

observations

Talking to Your Kids About Money



Gene Diederich
CHIEF EXECUTIVE OFFICER

From the day the tooth fairy first leaves cash under their pillows, children are faced with financial decisions. Often, we as parents haven't provided the guidance, education and example that will help them develop the financial literacy required to succeed in an increasingly complex economic environment.

Uncomfortable about having 'that' conversation with your kids? You're not alone. Statistics show that financial education and open, ongoing conversations about family finances aren't held in many families. These conversations—begun early—are an important practice of successful families. At Moneta Group, we understand that talking about money can be complicated.

Sometimes knowing at what age to begin and exactly what to say can keep parents from forging ahead. Children are bombarded with marketing that makes it difficult for them to avoid the pressure of having the 'latest and greatest.' Older children are offered credit cards and the use of debit cards, without enough education on exactly how they work and how to budget so that the cash isn't gone when the credit card bill arrives.

This *Observations* newsletter focuses on a number of things you might do to begin making financial discussions part of your family life. If you see yourself in Janet Banderá's, *Are you your child's ATM?*, coaching your kids to be wise consumers may be a top priority. Older kids may be ready for budget discussions or conversations about saving. If you have very young children, you're fortunate, as good advice (based on experience!) abounds in the following articles. If your children are older, don't despair. We suggest you share some of the statistics in our new 'By the Numbers' column with them, an exercise that may help get the conversation started.

Whatever your own situation, I think you'll be amazed at the comments in our Q&A Roundtable—all from some of our younger Moneta folks. Their experiences in their own families will give you plenty of insight and some good ideas about what you might do to prepare your own children for adulthood. They have been thoughtful and very candid in their responses. Gus Gast, Moneta Family CFO, gives some straightforward, point-by-point actions to consider that are both practical and doable for any family. We've even included a worksheet you can use to begin the process of helping your kids understand the difference between 'want' and 'need' and the basics of budgeting.

And if you have older children—or even grandchildren—consider Kara Harmon's article about whether or not you should help your children purchase a home.

We hope this issue of *Observations* is 'food for thought' and helps you begin to have important conversations with your own family. ❖

SUMMER 2009

INSIDE THIS ISSUE:

- Teaching Fiscal Responsibility Round Table Q&A**
- Are You Your Child's ATM?**
- Buying a Home: Should You Help?**

Our summer Observations newsletter addresses a topic many clients wrestle with: how to talk to kids about money and help them learn financial responsibility. We gathered suggestions and commentary from a number of sources—including our own 20-something Moneta folks—and even provide you with a 'worksheet', reprinted with permission from Share Save Spend[®] (visit sharesavespend.com), that may help you start important conversations with your children. Also, we introduce 'By the Numbers,' a column of fascinating statistics from a variety of relevant publications and other outlets. We hope you enjoy reading them!

We encourage you to check out the 'blogs' (written by Moneta Group's Professional Consultants) posted in the 'For Our Clients' area of the Website, www.monetagroup.com. As always, your opinions, suggestions and feedback are valuable in helping us shape the communications we send to you. Please send your comments to Nancy Powers at npowers@monetagroup.com.

BY THE NUMBERS...

- Compiled by Gus Gast

Here are some fascinating statistics about kids and money!

The Younger Set:

- Only 41 percent of parents give any kind of allowance.

- *EnviroNics Research Group Ltd*

- 92 percent of families polled thought that kids should earn their wages.

- *Parenting, May 2007*

- The average gift children now receive per tooth from the Tooth Fairy is \$1.88, down from \$2.09 one year ago. (The saddest result of the recession!)

- *Securian Life Insurance Co.*

Teens:

- Adding a teen driver to your auto policy increases your premium an average of \$2,171 per year.

- *Insurance.com's Ratewatch*

- Only 14 percent of teens have taken a personal finance class in school, and 69 percent of teens say that what they know about managing money, they learned from their parents.

- *Capital One's Annual Survey Finds Back to School Shopping will be Impacted by Economy, July 21, 2008*

- 73.1 percent of teens have a savings account.

- *Junior Achievement poll, 2006*

College Students:

- 39 percent of freshmen arrive on campus with a credit card in hand.

