RAISING MONEY-WISE KIDS: A PARENT'S GUIDE

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WEALTH MANAGEMENT

INTRODUCTION

More parents are talking to their kids about money these days, and research shows these conversations are definitely sinking in.[1] However, while most of us have no problem teaching our kids reading, writing and math, we don't really know how to start discussions about money. The intention of this paper is to help you, as a parent, develop money-focused conversations that will add to your child's financial literacy. We'll explore the nature of financial literacy, and the money challenges facing young people today. Drawing on the techniques used by both financial planners and teachers, we'll arm you with a strategy for teaching your children the skills essential to their financial well being.

FINANCIAL LITERACY

WHAT EXACTLY IS FINANCIAL LITERACY?

As part of Laird Norton Wealth Management's participation in Junior Achievement Day,[2] we often come across signs like this in school classrooms: *"Literacy is a life-long tool that students will use to learn, explore and understand the world."*[3] Add "financial" to the beginning of the previous sentence, and the definition remains the same. Put simply, financial literacy is a powerful tool that allows children to apply knowledge and develop skills that will help them manage their financial resources throughout their lives.

Much like a healthy diet, instilling financial literacy in our children directly contributes to their well being. After the worst financial crisis since the Great Depression, parents are now very motivated to teach their children smart money skills. Today, nearly 76% of all parents in the U.S. are talking to their kids about money at a young age, which is a big improvement over the 42% that it was one generation ago.[4]

WHY IS FINANCIAL LITERACY IMPORTANT?

As the effects of overspending and poor risk management continue to ripple across the globe, our society continues to witness first-hand how important financial literacy truly is. Now, couple that with all the money challenges facing young adults today. Aside from diplomas, college seniors are also graduating with the following:

- An average of $4,100 in credit card debt,[5]
- An average of $23,000 in student loan debt,[6] and
- An unemployment rate of 16.4% for workers under age 25.[7]

Although not unique to young adults, it certainly doesn't help that 28% of Americans don't have a penny saved toward an emergency fund.[8] Although these dismal numbers might be signs of the times, more than anything they are a warning. If our society does not resurrect its collective savings habit, there will be no safety net to catch us if we fall in our old age… or if we fall on the way to work.

1. Merrill Lynch Affluent Insights Survey, August 2011

2. Junior Achievement is a nonprofit organization that brings the real world to students through hands-on curriculum delivered by a trained classroom volunteer. Their three-pronged mission promotes financial literacy, entrepreneurship and work readiness.

3. Seattle Public Schools Calendar for Teachers, June 2012

4. Merrill Lynch Affluent Insights Survey, August 2011

5. Sallie Mae, April 2009, https://www1.salliemae.com/about/news_info/newsreleases/041309.htm

6. FinAid, 2008 average for graduating seniors, http://www.finaid.org/loans/

7. Bankrate.com, June 2012, http://money.cnn.com/2012/06/25/pf/emergency-savings/index.htm?iid=HP_LN

8. The University of Arizona APLUS Study, September 2011

While we can't control market forces, we can control how we prepare our children for the real world. By engaging children in the early pursuit and exploration of financial concepts, we encourage them to feel comfortable and confident in both future pursuits and struggles.

BECOMING YOUR CHILD'S FINANCIAL PLANNER

WHY SHOULD I BECOME MY CHILD'S FINANCIAL PLANNER?

Adults who work with a financial planner typically establish a mutual understanding about the nature of the relationship, what topics will be covered, and who is responsible for what.[9] Parents can do the same with their children. For parents, allowing kids to engage in financial planning early on creates the opportunity to transfer financial responsibility. This responsibility allows children to both make and recover from mistakes, which builds confidence over time. The mutual accountability enjoyed by planners and clients, or parents and children, help both parties move the financial planning process forward continually.

Typically, the planner-client relationship is a collaborative process. Working together, the planner helps the clients define their goals and proposes various ways to attain those goals. Acting as your child's financial planner is also very much a collaborative process, not a one-way transfer of information. The focus is on initiating discussions and/or activities to help your child establish goals and learn about key topics. The actual learning happens through parent-child collaboration and interaction. The ultimate ultimate goal is to transfer financial responsibility to the next generation.

In working with children, teens and young adults over the years, we have witnessed first hand how lessons from parents can have a lasting effect. When we encounter particularly knowledgeable young people, we always try to ask them (or their parents) what got them ahead of the curve. What we've learned is that early financial education works. The following are some of our favorite 'true stories,' based on the personal experiences of LNWM employees:

> *"Back in 2008, I visited the Seattle Children's Art Museum with an 8-year-old girl and her parents to attend a financial literacy-focused event called Moneyville. While there, we came across a display that tried to explain the concept of inflation. When I turned to the young girl to talk about the display, she quickly told me how inflation works. When I asked how she learned about inflation, she told me that her dad had explained it at dinner one night. Needless to say, I was very impressed that she was able to apply a dinner conversation to the Moneyville exhibit and reinforce her understanding of a fairly complex financial concept."*

9. The Finance Park is a Junior Achievement program that combines in-class learning with a day-long visit to a fully-interactive simulated town facility located in Auburn, Washington.

