Teaching Your Family to be Good Stewards

By Jim Coleman

Here's a statistic you may find amazing from a comprehensive study of retirement attitudes published by Ameriprise Financial — 61 percent of survey respondents with financially dependent children recently said their number one financial priority was helping their children become more financially savvy. As a financial advisor, I can attest that there's plenty of work to do in that area. Some clients feel eternally responsible for digging their children out of financial holes. Others worry that, after they are gone, their children will find it difficult to support charitable causes, even though they watched their parents contribute to various charities.

I've often been asked to help children, of all ages, learn the value of a dollar and to cultivate a philanthropic spirit in order to share what they will be lucky enough to inherit. To that end, this holiday season, I am suggesting two innovative ideas designed to instill responsibility and stewardship in your children (no matter their age), both in their personal financial affairs and charitable giving.

The first involves assisting adult children and grandchildren by establishing a Family Bank. Here's my thinking: In wake of the recession, I'm seeing far more clients being asked for loans by their adult children. It's difficult, of course, to say no, yet often clients who give or lend money to family members are putting their own financial security at risk. While an occasional "just this once" loan might be justified, many times clients throw good money after bad. Of course, this kind of financial support doesn't solve the child's money problems either. In fact, having someone to step in and bail them out actually encourages ongoing reckless money management. What's more, a parent's support of one financially needy child can often cause friction between siblings who come to resent their parents' overinvesting in one child.

A Family Bank, actually a saving or brokerage account with a set amount of money deposited can prevent anxiety and ease family conflict over money. The parents simply open an account and list qualified siblings, extended family or friends who can apply for loans. Those eligible to receive loans sit on the Board of Directors, deciding guidelines for requests and determining who receives loans and on what terms. The beauty is that the Family Bank takes mom and dad out of the financial assistance equation. They have a set amount of money to loan, but the emotional turmoil associated with deciding to whom and when to make the loans is off their shoulders. Additionally, since any sibling could apply for a loan, the process is deemed fair.

With written contracts, it's more likely the loans are repaid, thus ensuring the money is there to support the future needs of other family members. A re-payment plan or charging a low interest rate can not only teach financial responsibility to those borrowing, it also may have tax benefits for the parents doing the lending.

Interestingly, this idea has already taken off with the formation of Virgin Money, a "social lending company" designed to give friends and family a more structured way to lend or borrow money with each other. As the website states, the company provides a "simple way to structure social loans, as well as a support system that helps keep friendships exactly as they should be—friendly." You can learn more at: http://www.virginmoneyus.com/.

Just as continually bailing your children out of financial trouble doesn't teach financial responsibility, simply watching you write a check in support of your favorite charity does little to teach philanthropy. Raising charitable and civic-minded children requires engaging them in your charitable work. With younger children this may start by simply mentioning where you are going when you leave to attend a board meeting or volunteer for an organization you support. You also might ask your child to accompany you to a fundraising event.

In the realm of financial support, if you have the assets required to start a family foundation, you can get your children involved by forming a Junior Board comprised of family members in the age range of 12 to 21. This ad hoc charitable committee would manage tasks ranging from investment management and governance to grant-making. A $10 million family foundation, for example, might allocate $25,000 to the Junior Board to distribute each year. In addition to feeling part of your philanthropy, serving as a board member enables children to learn valuable skills, from how to read an annual report to how to set disbursement policies.

Looking for more inspiration – or stocking stuffers?

- *The Ultimate Gift* by Jim Stovall. David C. Cook Distribution, September 30, 2007.
- *The Giving Family – Raising our Children to Help Others* by Susan Crites Price. Council on Foundations, Washington, D.C. 2003.
- *The Financially Intelligent Parent: 8 Steps to Raising Successful, Generous, Responsible Children* by Eileen and John Gallo, NAL Trade, June 7, 2005.
- *Children of Paradise – Successful Parenting for Prosperous Families* by C. Lee Hausner. Plaza Press; 2nd edition, 2005.

You can take a similar approach by opening a family donor-advised fund (DAF), a separately maintained account offered by various companies and growing in popularity. To establish a DAF, you might make an initial irrevocable charitable contribution of $5,000 and add future contributions of $1,000. You then can recommend grants from your DAF to qualified charities. When your children are young, you could give them each $100 to $500 access to the DAF so they can direct money to a charity they care about. In order to grant money, however, you could request that your child do age-appropriate research and make a brief presentation on the charity's merits.

If you'd rather keep giving less formal, consider forming a family giving circle. A kind of social investment club, a giving circle enables several individuals or families to pool their resources to leverage the impact of their charitable contributions. Importantly, a giving circle also often implies that members connect meaningfully with the communities and causes they care about by volunteering their time.

So, in the spirit of the holiday season, I suggest that you found a Family Bank or fund a Family Charitable account. Doing so can enhance financial literacy and cultivate a philanthropic spirit for generations to come. What greater gifts could you give to your children? – and you don't even have to go to the mall.

About Jim Coleman

Jim Coleman has been in the financial services industry for over 20 years. He founded Coleman Financial Advisory Group, voted "The Best Financial Advisor of Greater Waterbury for 2008 and 2009". Coleman specializes in providing comprehensive financial planning, asset management and estate planning services. He holds a degree from Northeastern University, in Boston, with a double major in finance and marketing. He is a member of the Financial Planning Association and is the President of the Connecticut Chapter of the Society for Financial Awareness.

Coleman's passion is finding solutions to financial problems and further educating his clients and the community. Listeners in Connecticut rely on Coleman to deliver sound, accurate financial advice as host of *All About Money*, a radio talk program. He writes a financial planning column for a local newspaper, the *Prospect Pages*, and recently authored a book titled *Educated Investing: Your Guide to Surviving and Thriving in the Fast-Paced Global Markets of the 21st Century*. Visit www.ColemanAdvisoryGroup.com to learn more.

The "Best of Greater Waterbury" award was determined by survey responses sent in by readers of The Observer newspaper for the months of March and April in 2008 and 2009.

SOURCE: Written by Jim Coleman, Securities America, Inc. Registered Representative, in conjunction with Impact Communications.

SOURCE: *The New Retirement Mindscape* (2006), a comprehensive study of retirement attitudes published by Ameriprise Financial in conjunction with Age Wave, Ken Dychtwald, and Harris Interactive. http://www.ameriprise.com/amp/global/sitelets/dreambook/docs/mindscape-study-0106.pdf

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