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MERRILL CENTER FOR FAMILY WEALTH®

Financial education handbook

Practical ideas to engage the rising generation

This paper was authored by the
Merrill Center for Family Wealth®

Contents

Help prepare the rising generation to value, manage and preserve your family's wealth

Like many people, you probably rank success as a parent, grandparent or family elder as one of the most rewarding of your accomplishments. Knowing that there's much to learn about life, you've focused on the growth and development of younger family members to help prepare them for the future.

For families who plan to transfer wealth to the rising generation, parenting brings an additional dimension — the desire to raise motivated and financially responsible children. Yet 96% of college-bound students noted that they would've made different financial decisions had they been given more financial education.[1] As such, it's imperative to teach basic money management skills in progressive, age-appropriate intervals. But while instructing children on the basic mechanics of managing dollars and cents could be a one-time lesson, instilling your values about money should be an ongoing activity.

22% of U.S. teenage students lack basic financial literacy skills.

Source: Program for International Student Assessment, 2017. (Latest available data.)

How to use this financial education guide

Early-stage financial education is important because child development experts note that kids benefit from learning about money at a young age. Parents remain the single most important source of financial information and guidance for setting young people up for success.

Levels of understanding differ by age and also from child to child. While this guide is organized by age group, you can adjust the exercises and resources based on the emotional maturity of your child.

Age groups

5–8	9–12	13–15	16–18	19–25

Within each age group, we highlight five core financial competencies for effectively helping manage wealth: Saving, Investing, Earning, Sharing and Spending. This approach equips you to help younger family members build their skills for incorporating money into their lives in a positive way.

As your child grows, you can use this guide to support your ongoing dialogue about financial education through activities and resources.

Guide your child along the education continuum

The following education continuum is intended as a guideline rather than a rigid framework to follow. The common money questions and concerns will also vary by your child's interests, learning styles and social-emotional maturity.

Ages[2]	Social-emotional development[2]	Common money questions and concerns
Stage 1 **5- to 8-year-olds**	• Become curious • Have high energy • Believe fairness is important • Develop sense of right and wrong	• Are we rich? • Why can't I have this? • Why can't we do the things they do? • Why is that person homeless? Should we give them money?
Stage 2 **9- to 12-year-olds**	• Become self-conscious • Begin self-expression • Develop social conscience • Start to develop interests	• How much money do you make? • Why should I save my money? • How can I earn money?
Stage 3 **13- to 15-year-olds**	• Focus on the present • Become anxious about personal behavior • Conform to peer groups • Experiment with decision-making and personal roles	• Since I'm older now, can I have a bigger allowance? • Why do people care about money so much? • What are taxes? And where do they go?
Stage 4 **16- to 18-year-olds**	• Experiment with independence • Increase logical capacity • Confront important life decisions	• What does "minimum wage" mean? • How am I going to pay for college? • What's the difference between a wage and a salary? • Why do we support these organizations/charities?
Stage 5[3] **19- to 25-year-olds**	• Become independent and self-reliant • Develop strong sense of self • Increase social and moral conscience	• How should I think about investing? • What if I don't have enough money to pay my bills? • Is insurance worth it? • How can we measure our charitable giving? • What are my family's expectations of me in regard to the family wealth? What can I expect?

Financial literacy requires understanding and skill development in five key competencies — Saving, Investing, Earning, Sharing and Spending. Understanding these in the context of your family's core financial and life values is foundational to integrating money skills and attitudes. Many families find it helpful to discuss and document a statement of family values.

Matching family values to five core competencies

We've provided the value statements below to help you begin to identify and discuss the values your family embodies. Throughout this guide, we begin each competency discussion with a sample value statement to reinforce the connection between family values and financial education.

