Morgan Stanley

INTERNATIONAL WEALTH MANAGEMENT

Opening Pandora's Box

10 Rules for Talking to Kids About Money

Many affluent parents dread talking with their kids about money. "Once we talk about money," they say, "it will be like opening Pandora's box" (which was actually a jar—don't ask me why we always refer to a box). "Nothing but evil will issue forth."

Here's how I usually respond: First, the box is probably open already. Second, if it's not, more likely than not it will be soon, no matter what you do. And third, it might be better if we went ahead and opened it from time to time, anyhow. If we try to force the lid down, we're really teaching our kids that there is something inside the box to fear; something so dangerous and harmful that we don't even talk about it. If that's the lesson we teach our kids, we're not starting them off on the road to forming a healthy relationship with wealth.

On the other hand, some affluent parents may not dread the conversation, yet they tell me they don't know how to do it or where to begin. To help those who dread the topic, as well as those who want to dive in but aren't sure how, over the years I've come up with 10 rules for talking with kids about money—and, just as important, for acting consistent with what we say.

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IO RULES FOR TALKING TO KIDS ABOUT MONEY

1. Money Is Like Sex
2. Think Before You Talk
3. Talk, Talk and Talk Some More
4. Talk With Them, Not to Them
5. A Question Is Worth a Thousand Answers
6. Keep Foot Away From Mouth
7. Give Kids an Allowance
8. Make an Investment in Them
9. Walk the Talk
10. It Ain't Over 'Til It's Over (and It Never Is)

RULE 1: MONEY IS LIKE SEX

Just as with young kids and sex, when it comes to money, kids (of whatever age) know more than we think they know. But they're confused about what they think they know.

As to the first part of the rule and how much kids already know, many of the affluent parents I've known have deluded themselves into believing they've kept their wealth a secret. But there's much kids will infer simply from how we live our lives. When I was in private practice, for example, I had a client who was worth in excess of half a billion dollars. One day he said to me, "Glenn, my kids have no idea how much I'm worth; I've kept them totally in the dark." I replied, "You live in a 25,000 square foot house, and your kids have never been on a commercial plane—they're always on your private jet. I think they've figured it out." My client was right in a very narrow and technical sense: His kids might not have known exactly how many zeros there were on his balance sheet or what number was in front of those zeros, but it really didn't matter. They knew their father was extremely wealthy.

Our kids aren't idiots, and most of them will figure it out. And if they don't, they'll hear it from their friends who have either figured it out themselves or heard it from their parents.

Moreover, kids are naturally curious, and the internet gives them vast insight into their parents' lives—even those parents who don't lead ostentatious lifestyles. As a result, kids typically know much more about us than we knew about our parents when we were the same age. For example, when my wife and I bought a new house, our teenaged kids went online and found the asking price of every house we had looked at. They would even debate whether this house was worth incrementally more than that house. If they wanted to, they could easily find out what we ultimately paid. By contrast, I didn't find out what my parents paid for the house I grew up in until I was in my 30s.

But while they may know more than we think they do, they're often confused about what they think they know. That's because, irrespective of their age, kids often don't have sufficient context to make what they know meaningful. For younger kids, the lack of context may come simply from being inexperienced. For older, even very sophisticated kids, the lack of context may relate to our failure (intentional or not) to give them insight into the total picture.

I'll use an example from my own life. When my son, Benjamin, was 10, he could tell you, almost to the penny, the cost of any exotic automobile you could name. But he didn't have any sense of what the purchase price meant in relative terms because he was entirely lacking in context. He couldn't, for example, relate the cost of a Ferrari 599 GTB Fiorano to a one-bedroom apartment in New York

City or what a first-year associate in a major law firm makes a year or the price of tuition at four-year private colleges. Thus, he was confused about what he thought he knew. Oscar Wilde defined a cynic as someone who knows the price of everything but the value of nothing. In that sense, kids are Wildean cynics.