- 84 percent of undergraduates have at least one credit card.

- 50 percent of college students have four or more cards.

- 82 percent carry balances and thus incur finance charges each month. Seniors graduate with an average credit card debt of more than \$4,100.

- *Sallie Mae*

Young Adults:

- Only 59 percent of young adults in Generation Y (ages 18-29) pay their bills on time every month.

- *2008 Financial Literacy Survey, conducted on behalf of the National Foundation for Credit Counseling Inc. and MSN Money*

- 75.2 percent of the telecom budget for those under 25 is spent on cellular phones versus 58.5 percent for adults between the ages of 35 and 44.

- *Bureau of Labor Statistics*

Want to Help Your Kids Learn Fiscal Responsibility? Take Action!



Gus Gast,
CPA

Does it worry you that your children may not be getting the appropriate education in financial matters to help them successfully manage their finances later in life? As the father of three young children—and a Family CFO who often helps clients deal with difficult money issues surrounding their children—I've given this a lot of thought. Additionally, consider some startling statistics:

- Only 14 percent of teens have ever taken a personal finance class in school.¹

- Sixty-nine percent of teens say that what they know about money, they learned from their parents.²

And what about those affectionately referred to as 'Boomerang Kids'?

- Fully 77 percent of college graduates move back home

after school.³

- Twenty-five percent of Generation Xers, those 29 to 40 years old, receive financial help from family and friends.⁴

Feeling the pressure yet?

What can you do? Here are a few suggestions you can put into practice with your own children—and even your grandchildren.

Open a savings account.

Something productive needs to be done with tooth fairy and birthday money. Instead of buying more toys they won't play with or candy that's not good for them, introduce young children to saving. Open a bank savings account with them. Those Saturday morning trips to the bank can be a fun way to spend special, individual time together, and you may be surprised to see their excitement as they watch their money grow.

Buy U.S. Savings Bonds.

Set a dollar goal for each child's savings account. When they reach their goal, take the extra money and buy U.S. Savings Bonds of different denominations. Children often find the bonds themselves pretty neat to look at, and this provides a good opportunity to teach them about interest—an important financial concept.

Start investing in the market.

As soon as older children notice the news you watch on TV—like stock market reports and news about the economy—open a UTMA (Uniform Transfers to Minors) account at Charles Schwab or Fidelity. When their savings account has grown enough, help them buy a few shares of common stock in companies they know (Apple, Coca Cola or Disney) and also show them other investment vehicles like mutual funds and ETFs (Exchange Traded Funds). Teach diversification!

Manage a checkbook.

This is a great way for middle-school children to learn exactly how much things cost. You are most likely paying for the trumpet lessons, club soccer team and summer camps anyway; use this as an opportunity for your children to participate in the financial side of these activities by actually writing the checks. Open a joint checking account and make deposits periodically to cover upcoming expenses. Teaching kids to balance their checkbook every month is a must!

Prepare a budget.

After they get the hang of balancing the checkbook, introduce them to the concept of budgeting. Have your child

write down what they will need each month for their activities, and calculate the amount of the monthly 'paycheck' they will need from you to cover these expenses. Teaching them the value of money is important—and budgeting (even when they aren't earning the money) is a valuable lesson for the future.

Obtain a credit card.

As your child matures and spends more time out with friends, there may be times

when a credit card will come in handy—either for need, emergencies or convenience. Most of us end up with multiple credit cards anyway, so why not teach your high school junior or senior how to manage one now, before they head off to college? This can be a great way to reinforce the budget lessons you taught earlier, and will help them understand how to manage credit prudently. If you do a good job of it, you might actually have cash left in your

wallet when you go to get a cup of coffee and a paper on Sunday morning!