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> "*During Laird Norton Wealth Management's annual financial literacy workshop for teens, I asked a 14-year-old how he knew so much about the material we were covering. He explained that when he got in trouble with his parents for not mowing the lawn one too many times, they confiscated a coveted item and wouldn't return it until he had finished reading Robert Kiyosaki's* Rich Dad Poor Dad for Teenagers. *What struck me most was that he expressed no resentment at his "punishment" and even seemed proud to show off what he'd learned.*"

> "*In the three years that I've worked with a 24-year-old client, she's gradually revealed to me an uncanny knack for budgeting and saving. Despite having considerable resources, which she has not tapped into, this young adult created her own monthly budget that sets aside part of her monthly salary into an emergency reserve. When I asked her how this saving habit began, she told me that her mom volunteered at her school each time her class visited the local bank. During each of their visits, my client and her classmates would deposit anywhere from a quarter to a few dollars into their own savings accounts. This young woman picked up saving as an early habit and never had any reason to change.*"

As the above anecdotes demonstrate, conversations, actions, and even strategic punishments all can make a positive difference in terms of attaining financial literacy. Further, the education of young people about money can — and should — come from many angles: parents; outside mentors; schools; and community opportunities like raising money for Girls Scouts or a sports team.

If lessons are reinforced by multiple experiences and children are allowed to learn from their mistakes, they eventually create for themselves a great foundation for handling the various financial responsibilities of adult life — from paying down a mortgage to building a retirement nest egg.

Although financial education should come from a variety of experiences, parents should know that they are 1.5 to 2 times more influential than both formal financial education and friends, in terms of influence on their children's financial attitudes and behaviors. Although some parents might feel a little overwhelmed by this responsibility and worry that their attempts to teach these topics will have an unproductive effect — like Charlie Brown's teacher: "Waah, wah, wah, waah" — they shouldn't be.

Most parents have valuable, real-life understanding of money management, learned through their own experiences. If they can then clearly communicate this to their

PERSONAL FINANCIAL SKILLS

- Learning to earn money
- Living within your means
- Assessing values and setting goals
- Saving toward both short-term and long-term goals
- Understanding credit cards and credit reports
- Understanding basic investments
- Planning charitable giving
- Building an emergency reserve
- Tracking spending
- Identifying needs versus wants
- Delayed gratification
- Managing risk
- Understanding Insurance
- Evaluating investments
- Managing debt (student loans included)
- Drafting a net worth statement
- Understanding financial personalities
- Following the economy
- Communicating about money
- Handling a windfall
- Understanding work benefits (health insurance, retirement accounts, etc.)
- Finding purpose and security in a career
- Negotiating a salary
- Reading financial statements
- Reading a credit report
- Protecting assets
- Interpreting and filing tax returns
- Finding good service providers
- Starting a business
- Contributing to the family business

In March 2012, the National Endowment for Financial Education conducted their own version of a "March Madness" bracket by surveying over 300 financial advisors to find the most common top four financial planning concepts out of 32. Collectively the advisors prioritized:

1. Live within your means
2. Protect yourself with adequate insurance
3. Build an emergency reserve and
4. Establish life insurance for wage earners.

The bracket can be found at www.financialfour.org

children, through a learning plan, the knowledge imparted can be extremely influential. And for those who don't have an education plan for their children, help is on the way.

BUILDING A FINANCIAL EDUCATION STRATEGY

WHAT SKILLS SHOULD I TEACH MY CHILD FIRST?

To build an effective learning plan, parents need to first ask themselves, "What financial skills do I want my child to have by age 18?"

The answer to this question often varies from family to family. To help you start envisioning what skills you want your future young adult to have mastered by the age of 18, the box to the left lists a variety of skills from which you can pick.

As there are many skills to think about, we suggest you start with the following:

- Learning to earn money
- Living within your means
- Assessing your values and setting goals
- Saving toward both short-term and long-term goals
- Understanding credit cards and credit reports
- Understanding basic investments
- Planning and participating in charitable giving

Next, you should start assessing your family values and goals, because these are a critical component – the actual foundation – of your child's education plan. With your family values and goals firmly in place as the base, you will have a strong foundation on which to start layering on topics of interest that grow progressively more complex.