Financial competency	Examples of family values: We value…
1. Saving	• Choices that reflect accountability and responsibility • Consuming and demonstrating our financial resources to align with our core principles • Building resources for the future • Preserving family wealth to benefit multiple generations for education, travel and health care
2. Investing	• Experiential learning through active participation • Aligning our investments with our philosophy and purpose • Preserving and growing family wealth across the generations • Having the ability to take calculated risks
3. Earning	• Financial independence, which allows us freedom and choices • Paid productivity • Each generation creating its own path • Pursuit of meaning and purpose in one's life and work • Hard work and dedication • Entrepreneurial mindset • Self-reliance and independence
4. Sharing	• Thoughtful consideration of the sharing of wealth, with limits and parameters • Giving of our resources — time, intellect and money — to positively affect the lives of others • Teaching the rising generation the importance of philanthropy through active participation • Supporting organizations that align with our philosophies • Focusing our philanthropy on our top priorities of interest
5. Spending	• Designing a budget aligned to personal goals • Distinguishing between needs and wants • Thoughtful spending • Spending for experience rather than consumption

The bigger discussion: Values and wealth

When you believe your family members are mature enough to contribute to conversations about family values (perhaps beginning at ages 13 to 15), include them in discussions to document your family's values statement. Values conversations can start at an early age and expand in depth along with your child's maturity. In the earlier stages, keep the discussion light and informal. Later, introduce more formal, written values statements.

Source: Values statements originally created in collaboration with the Money, Meaning and Choices Institute. Adapted based on Center for Family Wealth facilitated family meetings.

Start the conversation about the uses of money

Children start learning about money earlier than most people think. Each day's activities hold potential for teachable moments. Choice-making can be a fun activity for children. By modeling "opportunity cost"— that is, making good choices that have a future benefit — you can demonstrate your family's values in this formative time.

Saving

We value consuming and demonstrating our financial resources to align with our core principles.

Money is an abstract concept for children. Everyday outings create opportunities to explain savings. For example, some things your child wants to buy, like a new toy, might require more money than your child has. Explain that by saving a portion of an allowance and money earned from odd jobs around the house, your child can build savings to buy the toy.

	Insights	Exercises	Resources
Saving	• Define saving – Sometimes we have to wait to get what we want • Uses for money • When and why we should save	• Allocate X amount of allowance to savings. (See page 24 for additional information on the role of allowances.) • Begin differentiating spending, saving and sharing funds by using different piggy banks for each purpose • Let child direct how to divide money among the piggy banks • Explain this is how you manage money by keeping it at the bank • Help your child set up a play carnival, then ask him/her to price activities, food for sale and other elements	• *The Kids' Allowance Book*, by Amy Nathan with Debbie Palen • *The Money We'll Save*, by Brock Cole • *Alexander, Who Used to Be Rich Last Sunday*, by Judith Viorst and Ray Cruz • "How to teach children the basics of budgeting," Better Money Habits® website

Investing

We value aligning our investments with our philosophy and purpose.

While children at this age may understand the concept of saving as the way to accumulate money for short-term goals, they may struggle with distinguishing saving from investing. One way to distinguish the two is to discuss how easily accessible savings are relative to investments. Savings are typically deposited into accounts, and cash can be easily withdrawn. Invested funds, on the other hand, typically aren't readily converted to cash. Whatever was purchased as the investment must first be sold in order to provide cash.

	Insights	Exercises	Resources
Investing	• Money can grow over time • Plan for the unexpected • Benefit of waiting for something • Making decisions based on goals	• Present your child with a choice between three different plant seeds. Ask him/her to consider the type of plant, time until bloom/harvest, and factors that may affect the growth/life of the plant. • Give an example of investing in action, such as an investment to build a residential (homes for others) or commercial (office/stores) space • Point to your child's "Saving" piggy bank as it accumulates dollars and coins, and talk about how that money is growing	• Money Savvy Generation website

Earning

We value financial independence, which allows us freedom and choices.