A couple of final thoughts:

Your children are individuals and won't all have the same level of interest in these activities at the same age. Don't force the issue, or you may have an opposite, unintended effect. The goal is to make each lesson fun, interesting and appropriate for the child. Each individual's interest

level also will vary month to month. The key is open and honest communication—which includes listening to them. Start early to create good habits and open dialogue about money with your family. It will pay dividends for years to come. ❖

¹ See Sidebar

² See Sidebar

³ Collegegrad.com Survey, August 2008

⁴ AARP

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www.glasbergen.com



“Money can’t buy happiness. You also need high-yield stocks, prime real estate, and a solid credit rating!”

observations

Round Table Q&A

by Nancy Powers, MFA

If you want advice about how to talk with your kids about money and help them become responsible, savvy adults, go to experts. We sat down with seven '20-somethings' who have varying roles at Moneta—assistants to Professional Consultants—and asked them about their experiences of talking to their parents about this too often taboo subject. (We agreed to use only initials—in case their parents read our newsletter!)

It's quite a treatise on financial responsibility and open communication in families. I don't think any 'experts' we might have looked to could give better, or more important advice.

Moneta: Did your parents give you a good financial foundation?

K: I had a checking account in college, but really didn't have instructions on how to manage it. When I worked in high school my mom just said, "Don't spend all your money." She definitely encouraged me to think about the future. Both parents helped—they'd give me a little money if I asked—but they emphasized saving.

K2: When I was 10, my dad walked me up to the local bank and opened a savings account for me, and matched what I saved dollar for dollar. They made it clear I could *not* spend any of that money until I was 18. I got an allowance—it

increased as I got older—and I negotiated the amount based on what I had to pay for, but I never got extra. If I ran out, that was it.

J: My parents divorced when I was 5, and I lived with my mom. She struggled financially, and there were no conversations about money. She got by on credit cards. But I was well aware of how tough things were.

B: I think you're either 'wired' for knowledge about money or you're not. My sister and I had the same parents, same basic upbringing, but we definitely have different ways of dealing with the issue. I think I'm a better steward and planner. Parents can help mold kids by showing restraint, being open and encouraging budgeting. Among some of our clients, I see parents who can be too free with financial help without providing any education.

Moneta: Were there regular conversations about money in your family?

K: I wish my parents would have been more open. I was kind of 'thrown to the sharks'. I wanted to move to St. Louis, and I did, but without much experience I had to learn fast or perish.

L: My parents were good with money—responsible—but they weren't consistent with me. They would impose rules, but not follow through. It was an ever-changing thing. I'm not extravagant because they were frugal—but I didn't have a good sense of planning and sticking to a budget. I'm still learning how to do that.

K2: I was lucky. I knew how much my dad earned. We talked about wills and trusts, and I knew their plans. I was always a nerdy, responsible kid, and I paid attention to the lessons being taught.

J: College was the catalyst for me. I worked during summers trying to make enough money to last through the school year so I wouldn't have to work. I guess I was self-taught. But my dad turned me onto the series of books by Thomas Stanley, *The Millionaire Next Door* and *The Millionaire Mind*. I learned a lot from reading those books.

K2: When I went to college, my parents gave me a lump sum to last the entire school. It was, "Here's all there is." But school was my job, and I didn't have to work. That was a great gift.

Moneta: Did you ever find yourself in financial trouble because you didn't know how

to manage money? What advice might have helped?

K: When I was first on my own in St. Louis, I did. I hated it, and was too proud to ask for help. I had to make it work; it was a matter of pride. I wanted to prove I could do it.

B: I see a big difference in what's 'normal' for some of our clients' children. The person I am today—my attitude about money—was shaped by struggle. In my family, our goal was survival.

J: What I think works is some kind of incentive program, like matching savings. Make sure kids have some investment—practical and emotional—in getting what they want.

K: If you want to help your kids financially, give them some emotional incentive: "Here's my goal for helping you. Here's what I hope you will be able to achieve with this help." If you give lavishly without teaching kids responsibility, and the money goes away, what will they do? Kids need life skills, even when they are from wealthy families.

L2: My mom's advice was simple: Live below your means. When I graduated from college, I got a job and assumed I would move out. My mom said, "You

can stay here, but you have to help with the bills.” I figured I would rather have my own debt. I understood that you can’t get by for free.

B: The underlying thing is that parents don’t model restraint and teach kids how to allocate resources appropriately. We have clients who still support their adult children in a pretty high, ‘on-demand’ lifestyle. You want it now? Get it now.

Moneta: Now that you’re adults, have your parents talked about plans for their end-of-life issues? Estate plans?

