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The Best Way for Wealthy Parents to Talk to Children About Family Money

The key is give them the right information at the right time

Talking about money with your children is 'this series of conversations and typically the very last thing that's shared is the distribution of the estate plan,' says Merrill Lynch's Stacy Allred. **PHOTO:** ISTOCKPHOTO/GETTY IMAGES

By Cheryl Winokur Munk

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Many wealthy families face a tricky balancing act. On the one hand, they want to conceal important details even from adult children for fear of creating a sense of entitlement. But when parents are too secretive, it can make it much more difficult for the children when they eventually inherit those investments.

“The more secretive you are, the harder it becomes to talk about later on,” says Michelle Brownstein, a certified financial planner and director of private client services at Personal Capital in San Carlos, Calif.

Discussions about family money are especially important these days given that financial professionals estimate that tens of trillions of dollars in financial and nonfinancial assets will be passed from baby boomers to their heirs over the next several decades. How much to disclose—and when—will depend on each family’s dynamics and wealth situation. But, generally, financial pros say that discussions with children around family wealth should take place in stages, over a number of years.

“A lot of times, there’s a myth that talking about money means revealing the balance sheet,” says Stacy Allred, managing director and head of Merrill Lynch’s Ultra High Net Worth Strategic Wealth Advisory Group and Center for Family Wealth Dynamics and Governance. “Instead, it’s this series of conversations and typically the very last thing that’s shared is the distribution of the estate plan.”

Here are some age-appropriate strategies—and mistakes to avoid.

Tweens and teens

Many agree that the tween years are a good time to start. At this age, children only need to know the family has money; not the specifics of their wealth or how the money is invested.

Don’t try to start a conversation when they’re engrossed in a TV show or busy texting a friend. Tell them how fortunate your family is and cite examples. Point out the vacations you’ve taken, the nice clothes they have, the fun activities they do and the great schools they attend.

Then tell them the family history—ideally as a story, says Randy Kaufman, senior vice president with wealth manager EMM Wealth in New York, which provides wealth management services for affluent individuals and their families. You might begin, for example, with how their great-grandfather boarded a ship from Russia as a child, frightened and alone, she says.

As the children mature, if there are family foundations or donor-advised funds, think about including the children in meetings and decisions about where to make donations, Ms. Kaufman says.

Start by asking them what is important to them. Do they love animals or children, or do they have a strong desire to help the homeless or sick? Explain how they can be a great source of financial help to such efforts, says Ms. Kaufman, who also advises taking the children to visit animal or homeless shelters so they can see up close the importance of lending a helping hand.

Another effective way to engage teens in discussions about money, she says, is to involve them in family decisions such as where to go on vacation. Ms. Kaufman suggests parents invite their children to come up with two or three vacation ideas that the family can then discuss.

In their 20s

When the children reach their 20s, wealthy parents are often concerned that they will become dependent on inherited wealth.

In their 20s, they may begin earning a salary, paying rent and other bills. Financial professionals say this can be a good time to discuss the various components of the family's wealth. Don't give actual values, but tell them about any real estate that is owned, properties that are earning income, life insurance, stocks, bonds and other investments.

Tell them they're now mature enough to have in-depth discussions about the family's successes in saving and investing. Then talk about various types of accounts and basic inheritance concepts like wills and trusts, says Lou Cannataro, a financial adviser with Cannataro Park Avenue Financial in New York City. Describe, in general, your plans for the money you've accumulated, he says. Talk about retirement plans and charity, whether you plan to help your children during their lifetime or leave them an inheritance.

Financial professionals say it's important to explain what you aren't willing to use the money for as well, such as extravagant vacations or funding risky business ventures. This will be different for every family.

Adult children need to understand what's expected of them. David Geller, chief executive of JOYN, a wealth-management firm in Atlanta, told his children they could live at home for up to a year after college graduation to save some money. After that, he expected them to move out. Tell them things like, "you can figure out how to live on your salary, even if it's modest," Mr. Geller says.

Many parents send confusing messages or avoid the conversation entirely about how much support they are willing to give their adult child. "After college graduation, parents will just continue paying the bills and then suddenly, they get disgusted, and turn off the money spigot leaving the child confused and angry," Mr. Geller says.

Another common mistake: trying to control the children with family money. Don't say things like, "I spent a lot of money on your education, and I expect you to find a career that justifies that expenditure," Mr. Geller says. And avoid criticizing your child's financial decisions; let them make their own mistakes, he adds.

It can be a good idea to introduce your children to your adviser to help them learn more about the family's investment and financial philosophies and about setting goals for their own money. Mr. Cannataro says he uses big graphics and doesn't cite actual numbers.

In their 30s

Once children reach maturity, and perhaps are starting families of their own, then it's time to share specific details about your wealth, professionals say.

The approach depends on the child. But a family meeting facilitated with help from a financial adviser, accountant or estate-planning attorney can be an effective way to broach the discussions.

As a prelude to any such formal meeting, Michael M. Pompian, founder and chief investment officer of Sunpointe Investments in St. Louis, proposes a more relaxed social gathering between parents and children. At that gathering, he says, you can approach the topic by saying something like: "At some point you and your brothers and sisters will be in charge of managing our family's money and [we] think the time is right to get you involved."

Ms. Allred of Merrill Lynch also recommends parents write their children an old-fashioned letter. The letter might include stories about what it took to create the wealth, what challenges were overcome, and what the parents really hope happens—and doesn't happen—with the family wealth in the future. Take the time to document your intent, Ms. Allred advises, so there's no room for misunderstanding.

Some parents still balk at revealing real numbers to their children at this age. But for some, it could be a last chance to make sure the children are prepared to manage the money when the parents pass away.

“By the time the 30s come around,” Mr. Pompian says, “it’s almost a mandatory situation where you have to talk to your kids about it or you risk the loss of wealth from generation to generation.”

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