Keeping in mind this first rule should help us get over our delusion that we can keep our kids in the dark about everything. But it also helps us to define one of the tasks ahead of us: helping our kids begin to create a context into which they may place their knowledge so that it is helpful and empowering and not dangerous or frightening.

RULE 2: THINK BEFORE YOU TALK

I don't just mean the obvious point that you should think about what you're going to say before you say it. Certainly, you need to do that. But the real point of my second rule is that you have got to come to grips with your own values about wealth before you discuss money with your kids.

Many affluent parents have a fairly clear sense of the values that they'd like their kids to develop with respect to money, but they may be less discerning about their own values. Thus, as an initial matter, we need to be honest with ourselves in examining our own values about wealth. It's one thing to say that we want our kids to understand that material possessions are not the source of happiness and fulfillment. But if our own lives are driven by little more than conspicuous consumption, our kids will quickly come to see that the values we say they should develop are not aligned with the values that shape our own behavior. Kids are the most sensitive lie detectors we've ever built: If there is significant discrepancy between what we say and what we do, they'll be quick to see it. They'll be inclined to ignore what we say and see us as hypocrites. The damage we do may be far-reaching: We may undermine our moral authority and persuasiveness on other issues and permanently damage our credibility.

Couples need to engage in this introspective analysis separately, and once they've been honest with themselves in identifying their own values, they need to come together and ensure that, to the extent possible, their values are aligned. That's because kids are quick to discern the areas where parental views diverge. And once they've identified these discontinuities, they're expert at exploiting them and playing one parent against the other. The more successful we are in harmonizing our values before we speak to our kids about money, the more successful we'll be in managing the conversation and living our lives consistent with what we say.

In examining the extent to which their values are aligned, parents need to focus not just on conceptual matters but also on the practicalities of everyday life. For younger kids, that means parents have to harmonize

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their views about spending on clothes, parties, birthday and holiday presents and the like. For older kids, clothing remains relevant, but things like cars and college expenses become of central importance. With adult kids, homes and more general kinds of financial assistance take center stage. Parents need to be on the same page about all these matters.

These issues may be especially difficult to deal with in the case of blended families and divorced parents, where it may very well be the case that differences in values were at least a contributing factor to the divorce. Where kids, in effect, have two households and different values reign in each, the only way to address the challenges that result is to discuss candidly the fact that there are different values in each household and explain why we have chosen the values we have. Being honest with ourselves and our partners about what we truly value isn't always easy, but it's a necessary first step in having successful conversations with kids about money.

RULE 3: TALK, TALK AND TALK SOME MORE

My third rule is addressed to the reality that money is the last taboo: The one topic that still causes discomfort and unease in many families. Politics, drugs, even sex are now openly discussed, but money is still too delicate an issue for many families. Talking about money makes many of us feel embarrassed, guilty, even shameful. But when we let money become taboo, we're not living up to our responsibilities to prepare and educate.

I was once on a panel with Peter Buffett, one of the sons of Warren Buffett—the Oracle of Omaha. Peter was discussing his father's view of wealth. Out of filial loyalty (I didn't want Warren to have the spotlight all to himself), I began talking about my father—Irwin Kurlander, the Oracle of Boca Raton—and his views on wealth. "When I was very young," I began, "my father once said to me, 'Glenn, if we were wealthy, I wouldn't let you know until you were old enough to deal with that knowledge. I'd be worried that simply knowing we were rich would destroy your initiative and ambition. I'd want you to accomplish all you could on your own.'"

"Well," I told the audience, "I just turned 56 and that feels pretty old. So now, every day when I wake up I think, maybe this is it; maybe today's the day my father will call and say, 'Glenn, you may as well know; we're loaded.'"

Well, I still haven't gotten that call from my Dad. And as much as I love and respect him, I think he got it wrong—at least in part. I agree that in most families it doesn't make sense to give a kid a balance sheet—particularly a young kid. But I think it does make sense to talk about wealth all the time. Not from the perspective of how much we have, but from the more important and foundational perspective of what it means. What are the responsibilities, obligations and challenges that come with wealth? Why do we value it? How did we accumulate it, and what did we learn from the effort of accumulation? How, if at all, would we be different if we lost it? And maybe most important of all, what do we want to accomplish with it?