When choosing topics, keep in mind your child's developmental stage. For instance, it is best to keep it hands-on for younger children, as they may not be able to conceptualize as well. For this reason, piggy banks are a better tool for savings at this age rather than a bank account. If youngsters can see and handle coins and dollar bills as they place them in their piggy bank, they are more likely to remember the experience and find the lesson meaningful.

Young children have limited patience and experience. So keep it simple. For instance, resist the urge to teach "this is how to dollar-cost-average

PERSONAL FINANCIAL SKILLS

These resources can serve as the activity that teaches the topics of your "lesson plans."

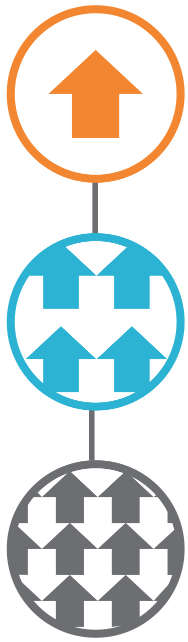
APPS

Mint - Also a popular website, mint is best for budgeting help
iALLOWANCE – Tracking allowance for older kids (stick to cash with younger kids)
Coin Math App – Counting and adding up coins to make up different dollar amounts
Kids Money – Setting, evaluating and reaching goals
Save! The Game – Differentiate between needs and wants
Bank of Mom – A virtual credit line where you can manage debits and credits
Oink-a-Saurus – Created by a kid, saving and investing lessons for younger kids

BOARD GAMES

Life – Making choices (buying insurance yields protection, going to college yields a higher income)
Payday – Handling money, experience interest charged on loan
Pit – Mechanics of trading
Farming Game Kids – Three different playing levels for different ages, teaches kids to read a price chart and to count money
For Sale – Real estate buying and selling game
Acquire – Investment concepts and strategy for teens

HIERARCHY OF FINANCIAL SKILLS



HIGHER LEVEL SKILLS:
Investing your money. Researching charities. Starting a business.

MEDIUM LEVEL SKILLS:
Spending decisions to live within means. Saving toward specific goals. Knowing how credit cards work and what a credit report is.

BASIC FOUNDATION SKILLS:
How to earn money and the mechanics of a budget. Setting goals stemming from a personal values assessment. Saving money into a piggy bank or bank account.

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into the market," if your child doesn't yet know about income and expenses. The concept of dollar-cost-averaging (investing a fixed amount periodically) is much more real if the child has already seen the benefits of saving a little each month. Budgeting should precede investing.

Another thing to keep in mind is Maslow's hierarchy of needs — that basic needs need to be met before higher needs can be reached. In other words, in order to enjoy higher experiences like starting a business or giving to charities, there are basic skills that should be mastered first, like setting goals and budgeting. Put in even simpler terms, your child can't have the financial cart come before the horse, as illustrated by the "Hierarchy of Financial Skills" chart above.

IMPLEMENTING AN EDUCATION STRATEGY

WHEN SHOULD THE LESSONS BEGIN?
Instead of sitting your child down and conducting an official lesson, we suggest starting with general conversations instead. Eventually, you can add formal lessons and 'real-life' experiences with financial professionals into the mix:

Informal conversations – Whether this happens at the dinner table or when you have the kids hostage in your car, informal conversations can both teach a concept in a simple way and speak volumes about how important the topic is. You can explain concepts, put new vocabulary into context, repeat often, and generally create the money messages you want your children to hear.

Formal lessons – The strategic planning of discussions so that they fully cover the topics you've prioritized is very important. A "lesson plan" consists mainly of a goal (your topic), the objectives (components of the goal), materials, activity and summary. You can either plan ahead as to when/how to present these lessons or let them emerge as your child shows interest. Also, consider aligning certain topics with the time of year; i.e. setting a budget in January, doing taxes in April and giving to charity during the winter holidays.

Other advisors – Since you are now your child's financial advisor, it's also your responsibility to connect her/him with experts in different areas as needed. Maybe this is bringing them into our office for a meeting or to one of Laird Norton Wealth Management's annual Kids & Money events. Or, invite a business-owning friend over for dinner to talk to an entrepreneurial child about the obstacles and successes of starting a business.

WHAT ARE SOME GOOD LESSON IDEAS?

For preschoolers between the ages of 3 and 5, casual conversations about the basics with intentional modeling should be used. The following are a few conversation starters for this age group:

Coin identification – Playing with a piggy bank, naming the different coins and starting to attach value to coins. We suggest reading books that introduce different coins and their values like "If You Made a Million" by David M. Schwartz.

Different professions – Talking about what the people you know do for work while explaining that "work" is to both make money and contribute to society. We suggest reading books about professions like Richard Scarry's "What Do People Do All Day?"

