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Let's do it the SMART way: a practical guide for the raising of affluent children

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Introduction

One might think that children of wealthy families have everything going for them; they get the coolest toys, nicest clothes, are educated in the best schools, have private tutors, grow up with nannies, have the best doctors care for them and seem to lack nothing, but the truth is it is not easy to grow up with all these 'things' with the stigma of a 'rich child' or a 'trust fund baby'.

When you read about 'at-risk' children, you envision children from underprivileged neighbourhoods, from broken homes, street kids, etc and can hardly envision the kids of the top wealth percentile to be children 'at-risk'. What a surprise that a recent research body has added a new 'at-risk' group of adolescent youth – children of affluent homes. A study of public school students, conducted by Suniya S Luthar shows: "that as many as 22 percent of adolescent girls from financially comfortable families suffer from clinical depression. This is three times the national rate of depression for adolescent girls" [1].

The documentary film *Born Rich* [2], a controversial and much discussed work by Jamie Johnson, a member of the Johnson & Johnson family, shows interviews with 11 children of the super-rich and their struggle to find their own place in life. The film portraits a young man struggling with depression, and another one telling about the common use of LSD in one of the leading and most prestigious boarding schools at the young age of 12. Another highlight in the film is Ivanka Trump telling how she discovered that her parents were filing for divorce by the headline in the newspaper and was surprised by a big crowd of journalists following her to school on that day.

In my practice as multi-family office executive I have seen more than once that families have 'that one problem child' who has not completed school, has used drugs, is struggling and wants nothing to do with the family. These kids show up at the family meetings, but make sure to be drunk or high and to embarrass their parents and siblings.

I am helping a family in which one sibling has fallen into drugs and alcohol 35 years ago and has pulled down the entire family into disputes, financial terror and mistrust. The trustees are now working with us to repair the family and not to repeat the same mistake done by previous generations again in the next generation.

Children of affluent homes are considered to be among the happiest group of people in the world, but in fact as teenagers they are more at-risk of depression, anxiety, suicide and substance abuse than their middle-class counterparts.

This phenomenon should be worrisome and alarming for affluent parents and for the educators of their kids. Barbara Blouin, in her book *Inheritors & Work* calls it very poignantly: "the disadvantage of having all the advantages" [3].

Eileen Gallo, PhD and Jon Gallo, JD, in their book *Silver Spoon Kids* have a very good listing of the 'double-edged sword' of the Effect of Affluence [4], as shown below.

What are the reasons that so many of the next generation in affluent families struggle and are 'at-risk'; why do the negative effects so often dominate the positive ones?

- There is the prevailing assumption that rich

Effect of affluence	
Positive	**Negative**
Financial security	Lack of motivation to work/achieve
Freedom to learn/explore	Laziness
More interesting things to do	Activity overload
Exposure to the finer things in life	Overindulgence
Philanthropic opportunities	Sense of entitlement
Friendship with other bright, affluent kids	Insularity and snobbery
Appreciation for the rewards of hard work and ambition	Extreme materialism

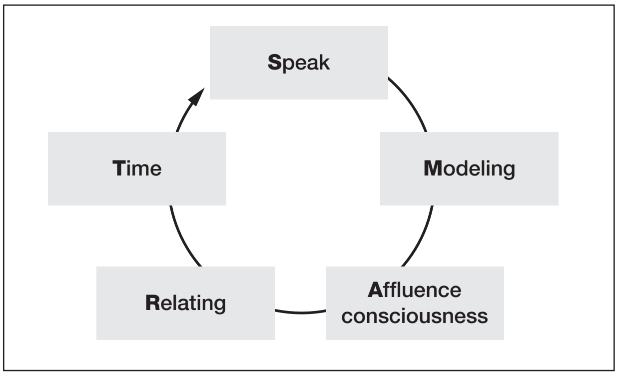
people have no problems: Here a quote from Ivanka Trump [2]: in answer to someone asking her how it feels to be wealthy and to never have felt any pain she is upset and concludes "... to think that with money comes happiness!"