From an early age, children are taught tasks — hang up your coat, clear your plate — so they know about having a "job" to do. Explain that jobs exist to take advantage of people's strengths and interests. One person may have a strong interest in medicine and become a doctor. Another person may be good at growing plants and choose to be a farmer. The farmer can sell food to the doctor, and the doctor can provide medical care to the farmer.

One example your child might relate to is "Jack's Story," the real-life experience of a boy who grew his one lemonade stand into a bonafide business. Along the way, he "sold a bunch of lemonade, made friends, learned about entrepreneurship, and had a lot of fun."[4]

	Insights	Exercises	Resources
Earning	• Reasons for jobs • Products versus services • Importance of earning money	• Start an "Opportunity List" of chores your child can choose to do for extra cash — beyond the chores you normally expect • Help your child start a lemonade stand or bake sale • Discuss what your child wants to be when grown up • Differentiate between jobs that provide services and products • Any conversation about earning begins with the essential question: "What do you want to be when you grow up?"	• *If You Made a Million,* by David M. Schwartz • About tab, Jack's Stands & Marketplaces website • Big Life Journal website – Growth Mindset Activity Kit – Resilience Kit

Sharing

We value thoughtful consideration of the sharing of wealth, with limits and parameters.

Children are aware of headline-grabbing catastrophes even if they can't fully understand them. You can point to a current event as an example of an opportunity for the family to help by donating items and money to those negatively affected as a result of the crisis.

	Insights	Exercises	Resources
Sharing	• Reasons people share • Importance of helping others • People help others by donating/giving money and time	• Institute sharing rules in terms of television, video games and playing with the dog • Participate in canned food drives during Thanksgiving • Participate in Toys for Tots during the holidays	• *The Giving Book: Open the Door to a Lifetime of Giving,* by Ellen Sabin • *If the World Were a Village: A Book About the World's People,* 2nd edition (CitizenKid) • *Ryan and Jimmy: And the Well in Africa That Brought Them Together* (CitizenKid) • *The Red Bicycle: The Extraordinary Story of One Ordinary Bicycle* (CitizenKid), by Jude Isabella and Simone Shin • *Miss Rumphius,* by Barbara Cooney • Doing Good Together website

Spending

We value thoughtful spending.

Your everyday purchase decisions are teachable moments. Developing sound spending habits is a key to a child's personal financial profile. Spending is an opportunity for you to collaborate with your child by asking: "What do you want to buy?"

This is also a good time to introduce the key comparison of wants versus needs — explain that their wants will change as they grow older, while their basic needs, such as basic food, shelter and clothing, will remain needs at any age.

	Insights	Exercises	Resources
Spending	• Uses for money • Difference between needs and wants • Value of different bills/coins	• Identify the cost of something (toy, bike) and use different coin/dollar amounts to add up the cost • Play a game where your child identifies things he/she needs (food, shelter) versus wants (games, toys) • Collaboratively decide on uses for your child's allowance • Show that coins add up to equal the value of a dollar. Have your child count a dollar's worth of coins from his/her piggy bank and change the coins to a dollar bill. • As much as you can, give your child control over the spending decision and let him/her experience the lessons, such as buying a cheap toy that breaks versus quality, and then talk through it. Clarify any boundaries in advance, such as a limit of X to be spent on candy.	• "6 steps to help a middle or high schooler budget," Better Money Habits website • *Those Shoes,* by Maribeth Boelts • *Let's Chat About Economics!: Basic Principles Through Everyday Scenarios,* by Michelle A. Balconi, Dr. Arthur Laffer and Mary Kinsora

How to think about money in regard to oneself and others

The “tweens” age range is about growing awareness. Your children are comparing themselves to others at school and are beginning to understand that other families may have fewer luxuries and opportunities. The conversation with this age group isn’t just about money but about how your family expresses its interests and values with respect to abundance. By modeling “opportunity cost”— that is, making good choices that have a future benefit — you can demonstrate your family’s values in this formative time.

