financial habits leads to a personal donor advised fund or other philanthropic vehicles or access to entrepreneurial funds. |

| | STAGE 1 | STAGE 2 | STAGE 3 | STAGE 4 | STAGE 5 |
|---|---|---|---|---|---|
| Expenses (or Commitments) | Legos<br>iTunes<br>Sports equipment<br>Gifts for friends and family | Minecraft<br>American Doll<br>Sports equipment<br>Gifts for friends and family | Starbucks<br>Shoes<br>Sports equipment<br>Gifts for friends and family | Manicures<br>Lunch<br>Sports equipment<br>Gifts for friends and family | Uber<br>Ski Trip<br>Sports equipment<br>Gifts for friends and family |
| Saving (15%) | $ | $ | $ | $ | |
| Philanthropy (10%) | $2.30 | $14 | $75 | $290 | |
| Emergency (10%) | $2.30 | $14 | $75 | $290 | |
| Total | $ | $ | $ | $ | |

By the time Kate talked to her daughter, she had been well coached by her advisor. Still, she was surprised when Jess responded with interest and asked if they could sit with the advisor to work out a plan. Sometimes the most reluctant children respond to being taken seriously; they feel relief at being invited into the formerly closed club of grownups. And introducing them to the family's trusted advisors early on is a powerful means of showing respect and starting a conversation that will continue for decades to come.

A thoughtful allowance plan, with all the elements illustrated above, is an effective element of beneficiary development, as well as a means of reducing the anxiety of successful parents and grandparents who are concerned about how a significant inheritance will affect the next generation.

***What Thought Leader Families and Firms Have in Common.***

While the stories above are unique, they illustrate issues that families grapple with every day. They also demonstrate the goals and strategies that thought leader families and firms have in common:

1. ***Tackling hard conversations.***
   The taboo conversations are the most important ones to have, and avoiding them can undermine the well-being of the family. Reyna's insistence on bringing the subject of death and all its messy components to the table anticipated—and defused—the fear and anxiety her family were feeling about the impending loss of Richard.

2. ***Preparing beneficiaries to fill a diverse set of family roles.***
   Sam understood that succession could pit the children against one another if they did not grow up learning how to navigate a wide range of stakeholder roles.

3. ***Educating beneficiaries.***
   Education serves both to mitigate the unintended consequences of abundance and to prepare beneficiaries for its challenges and opportunities.

4. ***Taking advantage of their human resources.***
   The best advisors and educators understand that the priorities of thought leader families are to raise great kids, steward great legacies, and prepare the family for the future. Tapping the intellect and experience of advisors, beyond the management of financial capital, is simply an effective use of the services these families pay for.

5. ***Developing resilience in the family.***
   The world has evolved from wild science fiction tales to science nonfiction. The best preparation for the future is to develop families and teams that are proactive, resilient, and adaptive.