



Raising Money-Savvy Kids

Embracing Your Role as Chief Financial Parent

As a parent, you want to prepare your children for a lifetime of success. Teaching your kids about the value of money—how to earn it, what you can do with it, what it means to you—can help them establish a healthy relationship with money so they make smart, informed decisions about their financial futures.

But talking about money is hard. For some parents, reluctance to broach the subject stems from fear that talking about wealth will have an adverse impact on their child's initiative and ambition. Other parents simply don't know how to do it or where to begin.

How to Prepare

Before you start the conversation with your children, you need to prepare.

UNDERSTANDING YOUR OWN VALUES ABOUT WEALTH. Ask yourself:

- How does my wealth impact my children?
- How did my upbringing affect my relationship with money?
- Are there financial changes—such as windfalls, inheritances or the transfer of a family business—that may affect my family in the future?
- What are the values I want my kids to develop with respect to money?
- How does my wealth impact my children?
- Are those values aligned with my own values and behaviors when it comes to money?

As with anything else related to raising your kids, it's important that there aren't discrepancies between what you say and what you do. For example, how do you walk the line between enjoying the lifestyle you've worked so hard to achieve and teaching your kids that material possessions are not the source of happiness and fulfillment?

GETTING ON THE SAME PAGE WITH YOUR PARTNER. Once you have a clear picture of your own values, sit down with your partner and reflect on your beliefs about money. Be open and honest. The more successful you are in harmonizing your values before speaking to your kids about money, the more successful you'll be in managing the conversation.

TALK WITH YOUR CHILDREN, NOT AT THEM. The money talk should be a conversation, not a lecture. Talking *with* your kids, rather than talking *at* them, will be a more effective way of getting your point across. Try engaging your children in the conversation by asking them questions that challenge their assumptions and inspire them to search for, and formulate, their own answers.

USE YOUR ACTIONS TO TEACH YOUR CHILDREN ABOUT MONEY. Your actions regarding money may speak louder than your words. If you want to emphasize to your children how important it is to give back, engage in philanthropic activities and involve your kids in the process. If you give your children an allowance and their money runs out before they receive their next allowance, don't bail them out. Part of earning an allowance is learning to make independent spending decisions and living with the consequences of those decisions.

Starting the Conversation Early

Money is a complex topic, and talking about money may bring up a range of complicated feelings. However, if you avoid the topic, you may miss an important opportunity to educate your children and prepare them for financial success. By starting these conversations early, you make money a family matter and set the foundation for an ongoing dialogue.

Breaking the Ice: The Mechanics of Money

Helping your children understand what you can do with money is a good place to start the conversation. The mechanics of money include:

EARNING. Earning an allowance may be your child's first experience with earning and making independent decisions about money. An allowance can be a valuable teaching tool. When structured thoughtfully, an allowance can teach your kids the necessity of budgeting, the need to save to fund large purchases and the necessity of making choices. You can also talk to your kids about earning money by working for others or starting their own business.

SAVING. Start with the concept of simply keeping something for later, or for emergencies. Talking about saving is also an opportunity to emphasize the importance of setting and prioritizing goals. Emphasize the power of compound interest, and how saving early, and often, can pay off in the long run.

INVESTING. When talking about investing, you can explain that, in addition to potentially earning a rate of return, investing in companies whose values align with yours can allow you to have an impact on the world.

SPENDING. Any conversation about spending should begin with a discussion about priorities and the difference between needs, wants and wishes. Stress the importance of a budget and explain that a budget isn't a restriction; it's a plan that helps build wealth and financial independence. You may also want to consider making an investment in your children to help them reach certain goals. Replace your natural parental instinct to give with the incentive to earn. For example, rather than giving your daughter a car, give her the opportunity to invest in herself. Let her know that when she reaches driving age, if she's doing well in school and responsible enough to drive, you will provide two-thirds of the purchase price of a reasonably priced new car if she can earn the other third. The principle is simple: I'll make an investment in you, but first you must make one in yourself.

GIVING. An easy way to introduce your children to the concept of giving is to involve them in your household charities from a young age. As your kids get older, help them find causes they believe in and then volunteer at local organizations together. Volunteering as a family is an opportunity to live, not just speak, your values.

BORROWING. For many people today, debt is simply a fact of life and may be a necessary part of achieving their personal and professional goals. Talk to your children about the different types of borrowing, and the difference between good debt and bad debt. Generally, good debt refers to borrowing that helps you generate income and increases your net worth.

Continuing the Conversation: The Meaning of Money

Talking about what money means to you as a family is just as important as talking about what you can do with your money. Questions you might want to discuss as a family include:

- What does money mean to us?
- What does it mean to be rich?
- What are the responsibilities, obligations and challenges that come with having money?
- Why do we value money?
- How did we accumulate it, and what did we learn from the effort of accumulating it?
- How, if at all, would we be different if we lost it?
- What do we want to accomplish with it?
- How do you connect goals to planning?

Having meaningful family conversations about money can help you and your children find ways to use your financial capital to leverage the value of your family, intellectual and social capital.

How Morgan Stanley Can Help

At Morgan Stanley, we are here to help you navigate family conversations about money, whether it's helping you create a family mission statement or providing tips that can help you tackle difficult money topics and transform them into meaningful family discussions. Let's have that conversation.

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