Saving

We value building financial resources for the long term.

Kids have a greater preoccupation with the present, especially when it comes to money. They don’t naturally think about the future and the consequences of spending money that might be saved to help pay for a larger purchase in the future.

A good example of this is demonstrated in a research study known as “The Marshmallow Test,” which explores how very young children deal with the conflict between the desire for immediate gratification and the rewards of maintaining self-control.[5]

	Insights	Exercises	Resources
Saving	• What’s a budget? • Opportunity cost • Importance of self-discipline – Instant versus delayed gratification • Simple interest	• Open a savings account in your child’s name • Conduct the Marshmallow Test with your child and discuss the significance and importance of delayed gratification • Explain interest rates and ask your child to calculate the interest – Example: What’s the simple interest of $100 in the bank at 1% for two years? • Invite your child to set a small savings goal that’s achievable in a short time frame, such as a new sticker for a skateboard or a new comb for a doll’s hair	• Compound interest calculators, Investor.gov website • “Investing: Why it’s important and how to get started,” Better Money Habits website • “Why Rich Kids Are So Good at the Marshmallow Test,” *The Atlantic* website

Investing

We value preserving and growing family wealth.

The purpose of investing is to "prepare for tomorrow." Yet young kids often live for today. Delaying gratification and making an investment today that grows over time can be hard for them to understand. One way to think about investing is as a way to pool resources to help companies launch and continue to grow. If your investment is successful, the value of the company will grow, making your investment worth more. You can sell the investment in the future and use the extra value to pay for things like a house or an education.

	Insights	Exercises	Resources
Investing	• Purpose of investing • Difference between short-term and long-term investments • Value of diversification	• Explain that your house, collectibles and other assets are considered investments; point out what you've achieved through investing • Give examples of short-term investments and long-term investments • Discuss the importance of diversification; "not putting all of your eggs in one basket" – For example, a farmer has a wide variety of plants and livestock, giving him multiple sources of income • With your child or family, play "Grandpa Beck's Cover Your Assets Card Game"	• *Growing Money: A Complete Investing Guide for Kids,* by Gail Karlitz and Debbie Honig • *A Kid's Guide to Stock Market Investing,* by Tamra Orr • *The Young Investor: Projects and Activities for Making Your Money Grow,* by Katherine R. Batemen • "Cover Your Assets Card Game," Grandpa Beck's Games • "Wall Street Spin" Board Game

Earning

We value financial independence, which allows us freedom and choices.

Your tweens may not be ready for the working world but are probably eager to participate in the real world. They're likely volunteering for events or involved in clubs. They may, in fact, be working soft-skill jobs, such as babysitting or mowing the neighbor's lawn, on occasion.

	Insights	Exercises	Resources
Earning	• Difference between a career and a job • Salaries versus wages • Define entrepreneurship	• Discuss your child's interests and make a list of jobs in that field • Help your child discover ways to earn money – For example, start a car wash • Share how electronics have evolved over time and how some apps have replaced computer software and manual processes • Ask your tween, "What do you want to be when you grow up?" Talk about the skills that might be needed and how your child's current education can help contribute to that profession.	• "Warren Buffett's Secret Millionaire's Club," Young Entrepreneur Institute website • *Milton Hershey – A Children's Biography: The Story of the Man Who Created the World's Most Famous Chocolate,* by Emily Winters • "The Good Garden: Food Security for Kids" • *Careers: The Graphic Guide to Finding the Perfect Job for You,* by DK • *Big Life Journal for Kids,* by Eidens, Inc.

Sharing

We value giving of our resources — time, intellect and money — to positively affect the lives of others.

In terms of social-emotional development, the tweens age range is typically the time children develop a social consciousness. As a result, they may be very passionate about helping animals, the environment and other people. Many charitable organizations clearly define their mission statement and describe their programs on their website or in their marketing material. They may also show their annual budgets and list their biggest donors for transparency.

