Raising Healthy Children in Families of Affluence

Meeting the Unexpected Challenges of Wealth

HARRIS
myCFO™

Parenting has changed dramatically over the last two generations. The Great Depression and World War II shaped our grandparent's experiences. By contrast, increases in post-war productivity sparked a period of unprecedented affluence and the majority of the baby boom generation grew into adolescence taking financial security for granted. Other demographic changes affecting our society include the medical advances reducing infant mortality and increasing life spans, the artificial means of controlling fertility and births, and the technological advances creating a 24/7 world.

These factors have greatly affected child rearing. Parents have more disposable income and offer their children considerably more than the basic needs of food, clothing, shelter and medical care.

As the 21st century begins, children have become the central focus of American life and many more children are growing up in millionaire households. However, lavishing money and material goods on children can disrupt children's healthy development. A parent's best intentions may lead to an erosion of their children's work ethic, indulging them in the name of love or skewing priorities by focusing only on opportunities and privileges.

This report addresses the challenges inherent in raising emotionally healthy children in families of affluence and proposes numerous solutions available to concerned parents.

Loving Our Children Too Much?

Parents who have achieved considerable success often do so at a price. Those who have accumulated significant assets may be concerned that their children will not inherit their strong work ethic. Moreover, the time available to spend with family may be at a premium as busy executives or professionals may engage in long hours at work, six or even seven days a week or travel for extended periods. Spouses may engage in a career or in social and charitable activities that consume a great deal of time.

Expensive gifts and lavish vacations often take the place of the parents' presence, according to Dr. Laura Kastner, a clinical child and family psychologist in Seattle. The child soon comes to expect such presents, trips and related privileges all the time.

In the short term, the parent makes the child happy and, in turn, receives positive feedback like smiles and hugs. In the long run, the parent may be creating a major problem. Parents naturally want happy, peaceful relationships with their children. Parents of all income levels often spoil their children when faced with the alternative of saying "no," which can lead to family conflict. Dr. Kastner refers to research that the average teen spends $80 a week *despite* family income.

Gifts and permissiveness do not take the place of time spent with a child. Buying peace may produce a child with unreasonable expectations. For example, the child may be more likely to throw a tantrum or act out when his or her desires for unearned objects are not met.

How Wealth Heightens Risk

Parents with considerable affluence are at greater risk of spoiling their children, because wealth, which provides both security and opportunity, also can lead to a greater variety of temptations. If an unwarranted ice-cream cone or toy can send the wrong message to a middle-class child, imagine the impact on a child when a birthday party with celebrity guests, a new luxury car or a trip to Europe becomes a routine expectation. Such children tend to develop unreal expectations about life and family relationships, which may never be satisfied.

High-achieving parents may also fall victim to the "Superkid Syndrome." These parents understand how challenging success can be. They want their children to do as well as they have. To assure success, parents may provide their children with an endless stream of elite schooling, select sports activity, private lessons and culture-building vacations. Yet Dr. Kastner cautions, "Excessive gifts and trips, along with nonstop schedules, load too much pressure and activity on kids who would do better just playing in the yard."

Seven Tips for Teaching Financial Values

Teach values through small doses of financial education for preschoolers and increase doses as children get older:

1. Answer questions in a forthright and age-appropriate manner.
2. Tell children only as much as they need to know and are able to absorb.
3. Establish allowances with portions dedicated to savings, charity and spending.
4. Start an investment club, giving older children several thousand dollars to manage. Kastner says, "The amount isn't the issue. It's getting the kids involved. They'll have to manage money eventually."
5. Set up an internal family bank to provide venture capital for members who want to start a business. Rather than depleting family wealth, this increases it and fosters enterprise.
6. Establish a family foundation to give grants to individuals and nonprofit groups. Give younger children the opportunity to determine how to disburse small ($100) donations.
7. Give adult children discretion over a larger trust fund with the help of a financial advisor.

Answering the Question Parents Dread

Like adults, children are aware that money conveys status. Young children are curious and will often ask, “Are we rich?” A vague yet reassuring answer, such as “We have enough to buy the things we need and some left over to give away,” can satisfy and reassure them.

Some parents are tempted to fib about the wealth they have accumulated, but will do better with a truthful approach that emphasizes values. Many wealthy parents emphasize both saving and giving to charity. Other parents may limit spending. When their children ask why the family does not buy more things or go on more expensive trips, the parents may reply, “Because those are not our values.”