Conversations that focus on these questions are, of course, about more than dollars—they're about our guiding values and precepts. And that's why they're so valuable. They spring from teachable moments about what is most important to us and ultimately who we are. These are the kinds of conversations I have in mind when I say talk, talk and talk some more. They're the conversations we can't be afraid to have.

RULE 4: TALK WITH THEM, NOT TO THEM

I've got four children of my own, and I learned early on that the best way to get them not to listen to something that I thought was important was to lecture them. As a general rule, conversations are much more effective than lectures, and that's especially true when we're talking to our kids about money. If we can succeed in engaging children, and get them to talk to us, the odds are that we'll be much more effective in getting our point across. And if we keep a couple things in mind, we'll be more likely to have a conversation and not a lecture.

First, we should strive not to be dismissive or belittling when we're talking to kids about money. In other words, we shouldn't talk down to them. Seek to excise certain parental clichés from our lexicon—expressions such as "you're too young to understand," "you'll understand when you're a parent," and "maybe when you're grown up." If what we're talking about is so hard for the child to understand, we either should be doing a better job at explaining it, or we shouldn't be talking about it in the first place. Other chestnuts that are absolutely certain to stifle a conversation are "because I said so," "that's none of your business," and "that's an inappropriate question." And there's probably no better child-soporific than "when I was a kid." We utter that one at our peril.

Second, while it's a mistake to be belittling, it's equally ineffective to talk over a child's head. It's probably best to skip conversations about credit default swaps and collateralized mortgage obligations. As with all other conversations, our goal when we talk with kids about money should be to talk in a way that is consistent with the child's general level of maturity. The point of the conversation we should be trying to have isn't about the complexities of our financial system— it's about values.

I've found that the single most effective way to engage children is to ask them questions that challenge their assumptions and force them to begin to search for their own answers. And that's what the next rule is all about.

RULE 5: A QUESTION IS WORTH A THOUSAND ANSWERS

Question: Why does a lawyer always answer a question with a question? Answer: Why shouldn't a lawyer answer a question with a question?

That question and answer illustrates one powerful way to proceed when talking with kids about money. Rather than simply give our children answers to questions, it's usually more effective to ask them questions that force them to supply their own answers. We have to answer honestly, but we also have to ask more questions designed to help our children formulate their own answers.

I'll give an example of how to employ this approach by using the one question that, more than any other, causes affluent parents sheer terror: "Are we rich?" But not only shouldn't you fear that question, you should anticipate it eagerly.

I'd love it when my kids would ask me that question because it gave me the chance to engage them in a conversation about the meaning of wealth and happiness. I'd begin by saying to them, "Wow, that's a really interesting question. Are we rich? Well, I don't know—you tell me; what does it mean to be rich?"

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At this stage, I'd hope my kids would simply throw out a number, say $50 million. Because then I could say, "Yeah, I agree; anyone who has $50 million is rich. But let me ask you a question. Does that mean someone with $40 million is poor?" And with that, I'd shift the Socratic dialogue into high gear—the more we talked and the further our conversation evolved, the more I would spin an intricate web of additional questions:

- What would you do if you had $50 million that you couldn't do if you had only $40 million? How would your life be different? Would you be happier?
- Who is the richest person you know? Do they seem happier than you?
- What makes you the happiest? The saddest? Does any of that have to do with being rich?
- How do people get rich? Why are some people poor?

In spinning out our questions, the point isn't to evade our children's questions. We need to answer, and we need to answer honestly. But helping them formulate the truly important questions and arriving at their own answers is ultimately more valuable. And of course, we'll want to return to these questions over and over again to help our children test their initial responses against the deeper and more meaningful set of experiences they accumulate as they get older and see more of life.