	Insights	Exercises	Resources
Sharing	• Goals of different charitable organizations • How charities work and what/who they rely on • Money isn't the only way to give	• List charities that your family supports and discuss why they're meaningful to your family • Pick a charity to make a donation to, and show what that donation will go to (every $100 feeds XX kids) • Volunteer as a family; participate in a walk/run that's raising money • Save all donation requests the family receives over three months, then have the kids help decide which causes to support • Take a family volunteering vacation that benefits a local community • Share the book *One Hen* and build a portfolio of microcredit loans; see organizations listed under Resources to help establish accounts to make microcredit loans	• *One Hen: How One Small Loan Made a Big Difference* (CitizenKid), by Katie Smith Milway • Opportunity International website • "Kids, take charge," by Kiran Sethi, TED Talk, TED website • *The Kids Guide to Service Projects: Over 500 Service Ideas for Young People Who Want to Make a Difference,* by Barbara Lewis • *Real Kids, Real Stories, Real Change,* by Garth Sundem

Spending

We value thoughtful spending.

Tweens are in the mindset of developing interests (think sports, ballet, horseback riding, skating lessons) and, therefore, they can be in overdrive consumption mode. No longer satisfied with a doll's tea set or some playtime in the yard, their taste for experiences is expanding.

At this stage, focus on the importance of creating and sticking to a budget, emphasizing the idea that spending money now on something they want typically means deferring until later something else they might want.

	Insights	Exercises	Resources
Spending	• Different forms of payment, such as cash, debit and credit • Difference between borrowing and purchasing • Spending effectively within a budget	• When making a purchase, explain your rationale behind using cash versus a credit or debit card • Create a six-month allowance plan to record transactions • Discuss the responsibilities of borrowing or leasing something • Experts recommend beginning with a pencil-and-paper approach to teach children how to spend effectively within a budget. By adding and subtracting real dollars (versus just seeing automatic calculations on screen), your child can experience the benefits of following a budget.	• *Nickels, Dimes, and Dollars: A Wise Kid's Guide to Money Matters*, by Ellen Sabin • *Ultimate Kids' Money Book*, by Neale S. Godfrey • *Cash Cache: Beginning Personal Finance Organizer Handbook*, by Money Savvy Generation

Broaden the money conversation

Young teens can be perplexing. Although still highly dependent on parents, they're feeling increasingly independent. That's why now is the time to talk with your young teens about achieving goals through smart management of money — this is a formative period for raising motivated and financially responsible children.

Saving

We value choices that reflect accountability and responsibility.

Encourage your middle or high school student to set short-term, or even longer-term, savings goals. Having a savings plan and habitual saving are the best ways to learn about the importance of savings goals. Yet, young savers often struggle with the value of delaying gratification over instant gratification. A good example would be deferring the purchase of one video game to save for a new game console.

	Insights	Exercises	Resources
Saving	• Importance of savings goals • Importance of savings plans and habitual saving • Difference between compound and simple interest • Power of compounding: "Rule of 72"[6]	• Explain a personal situation where the delayed gratification from saving outweighed what would've been the instant gratification • Provide information and ask your teen to calculate the future value of savings – For example, $100 in a bank at a 2% interest rate for 10 years; discuss the present value, future value and how long it would take the amount to double • Encourage your teen to set a slightly more challenging savings goal (such as a new bike). Help keep it to a reasonably short-to-mid time frame to keep motivation high. Offer to make a 100% match of a savings milestone to help make the goal truly achievable.	• *Official Money Guide for Teenagers*, by Money Savvy Generation • Credit Card Payoff Calculator, Bankrate website

Investing

We value experiential learning through active participation.

A key difference between saving and investing is the relationship between risk and reward. Depositing money into an FDIC-insured savings account carries little to no risk but offers limited reward. Investing money in securities offers the potential for a higher reward in exchange for greater risk. Young teens may not understand how numerous factors, particularly risk, can affect their return on investment. It can be powerful to discuss with teens the importance of balancing risk's positive and negative effects.