- Parental isolation: "It's so odd that I feel my mom is everywhere and nowhere at the same time." Being "everywhere" is about intrusion, being "nowhere" is about lack of connection" [1]. Many parents are so busy with their own schedules and priorities that they forget to be with their children.
- High parental expectations and big doubts: "When parents place too much pressure on a child to achieve at unrealistically high levels, they may give that child feelings of hopelessness and anxiety … The end result may be that [the child] does not try at all" [5]. A good article on this topic was published in the December 2016 edition of this journal ("Parental expectations: effective guidelines or messy messages?" by Raimund Kamp).
- Walking in the founder's shadow: John Seabrook is quoted "When you inherit something, you always have that doubt: Could I have done it on my own?" [3]. The overpowering image of the all-successful founder is that the parent is in the eyes of the others very difficult to measure up to by the next generation.
- Feeling of entitlement: "… the kids have come to expect privilege as their due, not something they have to re-earn, sustain or nurture" [6] having the power of money and status causes the next generation to have a distorted value system. See also *Born Rich* [2] and the excellent TED talk by Paul Piff: "Does money make you mean?" [17].
- Lack of meaning, challenges and little motivation: "… There is a kind of boredom and despair I often see in these people: they can't figure out how to actually be of use …" [3]. The previous generations have already done everything and achieved so much, what is there left to do for the next generation?

> *"Seek first to understand, then to be understood"*
>
> Stephen R Covey [16]

Not many families see that their kids are actually crying out for help and that it's not the monetary help the kids need.

In my work with families I focus on five areas of importance as a guideline to prevent families from experiencing the above described phenomena. For this article I have arranged them in a SMART way:



Speak

It might sound trivial to emphasise speaking as the first step to prevent the problems of the affluent children. Speaking is not difficult – or is it? In today's world of WhatsApp, texting and instant communication it seems we have lost the natural capability to 'just' talk, tell stories, communicate opinions and feelings, have a civilised discussion (even if we do not agree) and to listen to others.

Do we still have the skills needed for a real conversation with our parents, partners and children? We have them instinctively, we have just forgotten how to use them.

What was common in the past, to sit around the fireplace or the dining table and have a conversation, today requires an effort from all the participants. You have to take a break to invest in mutual communication. Families need to be aware of the importance of talking to each other, of having valued time together. You cannot express all feelings and emotions in an instant conversation.

In meetings with families my team and I find ourselves guiding families on basic communication skills such as listening, listening effectively, articulating and conveying feelings. We speak with them about effective conflict resolutions and the rules of a respectful conversation.

What you should do in a conversation

- Listen until the end
- Clarify and find out more details
- Check understanding
- Pay attention to body language

The 'do not's' in a conversation

- Pretend you are listening
- Hear only what you want to hear

- Interrupt the other
- Prepare your 'defence' while the other talks

We remind parents that the more they share their experiences with their children, the more the children will share theirs with them. It is not enough to preach to the next generation; it has to be a genuine conversation where both participants listen and understand.

Many destructions of families could be avoided if the conflicts are addressed, talked about and resolved early instead of avoided. "Since conflict often involves misunderstandings and misinterpretations, the perceived disagreement may become considerably exaggerated, be it in the heat of the moment or simmering over time" [7]. Conflict resolution instead of conflict avoidance; it might be a very difficult undertaking, but considering the alternative – a worthwhile investment.

Modelling

Some of us have difficulties with speaking, never find the right moment and are afraid of the confrontation. So, besides speaking, how else can we communicate our values and legacy? How do you communicate with a next generation member who does not listen? "The deeds you do may be the only sermon some persons will hear today" (Francis of Assisi); yes, by doing, by being an example, a role model, you can also send a very clear message.

I once witnessed how one of my clients got angry at his adolescent daughter during dinner at the hotel for using her smart phone in a foreign country (and creating a few euros of roaming costs) and at the same meal instructing me in front of his daughter to cancel the chartered yacht for the vacation starting next week causing a loss of the very expensive down-payment (thousands of euros). What does the child learn from the father's behaviour? Which set of values does this event convey?

As we all know, humans instinctively absorb and imitate their parents' (or caretaker's) behaviour from a very early age. So often we see our children's play behaviours, quotes, words and gestures clearly reenacting our own.

What we outlined above with the speaking is obviously also true with modelling; don't think your kid is 'just a child' and does not understand. We often hear parents saying: 'not in front of the children', but already by this statement you have modelled a message that has its implications to the understanding and behaviour of your children.