J: That actually scares me a little. We still don’t have discussions about it. In our family it’s going to be a sticky situation, because we have a blended family and there are some complicated sibling issues. I worry about my sisters, who don’t budget or plan. The relationships can be complicated.

K2: I’m an only child. My parents have been open about their wishes, but when you’re an only child, it’s kind of a burden; it’s obviously not as complicated.

K: I’m the responsible kid in my family. I know I’ll be the executor and that there will be problems with my siblings. I know my parents plan to disinherit one of them, and I don’t want to have to deal with it.

What’s important from our clients’ standpoint is that often the kids know they’re going to get a decent inheritance, and I think it’s important to teach kids how to deal with administrative issues.

J: My concern is that when a parent chooses to disinherit a child or give different amounts to different kids and hasn’t told everyone, that can adversely affect the relationship between the siblings. When I was young, I saw my mom struggle financially and learned to think about the future. My younger brother saw a better, more affluent lifestyle. He doesn’t understand the concept of living below your means. My mom is a rescuer, coddling the weak ones, bailing them out. That spills over into every aspect of life — work, finding the right mate, making a life as an independent adult. It doesn’t help someone if they never face the consequences of their financial decisions.

Moneta: You get to give our clients advice based on your experiences. What would you tell them?

K: Encourage saving and make sure kids have some emotional investment in what they get.

L: Be consistent. Teach money management and budgeting, and speak up about your values. My parents really emphasized education and philanthropy.

K: You should start early. Kids can grasp the concept of money the day you give them their first dollar.

L2: I think kids should be rewarded for leading a responsible life. Working hard is something that gives you a sense of control and power over your life. You know you can rely on yourself.

K2: Communicate with kids early about what your plans are for funding them. If you pay for college, explain that you expect them to work and become self-sufficient. Help them prepare for the future. When I got my first place my parents paid half the rent for a month, then the contributions diminished monthly until I was on my own—and I knew exactly how it was going to work.

L: My parents offered to let me live at home to pursue a dream, but I really valued my independence. I think it’s important to say that kids of wealth can be raised with good values—and a lot of them are.

J: You have to look at each kid as an individual. There’s a difference between a child coming home after college to freeload and one who comes home with a plan to achieve something and needs a little support as she works toward the goal. But make sure there’s a challenge to be met. Don’t rescue.

L2: Lead by example. I’ve seen struggle, but I’ve also seen that hard work pays off.

K2: You have to rid your children of a sense of entitlement. It’s not very realistic for a 21-year-old to live at the same level as their parents do at 50.

J: Setting goals early is really important. If kids want something, make them think about how and when they might get it—and what they should contribute to that plan.

K: Wealth is a double-edged sword. I see clients who really had to struggle, and they don’t want their kids to face the same hardships. But there’s a fine line between helping kids grow and making them too dependent.

B: Some of those parents who struggled when they were younger do too much for their kids out of a sense of guilt. They weren’t around much when their kids were young because they were working so hard to achieve the goals they set. Now they’re trying to compensate by being over-indulgent. I ask myself what kind of child I want to raise. If I value education that has to be communicated from the start. And there’s no ‘one size fits all.’ I think all parents have to ask themselves, ‘Who do I want my child to be?’ and begin helping that child become that person. ❖

Are You Your Child's ATM?

SIDE BAR

If the current financial environment has you or your adult children rethinking spending priorities, downsizing vacation plans or dining out less often, don't fail to talk to the young children in the family about these plans and decisions. Kids are experts at picking up signals from the grown-ups, and failing to be open with them may cause more anxiety than you think.

Here are some talking points published in a *Wall Street Journal* article by Sue Shellenbarger from her story, 'Break It to 'em Gently: Telling Kids About Financial Woes.'

- Convey information in a brief, matter-of-fact way.
- Normalize problems, pointing out that many families are stressed.
- Be guided by children's questions.
- Involve children in solving problems together.
- Stress core values that won't change, such as family closeness.



Janet Nava Bandera,
JD

Everyone needs to understand money: where it comes from, how to spend it wisely, and how to save and invest for the future. This is especially true for our children who see 1.2 million advertisements per year, according to David Walsh of the National Institute on Media and the Family. It's no wonder that, the current economy notwithstanding, children are consumed by the desire to become consumers, spending every dime.