	Insights	Exercises	Resources
Investing	• Different ways to invest: stocks, bonds, mutual funds • Factors that affect your return on investment • Relevance/elements of risk in investing	• Explain the difference between various forms of assets — for example, real assets (piece of land) versus financial assets (stocks or bonds) • Explain buying low and selling high • Analyze the stock of favorite companies • Discuss the positive and negative sides of risk in investing decisions • Explore young teens' interest in starting a collection of baseball cards, coins, stamps, dolls or other items they enjoy. Explain that a collection may have value above what they paid for the individual items in the collection. • Establish an account via the Stock Market Game website to build a hypothetical portfolio for the school year	• *Six Days in October: The Stock Market Crash of 1929: A Wall Street Journal Book for Children,* by Karen Blumenthal • The Stock Market Game website

Earning

We value self-reliance and independence.

Earned income can be a powerful builder of independence and self-confidence. By growing their "human capital"—the value of education and skill development—teens can enhance their self-reliance.

	Insights	Exercises	Resources
Earning	• Difference between earned and unearned income • Value of education and skill development • Difference between being an employee versus an entrepreneur. Understanding the benefits and trade-offs inherent in each, such as range of work responsibilities, exposure to different topics, job stability and earnings potential.	• Discuss ways to apply for a first job • Discuss successful entrepreneurs—both from your generation and your teen's generation • Narrow career interest based on strengths and interests • Talk about your first summer job. Ask: "Where would you like to spend your summer day working?" For example, outside around people or at a particular place (for example, natural history museum, library, aquarium) to learn new things.	• "Entrepreneur" Board Game, GoVenture website • Better Money Habits website • *Big Life Journal: Teen Edition*, by Eidens, Inc.

Sharing

We value teaching the rising generation the importance of philanthropy through active participation.

John F. Kennedy once said: "To those whom much is given, much is expected." Creating a shared experience that puts giving into action can have a tremendous impact on a teen's views about money.

	Insights	Exercises	Resources
Sharing	• Define philanthropy • Donating things we no longer need can help others who are less fortunate • In some situations, fundraising may be the most effective way to help an organization	• Discuss family values and applications of those values through philanthropic acts • Sort through clothes and donate unwanted/old clothes to Goodwill or the Purple Heart Foundation as a family • Link interests to an organization, research and get involved • Support your teen's fundraising goal with a matching donation • Encourage teens to interview their grandparents and/or other family members to learn about causes they care about and why	• *Creating Change Through Family Philanthropy: The Next Generation*, by Alison Goldberg, Karen Pittelman & Resource Generation • *A Kids Guide to Giving*, by Freddi Zeiler • Youth Philanthropy Connect, Frieda C. Fox Family Foundation website

Spending

We value distinguishing between needs and wants.

Outspending one's earnings may simply result from not having a budget. Often, teen spending is focused on movies and snacks, video game downloads and new sneakers — which would be fine if these purchases aligned with a teen's bigger goals in life. This is rarely the case. Spending within budget focuses teens on their own personal priorities, a major step toward maturity.

	Insights	Exercises	Resources
Spending	• Importance of a spending plan/budget • Difference between necessary and unnecessary expenses • Difference between cash, credit cards and debit cards	• Discuss the consequences of spending more than you earn • Open a debit card account with a fixed monthly amount for your teen • Reiterate wants and needs as they apply to your teen's age – Wants change as we age, but needs don't. We need basic food, shelter, clothing at every age. • Help your young teen track how much he/she can really spend. Start with money earned from mowing lawns, babysitting or other jobs, then subtract for a savings goal, college investment plan contribution and charity amounts.	• "Make a Budget" Worksheet, Consumer.gov website • App: Budgeteer, by Second Nature Learning • Better Money Habits website: – "How to set a budget and stick to it" – "6 steps to help a middle or high schooler budget"

Every family member takes financial action

The spending temptation is highest with teens. It's an expression of the independence they feel as well as a demonstration of their experience with money. Perhaps more than any other age group, teens may struggle with the concept of delayed gratification — putting off something they want now to save for something in the future.