So how does one answer the question, "Are we rich?" when an answer does have to be given? Try this answer on for size: "Rich means different things to different people; it means some things that we measure with money and other things like having a happy and healthy family that can't be measured with money and that no amount of money can buy. In the sense of money, Dad and I have enough to buy all the things we need and many of the things we want and, while you are children, we have enough to take care of you so that you don't have to worry. So many people would say Dad and I are rich." Some clients may want to continue by saying, "When you become an adult, you'll want to have your own money so that you can take care of your children, if you decide to have them." Of course, from this answer, we can spin many more questions, if we wish.

RULE 6: KEEP FOOT AWAY FROM MOUTH

It can be pretty tough to keep ourselves from saying something we know we shouldn't say. Why is that hard? I think that's because our attitudes about money are complex. A simple statement, often reflexive, can't convey the whole truth. As a result, many of us will utter an offhanded or casual remark about money; statements that might not truly reflect our attitudes or that may have a germ of truth but require significant disclaimers or additional qualifications. The danger is that the offhand remark teaches our kids something about money that we don't really mean, something that is often at odds with what we really believe.

For example, clients have told me about having made unthinking remarks such as, "I'd hate to live in that house," "I'm so glad I don't drive a car like that," "She looks like she buys her clothes at the second-hand shop." While I know that, at some level, my clients didn't mean it, the problem with these statements, especially to younger ears, is that they have the potential to equate money—or more accurately, tangible possessions—with happiness.

I recently caught myself in a huge foot extraction moment. My youngest son was having trouble making friends and has some other challenges that tend to exacerbate the issue. So, my wife and I often coach him. We talk through scenarios and discuss how he might deal with them more effectively. One of the boys he's hung around with at school loves to swim, and recently I caught myself saying, "William really enjoys swimming, and we've got a beautiful pool; why don't you invite him over sometime for lunch and a swim. I'm sure he'd really enjoy it, and then maybe he'd invite you over to his house sometime."

The message I intended was that sometimes friendships develop out of a shared interest. All good. Except that, as I said the words to my son about the pool and the expectation of payback, I heard another potential message in the air: You can buy friends with nice things. Of course, that's not what I meant, but I could have done a much better job in choosing my words in the first place. I fixed it, I think, by explaining what I really meant and addressing what I didn't, but the danger is that sometimes we don't hear the darker message that's potentially implicit in what we say. Or, as in my case, the undoing is just one more challenge or distraction.

One of the things that stops some parents from talking about money in the first place, particularly with younger kids, is a concern that kids will brag or make other inappropriate public comments about family wealth. Some parents who have decided to open the kimono a bit undermine the value of the conversation if they deal with the issue of public disclosure less than artfully. This common incident of parental foot-in-mouth disease risks making the child feel like the information about family wealth—or wealth itself—is somehow shameful or dirty.

In my mind, theses parents are failing to distinguish between privacy and secrecy. It's perfectly appropriate—indeed, wise—to explain to a child that conversations about family wealth are family matters and that we talk about family matters only with family. But it may be a mistake to make the child feel that generally we need to be secretive about these matters because that creates the potential for unhealthy attitudes about wealth, power and control, both as a child and, more dangerously, as an adult.

RULE 7: GIVE KIDS AN ALLOWANCE

So far, the rules have focused largely on talking. But as important as it is to talk with kids about money, I think actions are at least as meaningful and often are more powerful. Let's start with one of my favorite teaching tools—allowance. It's something I get asked about all the time.

Parents can start with very young kids by giving them what I call a "special allowance": a fixed sum to spend at a particular event, say a ball game. Parents pick some reasonable amount and say to the child, "Here is $30 for you to spend as you wish. If you buy a big souvenir, you won't have anything left for the rest of the day. If you buy a smaller souvenir, you may have enough for a drink or an ice cream. If you don't buy a souvenir, you can have a hot dog, a drink and an ice cream. It's your call how to spend the money. But once you've spent it all, you can't buy anything else." For many kids, this is their first experience making their own decisions about money. For it to be meaningful, parents have to mean what they say about not getting more when the original amount runs out.