If words can be hidden from children, actions cannot. The way you treat the nanny, the way you talk to (and about) people working in your household has an effect on your children. 'Leading by example' is actively – not just verbally – communicating values [8].

Practising what you preach: "… by passing on well-thought-out values to our children, we help them achieve value-based happiness and give them a moral compass with which to navigate their way for years to come" [4]. Last, when your children are born you need to sit down with your spouse and discuss the values you want to instil and teach them – and then also apply those values to yourselves. Our way of living and our behaviour must reflect those values and beliefs, otherwise it is a confusing message.

The Money, Meaning & Choices Institute published a booklet called *Children and Money, The Impact of Wealth on Raising Children of All Ages*. In there you can find the following list of best practices of *Financial Parenting*:

- Communicate and reach consensus of your core money values.
- Reach an agreement with your partner on how you will live your money values.
- Practise effective money communication.
- Know your child's developmental readiness to learn about and responsibly handle money.
- Model and teach money management skills and work ethic.
- Model and teach philanthropy.
- Communicate your intentions and conditions about distributions and estate plans [9].

As Jay Hughes points out, there is not only the Financial Capital to look after [10]. Only once the Intellectual, Human, Social and Spiritual Capital are well looked after, is the Financial Capital in good hands.

But it is not only your behaviour in front of your children that counts, it's also how you value other people's contribution that teaches your kids about values and beliefs. Your children are exposed to all sorts of role models. It is you who have to point them in the right direction and help them understand the various messages received.

Affluence consciousness

This is the capability of an affluent family to cope with their wealth, position in society and have a

> *"I know what I have given you...*
> *I do not know what you have received."*
>
> *Antonio Porchia*

healthy relationship to money. In their book *Facilitating Financial Health* Brad Klontz, PsyD, Rick Kahler, CFP and Ted Klontz, PhD describe Financial Health as having a balanced, comfortable relationship with money [11].

Money is something we do not like to talk about. But making it taboo is not helpful for an adolescent growing up in an affluent household. I am not saying that one has to discuss the tax declaration with a 13-year-old child, but the elephant in the room has to be addressed; the fact that the family has wealth, that they are in a privileged situation compared with their peers is something that creates difficulties and questions for everyone and especially for the rising generation. Barbara Hauser and Suzan Peterfriend have written a very helpful book *Mommy, Are We Rich?* with a lot of helpful answers to these questions from a small child, a teenager and a young adult [12].

"Of course your kids know how much money you have", said Lee Miller, regional director of the New York Office for Glenmede Trust, which caters to the wealthy. "Parents are wilfully disbelieving that their children are not connecting the dots" [13].

But how do you convey the message? Speaking and Modelling is not enough; you also have to teach your children to have a healthy relationship with money.

In legacy families[1] very often addressing the issues will make the children discover that their parents went through the same struggles in their adolescence and that the children are not alone with their feelings.

The conversation is about learning together how to live a financially healthy life with affluence and not falling into the many pitfalls I listed earlier.

Such a healthy relationship includes the following:

- Understanding the unconscious beliefs, or 'money scripts' one has learned about money, and being able to change those that are detrimental to one's financial health.
- Knowing enough about money mechanics to be able to invest and manage funds appropriately.
- Communicating openly and honestly within the family around financial issues.
- Having clear financial goals and plans for meeting those goals.
- Making financial choices and taking financial actions that are consistent with one's values and purpose.
- Experiencing low levels of financial stress.
- Experiencing high levels of financial satisfaction.
- Using money, not as an end in itself, but as a tool to help achieve what is most important in life [11].

(This is not the complete list from the book, but the ones relevant for our purpose.)

As I always say: "our generation has already learned to talk about sex … we are proud of our liberal approach to parenting … but when did you last speak to your partner or children about money and the effect it has on you/them?"

Emily Post, the author of *Etiquette* [14] writes: "Only a vulgarian talks ceaselessly about how much this or that cost him. A very well-bred man intensely dislikes the mention of money, and never speaks of it (out of business hours) if he can avoid it."

JP Morgan is famous for having said: "I'll go to jail rather than discuss my personal affairs."