It is not necessary for a child to like his parents’ policies. Rather, parents must be comfortable with their policy and hold the line. Boundaries are critical.

Providing Money to Grown Children

As children from affluent families reach adulthood, they are not necessarily prepared for all the responsibilities wealth brings. Handing a 21-year-old millions of dollars can be a recipe for disaster. Concerned parents have options, however. For example, they may give cash gifts, with each parent allowed to give up to $12,000 ($24,000 total) a year to each child without paying federal gift tax. In addition, gifts in excess of the $12,000 annual gift tax exclusion amount may be made to children, outright or in trust, and exempted from gift tax using either or both of the parents’ life time exemption. The lifetime exemption from estate and gift tax is $2 million in 2007 and 2008. (See table).

Trusts also provide sound vehicles for wealth transfer. They enable parents to provide children with larger sums of money, retain measurable control and take advantage of possible income tax deductions and estate tax exclusions. Trusts also offer children the opportunity to learn over time how to manage wealth responsibly.

Handing a 21-year-old millions of dollars can be a recipe for disaster.

Concerned parents have options, however.

YEAR	ANNUAL GIFT EXCLUSION	ESTATE TAX EXEMPTION LIMIT
2006	$12,000	$2,000,000
2007	$12,000	$2,000,000
2008	$12,000*	$2,000,000
2009	$12,000*	$3,500,000
2010	$12,000*	Unlimited
2011	$12,000*	$1,000,000

* Subject to Change.

Children's Negative Reactions

Overscheduled youngsters have little defense against their parents' Superkid agenda and may become exhausted and suffer burnout. Younger children may develop headaches, stomachaches, or other symptoms of physical illness or anxiety leading to depression. They also may throw tantrums or underachieve academically.

The flip side of expecting too much is expecting too little. Permissiveness and overindulgence can produce children who are undisciplined, unpleasant or irresponsible. Over scheduling and overindulgence can result in negative behavior and parents can grow increasingly dissatisfied and disappointed over their child's failure to measure up to expectations.

Dr. Kastner relates, "There used to be more wiggle room for the rambunctious boy or reluctant girl." Temperaments vary and no amount of resources can create the perfect child. However, successful and high-powered parents sometimes expect that pouring enough effort and special instruction into their child will create the same success that they experienced in their individual lives. As a result, their child can have feelings of inadequacy.

Where do spoiled children with no rules, no chores and disappointed parents wind up? They see professionals like Dr. Kastner, who states, "Unfortunately, some parents who complain about their child must first stop blaming the victim, who is the child. More insightful parents see what they've done and are ready to work on their problematic patterns. Although everyone knows you can't buy goodness and good values for children, sometimes we learn the hard way how much children need time, discipline and a life structure that reflects a practice of virtues."

The irony is that all the work that goes into building wealth that was expected to provide happiness can lead to great unhappiness. To counter the negative risks wealth may impose, parents need to spend more time with their children and spend less working or socializing. Many parents have a difficult time transitioning from power jobs to reading *Harry Potter* and playing London Bridge. However, getting down on the floor to play or talk delivers a very positive message to a younger child, while sharing a chore with an older child teaches teamwork and effort.

How Do Successful Parents Achieve Excellence and Balance?

Child rearing requires a commitment to values and character building, which are traits money cannot buy. Many parents require their children to work around the house — like doing dishes or gardening — and/or work for spending money. Some parents may retain a cook, but dispense with nannies in order to raise their children themselves.

Good parenting requires as much effort as a career that produces wealth. While consumerism affects all of us, thoughtful affluent parents avoid the consumerist trap. They often will not purchase a new luxury vehicle or other items and services they can well afford in order to downplay the importance of these material things to their children. They also learn to say "no," which is harder than saying "yes."

Successful parents also model the roles they believe their children should emulate. Dr. Kastner cautions, "You can't expect children to do their chores, including stuff they don't like, such as cleaning their room and working during the summer, if they've never seen their parents do it." Children are more influenced by actions than words. When parents exhibit such positive traits as delayed gratification and self-discipline, they increase the probability that their children will follow suit.