When you make the transition to a regular allowance, be clear about why you're doing it. Some parents explain that, in effect, the allowance is a payment in respect of chores. Others find that notion anathema, believing that doing chores is a family responsibility, and that we don't get paid for the discharge of responsibilities. If you fall into this camp, you may decide to explain the allowance as reflecting a decision to share some family wealth.

Clients often ask me how much allowance they should give their kids. I believe that parents often get hung up on the amount and resort to artificial ways to fix the payment: he's 10 years old, so we'll give him $10 a week; next year, we'll increase it to $11. I'm not sure it's a great idea to pay a kid more simply because he kept breathing for another year. And I think it's more effective to relate the allowance to what we expect it to cover. In other words, decide first what expenses you want your children to defray from the allowance, what portion you want them to save and what portion, if any, you want them to set aside for charity. Based on that analysis, we can back into an amount that's reasonable. It shouldn't be so large that a child can buy anything she or he wishes—that defeats the need to have to make choices, which is what the allowance is all about. On the other hand, it shouldn't be so small that it's meaningless and doesn't really allow for the making of choices.

If we've chosen the amount well, there will be times when kids will run out of money in the middle of the week. When that happens, we can't bail them out; if we do, we're again undermining the purpose of the exercise in the first place.

The same principles hold as kids get older, though I suggest that you change the way the allowance functions to reflect the child's increasing maturity and growing (we hope) facility with money. Rather than paying the allowance weekly, we can pay it twice a month and eventually monthly, requiring the child to budget over longer periods. At the same time, we should require that the child defray additional kinds of expense out of the allowance, while increasing the amount of the allowance commensurately. For older teens, you may think about suspending the allowance in the summer on the theory that, while kids are in school, their job is to be full-time students, but in the summer, they can find work. Of course, some clients think kids should have part-time jobs while they're in school, too. Obviously, it's possible to fit an allowance into that worldview as well.

An allowance, when structured thoughtfully, can teach a child the necessity of budgeting, the need to save to fund large purchases and the necessity of making choices. If learning from our mistakes is an effective teaching tool, then an allowance should be a part of your tool kit.

RULE 8: MAKE AN INVESTMENT IN THEM

Most of the very wealthy clients with whom I've worked over the last 30 years haven't always been very wealthy. Most came from modest circumstances at best, and they usually didn't start out with the goal of becoming wealthy. Far more often, they began doing something they loved or in which they were deeply engaged. They usually had some luck along the way, and they also had some reverses. They persevered and took risks. And one day they woke up and realized they were wealthier than they ever imagined possible. As they've looked back on their lives and all they've accomplished, many have said to me, "You know what, Glenn? The times when it was hard, when I was building and it was a struggle, those were the best times." And then in the very next breath they say, "But I don't want my kids to have to struggle the way I did."

Of course, there's a logical disconnect here, although any one of us who is a parent can probably understand the statement emotionally. From a logical perspective, why would we want to withhold from our kids the experiences that meant the most to us and that we believe to be essential to our success? But, of course, most of us will not create artificial scarcity for our children. Once we have succeeded and have the ability to enjoy a certain way of living, most of us won't decide to withhold it from our children. Most of us are not going to treat our children's lives as a science experiment and withhold things from them to see how they develop.

I believe there is a middle way, and it's about replacing the natural parental instinct to give with the need to earn. It's Rule 8, Make an Investment in Them.

Here's an example of how my wife and I have put that rule into effect in our own lives. We live in a part of Westchester County that the geographers call semirural. There are no streetlights and no sidewalks; the roads are narrow and winding; the distances are immense. Walking anywhere is just not possible—you need a car to get around. By the time our kids reach driving age, my wife and I will be more than ready to tear up our chauffeur licenses. But at the same time, the thought of our kids driving one of our cars is inconceivable for dozens of reasons. So we want them to have their own car when they reach driving age, but we don't want to simply give them one.