Delayed gratification – Modeling delayed gratification by resisting impulse buys and setting intentions prior to entering stores. We suggest reading books that illustrate healthy spending habits like Stan and Jan Berenstain's "The Berenstain Bears Get the Gimmies."

During the elementary school years, between the ages of 6 and 11, the topics covered can evolve from basic to more abstract. The Junior Achievement financial literacy program (mentioned earlier), usually structures its elementary school curriculum with a progressively broadening perspective. Parents can volunteer to bring the Junior Achievement curriculum into their own child's classroom. This is a great way to both cover topics with your kids and get familiar with how lessons and activities can be structured for a fun experience.

The following are conversation ideas for this age group based on the Junior Achievement curriculum:

Kindergarten's "Ourselves" – Recognizing the role of the individual, identifying coins and discussing the value of work.

Second grade's "Our Community" – Learning about different professions, taxes and how money moves through the local economy.

Fifth grade's "Our Nation" – Setting career goals, assessing skills and discussing how our nation fits into the global economy.

When children hit middle school, between the ages of 12 and 14, they are still relatively open to what parents have to say, so take advantage of this. This may be the most important time to introduce lifelong skills before they're in high school and their lives get busier. If you haven't already, begin to have your child incorporate basic money skills like budgeting, earning money and saving into his or her daily life. We also suggest that you challenge your middle-schooler to follow an economic topic in the news, like the situation in Europe or Alibaba's recent IPO, and engage them in frequent conversations about their topic's changing headlines. On a final note, try to talk to your child as an adult. They want to be taken seriously at this age and this is serious subject matter. The following are conversation ideas for this age group:

Budgeting – Talking about needs versus wants, followed by a reinforcing experience like Junior Achievement's Finance Park.[9]

Earning money – Proclaiming a dream job, researching it on the Internet, conducting an informational interview with a family friend or relative who has the 'dream job' and job shadowing for a few hours.

Saving – Setting savings goals, discussing typical 'adult goals' like buying a house or retirement, sharing the financial goals that you (the child's parents) have and haven't reached and discussing the merits of ongoing financial planning.

And finally, the high school years, between the ages of 15 and 18. This is a great time to use milestones tied to real-life events. During high school, teenagers become more independent by spending larger amounts of time away from home with extracurricular activities, social engagements and after school jobs. As their independence increases, so should their responsibility for money matters. The following are real-life application ideas for this age group:

Credit card training wheels – Whether you choose to teach your teenager about using plastic responsibly via a pre-paid debit card or your personal credit card, be sure they are keeping track of their expenses and paying them off monthly. Invoice them if you must. Since you're still the resource provider, use the power of incentives to start healthy credit habits now. Delaying experience with credit until the college years could backfire, as college students face many new responsibilities and may not have the bandwidth to focus on using credit cards responsibly.

First W-2 – If your teen gets a W-2 or a "Form 1099" from a job, set up a meeting with a CPA or financial planner to learn about tax returns. If possible, ask your financial professional to do an interpretive reading of your teenager's personal tax return.

Driver's license – When your teen starts driving, it's a good time for a lesson about auto insurance. Better yet, having kids work the cost of insurance into their budgets will give them practice with the budget revisions they'll encounter throughout life. Encouraging your teen to ask friends for gas money on long trips will give her/him experience in communicating about money matters.

Although this is definitely a lot of ground to cover in the financial literacy spectrum, don't let it overwhelm you and your child. Once you've set your goals from our list of financial planning topics and hatch a plan, talking to your kids about money will feel as natural as talking to them about religion, politics and other family values.

SUMMARY

We believe that parents should participate in every step of a child's financial planning education. This is an ongoing process that does not begin or end with advice on setting up a lemonade stand or opening a checking account. While this level of parent involvement may sound like yet another version of helicopter parenting – parents hovering to sweep every obstacle out of their child's way – we believe it is actually counter to that trend. In a recent editorial called "Spoiled Rotten" for *The New Yorker* magazine, Elizabeth Kolbert declared that children's "…competence encourages autonomy, which fosters further competence – a virtuous cycle that continues into adulthood."[10]

10. "Spoiled Rotten: Why do kids rule the roost?", Elizabeth Kolbert, July 2012, The New Yorker, http://www.newyorker.com/arts/critics/books/2012/07/02/120702crbo_books_kolbert

We couldn't agree more. By developing your list of key financial topics, establishing a mutually accountable 'client-planner' relationship with your child and creating interactive experiences with money, you are empowering your child for life. Financial literacy gained through close parental involvement will help your child successfully navigate his or her own way through future pursuits and struggles. If you would like to have your child participate in one of our financial literacy workshops, please contact your Laird Norton Wealth Management advisor.

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