Parents can also encourage a work ethic at an early age. Dr. Kastner advises, "Don't wait until age 14 or 15. Get a three-year-old to make her bed and pour food into the cat's dish. As she gets older, have her help with the dishes. And don't use homework as an excuse to avoid chores. Homework can wait for ten minutes."

Some parents extend their children's obligations, requiring college students to earn part of their school tuition and spending money during summer vacation. Another way parents help their children gain a perspective on wealth and privilege is encouraging participation in local or international community service programs. Parents can foster their child's philanthropic efforts by sponsoring their children in their volunteer service position with a stipend. Even part time jobs during the school year can help teach children a work ethic. Wealthy parents may also encourage their children to seek grants and scholarships or even apply for student loans.

Possible Options for Setting up a Trust

1. Transferring assets to a trust that distributes money in increments (e.g. at ages 35, 40 and 45). This type of distribution plan can encourage an adult child to pursue and develop independent means of support in lieu of growing dependent upon their parents trust. The trust distribution provisions may also give beneficiaries increasing discretion over time as to how funds should be invested and spent under the guidance of a professional financial advisor or trustee.

2. Creating incentive trusts that reinforce specific goals, such as a bonus for college graduation or starting a business.

3. Tying a trust payout to the size of a child's future income. This can provide incentive to pursue a career. However, this may unfairly penalize an adult child who stays at home to care for children or takes a low-paying job in a field he or she enjoys. Distribution provisions should take children's individual situations into account.

4. Establishing a Charitable Remainder Trust (CRT) that pays income to children or grandchildren with the balance or remainder of the principal going to charity when the parents die. A Charitable Lead Trust (CLT) reverses the process. Payments are made during the term of the trust to charity and the remainder can be paid to family members.

5. Setting up a private family foundation is another option for wealthy families. A private family foundation provides grant money to individuals or nonprofit groups. Families can involve children in decision-making regarding disbursements – even as small as $100 – to build their sense of responsibility and demonstrate the value of giving back to the community.

6. Creating family investment clubs that involve children in decision-making can increase their knowledge of the investment process and wealth preservation.

Trusts work best when parents are flexible regarding the dispositive terms, which in turn enable the trustee to better distribute funds in a manner that is consistent with parents' philosophies and values. It also is critical that a trustee understands what the parents (as the grantors of a trust) objectives are in establishing the trust.

The trustee must have thorough knowledge of the terms of the trust and must be capable of properly administering the terms. While relatives or friends may have the beneficiaries' best interests at heart, they may have little, if any, experience in trust administration. For this reason, parents should consider naming a professional corporate co-trustee.

Our children are important to us. The rewards of success, however, bring challenges to our children's emotional well being. By understanding both the limitations and advantages of wealth, parents can take important steps to guide their children toward appropriate values and create the warm, loving relationships that we all desire with our children.

Dr. Laura Kastner, Ph.D. is a Seattle area *Clinical Psychologist* specializing in individual, couple and family therapy. Laura received her Doctorate in Psychology from the University of Virginia in 1979, followed by a Post-Doctoral Internship in Clinical Psychology at the University of Washington in 1980. Currently a Clinical Associate Professor, she has been on the faculty in the Department of Psychiatry and Behavioral Sciences at the University of Washington since completing her Internship. Her positions there have included Chief Psychologist in the Adolescent Health Program, Supervisor in the Consult and Liaison Division of Child Psychiatry at Children's Hospital, and Staff Psychologist in the Adolescent Clinic. She currently maintains the latter position and lectures regularly on Psychiatry and Behavioral Sciences, Child Psychiatry, Social Work, Adolescent Medicine, and Pediatrics. Since 1982, Laura has maintained a private practice and has given hundreds of workshops and lectures for parents on topics such as child development, parent-child communication and strengthening family relationships. Laura is the coauthor of *The Seven Year Stretch: How the Family Works Together to Grow Through Adolescence.* Her most recent book, co-authored with Dr. Jennifer Fugett Wyatt, entitled *The Launching Years: Strategies for Parenting from Senior Year to College Life,* was published in the summer of 2002.

Harris myCFO™ is part of BMO Financial Group, one of North America's most diversified financial services firms.

Please contact us for more information and/or for additional white paper titles or copies.

We look forward to the privilege of serving you.

For more information, visit us at:
harrismycfo.com

Or call us at:
1-877-692-3611

37058 (R 4/07)

HARRIS
myCFO™