So we've decided to make an investment in them, provided they make an investment in themselves. Our kids have known from an early age that when they reach driving age, if they're doing well in school and they're responsible and mature enough to drive, my wife and I will provide two-thirds of the purchase price of a reasonably priced new car. They have to earn the other third.

If this approach resonates, it's easy to apply it to other rites of passage: bicycles, for example, for younger kids (the "work" can be payments for "special chores"); first homes, as another example, for older kids. The principle is the same: I'll make an investment in you, but first you have to make one in yourself.

I think that making an investment in our kids is the answer to the logical inconsistency in the "I was happy when I struggled; I want my kids to be happy; I don't want my kids to struggle" paradox: We use our financial capital to help our kids, to ease some of the struggle, but not to eliminate it entirely. We preserve, to at least some extent, the necessity of making it on their own by requiring them to invest in themselves in order to earn our investment.

RULE 9: WALK THE TALK

If you want to get the message across, you have to live, not just speak, your values. If we emphasize to our children how important it is to give back but never engage in philanthropic activity, our children will come to doubt our words, no matter how often or eloquently we deliver the message. And if we tell our children that material possessions don't bring happiness but then devote our lives to never-ending consumption, our children will come to learn we don't really mean what we say. The way we live our lives is the model from which our children learn the most. It's critically important to talk with our kids about wealth and values, meaning and responsibility. But while talking is a necessary condition, it's not a sufficient one. It isn't enough to say it, no matter how many times or how well. We've got to live it.

RULE 10: IT AIN'T OVER 'TIL IT'S OVER (AND IT NEVER IS)

The final rule reflects the reality that talking with kids about money is not something we do once. It's something we have to do repeatedly; it's a life-long enterprise. We don't stop being parents in any other sphere until we stop being. And if we've done our jobs well, perhaps our kids hear our voice in their heads, helping them find the way, even after death has silenced us. If we continue being parents in all else, why would we think we stop when it comes to money?

If we're to be successful, conversations about wealth can not be a case of one and done: conversations about the meaning and significance of wealth are the kinds of conversations we need to have for the rest of our lives. In my opinion, this is an area where we never stop parenting.

While the final rule is about the never-ending nature of the discourse about money, paradoxically it brings us to an end of our discussion of how you can successfully open Pandora's Box. So go ahead and lift the lid. You may be pleasantly surprised by what comes streaming out.

About the Author

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Glenn Kurlander is the Head of Morgan Stanley's Family Governance & Wealth Education unit, and has helped ultra high net worth clients address matters of family governance, complex estate planning and wealth education for over 30 years.

Prior to joining Morgan Stanley, Glenn was a nationally recognized trusts and estates attorney, with over 18 years experience advising wealthy families and individuals in connection with the management, protection and transfer of global wealth, including the creation of family governance systems; the management of family dynamics related to the possession of significant wealth; the succession of closely-held businesses; the resolution of family disputes; the management of family offices; the creation of tax-efficient transfers during life and at death; and the structuring of public and private philanthropy. Glenn was a partner of Kirkland & Ellis, where he led that firm's trusts and estates group.

Glenn has written in leading professional journals and has lectured extensively on topics such as family governance, managing family conflict, the dynamics of family wealth and family offices, and has been quoted in Time,The Wall Street Journal, Barron's, Dow Jones News Wire and Worth Magazine, among others. He is a former president of Morgan Stanley's Global Impact Funding Trust, Inc., the charity that operates the firm's donor-advised fund.

Glenn received his law degree, cum laude, from the Cornell University Law School in 1984, where he was an editor of the Cornell Law Review. He also holds an M.A. degree in English literature from Columbia University and is a cum laude and Phi Beta Kappa graduate of Franklin & Marshall College.

Glenn lives in West Palm Beach, Florida with his wife and four children, and their goofy dog, Dizzy. Glenn is a past president of his synagogue and is passionate about fast cars and Harley Davidsons.

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