So no wonder it is difficult to speak about money:

- It is considered a private matter;
- Money seen as taboo;
- Connotation of dirt ('filthy' rich);
- Talking about money might bring up conflicts and disagreement;

Table 1

Stages[2]	Responsibilities	Actions
Apprenticeship (5–18)	Develop financial vocabulary; establish early financial habits and values; practice saving, spending, earning, and philanthropy	Manage allowance; hold first job; begin community involvement
Starting out (19–30)	Establish identity and independent lifestyle; experiment	Acquire education and/or life/career experiences; establish savings and a good credit record
Taking charge (31–50)	Build assets; establish a foundation for self and/or family	Acquire assets; build career and family; explore life interests
Looking ahead (51–65)	Take stock; mentor; contribute to next-generation needs	Reassess life choices/goals, and re-energise plans
Third wave (66+)	Relinquish some responsibilities; plan for the next generation	Live and give creatively

Table 2

Age/stage	Social/emotional development	Appropriate money skills to master
Stage one: 5–8	Is curious Has short attention span May have very high energy Begins to view fairness as important	Counts coins and bills Understands the value and purpose of money Learns to differentiate between wants and needs
Stage two: 9–12	Growing fast, body is changing Feels self-conscious Begins self-expression and independence Developing social conscience Becoming aware of hobbies and careers Strongly identifies with peer groups	Can make change Shows initiating behaviour and entrepreneurial spirit Shows awareness of cost of things Shows awareness of earned money Can balance cheque book and keep up with savings account
Stage three: 13–15	Focuses primarily on the present; has only a vague sense of the future Egocentric, self-conscious and anxious about personal behaviour Begins to think independently Conforms to peer group norms and behaviours Highly experimental phase; tries different roles	Can shop comparatively Understands time-money relationship Begins to earn money; initiates small ventures Commits to saving goals Has basic understanding of investment Connects money and future Understands philanthropy Can read bank statement Understands interest and dividends
Stage four: 16–18	Has increased capacity for logical thought and planning Preoccupied with acceptance by peer group Experimenting with independence Confronts serious decisions about life	Actively saves, spends, invests Connects goals and saving Experiences responsibility for others and self Able to talk about money and plan future Understands money as power Can read a pay cheque, do simple tax forms Shows developing capacity for economic self-sufficiency

- High emotional significance of money (positive/negative);
- Avoiding difficult issues related to money.

When educating children we all know that setting boundaries, discipline and limits is key. It gives the children a framework and strengthens their feeling of responsibility. It also teaches them that not everything is allowed. So the same is true with money. If your child thinks because he/she has money she/he is entitled to a special treatment, then all the alarms have to go off! Entitlement is in my eyes the biggest enemy of affluent families. There is an excellent TED Talk by the social psychologist Paul Piff: "Does Money make you mean?" (17); where he shows that once wealth increases, companionship and empathy decreases and deservingness and ideology of self-interest rise.

A survey of US TRUST in 2007 shows that 95% of parents surveyed recognise the importance of their children receiving a solid financial education but only 24% feel that their children are adequately prepared for wealth. The survey further showed that 53% of the parents were concerned that children will be adversely affected by wealth. So it actually means that even though everyone sees the importance of financial literacy, when it comes to the personal money and wealth of the family, we prefer to keep our children in the dark.

Just last week I met a woman of 70+ years, a member of a prominent industrial family, who told me that the first time she was invited to the meeting of the family trust was at the age of 58! Why didn't her trustees involve her at an earlier age?

In the 21st century, where reaching 100 years will not be an exception and 'children' inherit when they arrive at retirement age, it's about time to rethink the way families handle wealth. It is essential that one educates the next generation to deal with the family wealth and to include all the living generations of the family in the financial planning.

> *Financial literacy is economic self-defense. And our collective responsibility as caring adults is to arm the next generation with the skills and knowledge they need to handle themselves in a world in which financial safety nets are being replaced by the imperative of financial self-sufficiency* [15].

Financial education, to be effective, must be a continuous process, not an annual event. Joline Godfrey calls it "The Drip, Drip, Drip Method" of consistent, repetitive experiences that accumulate as financial fluency over time. She further enforces her argument by referring to mastering a sport, learning a language or playing a musical instrument – all skills that develop in a process.