Why are so many ads targeted at youth? Because the 18 and under crowd spends \$150 billion annually in the United States, while influencing their parents to spend *five times* that amount, or another \$750 billion.

Advertisers plant junior spies among our children, enlist cartoon characters, pop stars and professional athletes to gain their trust, exploit children's fears of being left out, disguise their messages

as something other than advertising, and even pay off school officials to let them stay close to children during the school day.

Instead of becoming savvy consumers, young adults are becoming savvy at getting their parents to spend money or give them money for the things they want. These 'hyper-consumers,' as Walsh calls them, have no idea how to manage money, and delayed gratification is a foreign concept.

It's the start of a spending legacy that can haunt them for years to come. By 1997, there were more people declaring bankruptcy than graduating from college, with people age 25 and under representing the fastest growing segment of those declaring bankruptcy.

In the book *Prodigal Sons and Material Girls: How Not To Be Your Child's ATM*, author Nathan Dungan says that most of today's children have become shopaholics. "Our 10-year-olds already have a monkey on their back—a full-blown addiction to spending—and the drug of choice is often Nike, Mary Kate & Ashley, the Gap or some other brand name that has been drilled into the must-have section of their brain."

To help your children see through commercialism,

Dungan suggests pointing out to them that by buying certain brands, they become human billboards, only instead of the company paying for the advertising, they are paying the company. He also recommends helping children shift their focus from wanting everything they see to learning the value of money by encouraging them to donate a portion of their allowance to charity. Often when children compare the feeling they get from supporting a cause that's important to them to that of buying a toy that breaks or is boring within a week of purchase, there is no comparison and they learn the true value of money.

Too many parents don't take time to teach their children about the value of money, and many of those children grow up to be adults who struggle with money management skills.

What age should parents begin educating their children about money? Financial experts agree that it's never too early. The more children learn about money, the more they will be able to make wise financial decisions as they grow older.

Your Moneta principal can help you start the conversation today. ❖

Buying a Home: Should Parents Help Kids with this Important Purchase?



Kara Harmon,
CPA, CFP®, AWMA

“Mom and Dad, I was thinking about buying a house...” As parents, how do we help? Most likely, our adult children will ask for our opinion—on location, appearance, cost or financing. We may or may not want to provide financial assistance. How do we prepare our children for this big decision?

The first question to ask is whether your adult child is ready for home ownership.

Does my child plan to stay put for a few years? Even in a stable housing market, the initial closing costs and decorating expenses will take some time to recoup through property appreciation. Lately, a more common story is one where the home has declined in value. Ideally, homeowners can wait for a better time to sell. Talk about your child’s professional and personal goals. Determine if the house fits into his five-year vision.

Does my child want to take on the responsibilities of home ownership? Remind him that home ownership goes beyond decorating and hosting barbecues. It is also about clogged toilets, leaky roofs and mowing the grass in the heat of the summer.

Once you have determined your child is ready, it’s time to talk finances.

How much house can my child afford? Encourage your child to review his ongoing expenses. Quicken or credit card summaries can help him get organized, and mortgage calculators are available on most bank Web sites. It is also a good idea to get pre-approved for a mortgage loan. According to lenders, buyers can afford to borrow up to 28 percent of their monthly income. Ask your child to consider the impact of the mortgage payment, real estate taxes and other house-related expenses on his lifestyle. How stretched does he want to be? Encourage your child to incorporate savings into the expense analysis. As Family CFOs, we want your child to begin thinking of other life objectives like retirement or college funding.

Is my child able to budget and plan for extraordinary expenses within his monthly

income? Most first-time homebuyers think of the mortgage payment as the main cash flow expense. However, anybody who has owned a home will attest that utilities, lawn maintenance and a broken furnace (or whatever it is this month!) can quickly add to the cost. Share your experiences and provide an estimate of your ongoing home expenses.