Joline Godfrey's Key Stages of Financial Development (see table 1) call the childhood years the 'Apprenticeship'. She divides the Apprenticeship into four stages (see table 2). [15]

It takes structure, practice, drill commitment and resources to prepare your children to be affluent conscious. It is fruitless to expect family members to function as responsible owners without having basic financial fluency.

Relating

Relating to the other and society. Once your children are affluent conscious it will help them with coping with the fear of being used, exploited and measured only by their wealth. We have to help our children relate to the environment. The longer we keep them separate from the 'outside' world and disconnected from the reality of life, the more they become detached and have it hard finding themselves, be a productive member of society and be affluent conscious.

> *"I want to leave my kids enough money so that they can do anything, but not so much that they can do nothing"*
>
> Warren Buffett

It is a very slippery road to become a spoiled 'trust fund baby' whose values are completely detached from reality. To find the balance in life you need to relate to your inner self, to your surroundings and to society at large.

Children from affluent homes are very often popular with their peers because of the wrong things; the nice swimming pool, the cool games, the freezer full of good ice-cream, the fancy cars, the tickets to concerts, etc.

Peter Buffett (Warren Buffett's son) is quoted to answer to the question of how he reacted when his father first appeared on the Forbes list of richest Americans: "Well, that would be about the time that we found out how much money we had as a family. I'm not kidding, it was when I was in my 20s that my mom and I talked at some point, because there he was, on this list. And we laughed about it, because we said, "Well, isn't it funny? You know, we know who we are, but everybody's treating us differently now."

Warren added: "and they [the kids] knew who their friends were, and their friends were their friends because they liked 'em, and not because they were the rich kid on the block or anything of the sort".

Many children of first generation wealth creators remember their hard education around money. The constant reminder that their parents started at zero, that only through hard work do you achieve the riches, etc.

But if the wealth is inherited? In *Born Rich*, the documentary by Jamie Johnson, you will see how isolated these children are and how they are afraid of being exploited. Ivanka Trump points out that she is looking for sincerity in friends, as she was afraid that people get close to her because of her parents' wealth [2].

What can we do to strengthen the self-esteem of these young people? What will occupy them and instil passion in them? What will balance their relationship to money?

In my practice I have discovered that philanthropy is a wonderful and non-threatening tool to bring young adults closer to the issue of money. We empower the next generation with establishing the charitable foundation, discussing the mission and value system of the foundation, work closely at building philanthropic governance of the family. This activity – by itself satisfactory – has the wonderful side-effect of connecting the various generations of the family and involves all the members of the family, the ones in leading positions as well as the ones on the sidelines. It is the foundation for a lasting legacy.

Sometimes the activity on the charitable side of the family enables estranged members of a family to get to know each other again and to break prejudicial opinions about the next generation. This then opens the door to having serious discussions about the core wealth of the family and helps shape the family of wealth in all domains.

> *"It's good to have money and the things money can buy, but it's good, too, to make sure you haven't lost the things that money can't buy."*
>
> George Lorimer

Family members learn that all this wealth is not only a burden but an opportunity to do 'good' and to become a leader in their community.

This way the next generation can relate to the family history, be part of the shapers of the family legacy and history and also find their right place in society.

Time

Time is always of the essence! We all know that 'time is money' – but in the case of education of affluent children it is exactly the opposite. *Not investing time* will cost money;[3] investing time with the family is like planting seeds, the fruits will come with the growth of the next generation.

Time flies, and the formative childhood years of the children are a unique window of opportunity to give them the tools to become responsible, productive, positive and happy members of the family and society at large. You have to invest in the family, in the children; only this way will you be able to guarantee a continuation of the special legacy that only your family has.

To build a legacy a family needs much more than just a family business or family wealth. The vast majority of families fall apart after the third generation; investing in your family the SMART way, increases the chances that the family becomes a legacy family. SPEAK, be a role MODEL, giving the family members tools to cope with affluence, invest in their financial health and become AFFLUENT CONSCIOUS, helping them to find their own path and RELATE to their environment and, last but not least, spend TIME with your family!

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1 Families where the wealth has been created in earlier generations.
2 I think since 2003, when this table was composed, the age groups have widened and each phase from 'Taking charge' to 'Third wave' should widen by 10 years to 'Taking charge' (31–60), 'Looking ahead' (61–75) and Third wave to (76+).
3 Estate lawyers, trustees, psychologists, rehab clinics, etc.

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