Has my child planned for the down payment? Twenty percent down is required to avoid Private Mortgage Insurance (PMI), a safety net protecting the bank in case you fail to make payments. PMI is expensive (typically 0.5 to 1 percent of the loan) and not tax deductible. Therefore, encourage your child to start saving early. If you wish to help, consider a matching program where you add a dollar for every dollar he saves toward his house, or any other sort of outright gift is always appreciated. If you want to assist without gifting, you could extend an interest-only loan to provide the cash needed while minimizing the ongoing out-of-pocket cost for your child. Your Moneta Family CFO can help you further evaluate your options.

Who should my child talk to about obtaining a mortgage loan? Ask your Moneta Family

CFO. Over the years, we have worked with many bankers and mortgage brokers. Some are better than others. We can direct you to the person who can best address your family’s needs. A good mortgage consultant will work closely with your son or daughter to determine the most appropriate mortgage structure for his or her personal situation.

Is the timing right? What about the economy? Ask your child if his job is at risk. If the economy weakens before it gets better, is his job still safe? If employment is stable, it is an opportune time to buy a house. Home values are depressed, which is great when you don’t need to sell a house! Plus, the 2009 stimulus package includes a tax credit of up to \$8,000 for first-time homebuyers. Lastly, 30-year fixed mortgage rates are under 5 percent, minimizing the cost of a mortgage loan and monthly payments. ❖



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To Our Clients:

Because of a new oversight program of the SEC (Securities and Exchange Commission) in response the most recent fraudulent schemes making headlines, some clients of advisory firms may receive letters from the SEC soliciting confirmation of account balances, deposits and withdrawals. The letters are being sent randomly to clients of RIAs across the country, which may include some Moneta clients.

Please note: These letters have nothing whatsoever to do with any problems, questions, audits or inquiries regarding your investments or Moneta Group. The purpose of contacting investors is an effort on the part of the SEC to do a better job of monitoring the investment professionals they are charged with overseeing.

Responding to the SEC letter is strictly voluntary. If you have questions or concerns, call your Family CFO for more information.

Your Family CFO Since 1905

Money In~Money Out → Youth Check in

Each month, I get money from the following:

JOB: \$ _____ GIFTS: \$ _____ OTHER: \$ _____
SAVINGS: \$ _____ LOANS: \$ _____
_____ TOTAL: \$ _____

Each month, I use my money for (insert totals from Session 1 Spending Log):

CLOTHING/SHOES: \$ _____ CONNECTIVITY: \$ _____ (CELL PHONE, INTERNET) CHARITABLE DONATIONS: \$ _____
ENTERTAINMENT: \$ _____ (MOVIE, CDS, VIDEO GAMES) TOILETRIES: \$ _____ (SHAMPOO, COSMETICS) SAVINGS ACCOUNT: \$ _____
FOOD: \$ _____ (EATING OUT, SNACKS) GROOMING: \$ _____ (HAIRCUTS, TANNING) COLLEGE SAVINGS: \$ _____
SPORTS/HOBBIES: \$ _____ MEDIA: \$ _____ (MAGAZINES, BOOKS) INVESTMENT SAVINGS: \$ _____
TRANSPORTATION: \$ _____ (BUS, CAR PAYMENT, INSURANCE, MAINTENANCE) SCHOOL: \$ _____ (EVENTS, SUPPLIES, TUITION) CREDIT CARD BALANCES: \$ _____
GAS: \$ _____

TOTAL IN: \$ _____ TOTAL OUT: \$ _____ DIFFERENCE +/-: _____

My Money Plan → Youth

Some Questions to Ask Yourself.

Smart financial decisions begin with knowing what matters to you. Having a personal money plan will guide your choices and help you to get the most out of your money.

HERE ARE A FEW QUESTIONS TO HELP YOU BEGIN:

For me, money is:

How do I feel about spending money... why?

The things that matter most to me in life are:

How do I feel about saving money... why?

How do I want to use my resources to improve the future for myself and my world?

How do I feel about sharing money... why?

My values are (e.g. truth, respect, equality, humility, etc.):

In a sentence or two, my personal money plan is:

NOW EXAMINE YOUR MONEY PLAN:

- Does my money plan reflect MY values... not just those of my peers? (Your plan will work best for you if it fits your own situation.)
- Where can I turn for solid financial information and advice to help me make smart use of my money?
- How does my money plan balance sharing, saving and spending my money?