Saving

We value building resources for retirement.

More than most, teens yearn to be free of other people's structure and rules. They're also eager to take steps to make their goals achievable. When it comes to saving money, making saving into a habit is essential to success. Helping teens set goals is one way to encourage saving without creating extra rules. By saving money for something that matters to them, they can take ownership of their finances and learn the benefits of saving money.

	Insights	Exercises	Resources
Saving	• Savings decisions made now can affect future financial standing • Inflation, taxes and lifestyle choices all affect/influence savings • Importance of an emergency fund • Define liquidity	• Discuss short-term and long-term financial goals • Discuss how your teen can accomplish short-term financial goals without diminishing long-term savings • Share examples of assets and list in order of liquidity • Empower your teen by setting up a savings account with statements going directly to him/her to encourage ownership	• *The Richest Man in Babylon*, by George Clason • *A Teen Guide to Safe-Haven Savings*, by Tammy Gagne (A Teen Guide to Investing series) • App: Personal Financial Plan, PF Wiz website

Investing

We value having the ability to take calculated risks.

Many teens are aware of investing and the stock market, and they may equate both with “getting rich.” Even though the concept of risk may continue to elude teens, they have increasing logical capacity for understanding payoffs. For example, they know that if they study instead of spending time with friends, they might ace the next day’s exam. In other words, if they risk forgoing social events, they may realize a return on the way they invested their time.

	Insights	Exercises	Resources
Investing	• How interest rates affect investments • Risk and return payoff • Characteristics of different asset classes • Factors to consider in investment decisions	• Help the teen prepare a stock pitch for his/her favorite public company • Share an investment that you made, how you weighed the risk-return trade-off and what you learned • Explain how interest rates affect bond prices – Examine a bond and illustrate the effect the interest rate has had • Choose an index fund and track its progress over a period of time, discussing how different macroeconomic developments or headlines influenced the fund’s performance • Select an article from a reputable news agency discussing a market update, circle key terms and discuss what they mean	• *The Wall Street Journal Complete Money and Investing Guidebook,* by Dave Kansas • *TeenVestor,* by Emmanuel Modu and Andrea Walker • Educational videos on the Khan Academy website, see chapters: – Stocks and Bonds – Taxes

Earning

We value each generation creating their own path.

By discussing the characteristics of successful individuals in different fields, you can help teens identify their strengths and weaknesses. This is self-knowledge they can put to use in a basic job search as well as in writing a business plan for a planned venture.

	Insights	Exercises	Resources
Earning	• Income tax and where it goes • Components/purpose of a business plan • Employee benefits • Positive risks versus negative risks	• Ask what your teen thinks are his/her top three strengths and top three weaknesses • Define characteristics of successful entrepreneurs • Discuss post-high school plans • Differentiate and give examples of positive and negative risks • Together, look at your teen's pay stub to show how federal income tax, state income tax, and Social Security and Medicare taxes are withheld • Fill out a W4 form together	• *What Color Is Your Parachute? For Teens, Third Edition: Discover Yourself, Design Your Future, and Plan for Your Dream Job*, by Carol Christen • Educational videos on the Khan Academy website, see chapter on Accounting and Financial Statements • "Employee Benefits" music video, Flocabulary website

Sharing

We value supporting organizations that align with our philosophies.

From watching you, teens likely already know what it means to be a donor and that sharing is a part of your family history. They may have seen you volunteer with a local organization or prepare to attend a charity gala. They may have heard you discuss lending your name to support a cause you care about.

	Insights	Exercises	Resources

Sharing	• What it means to be a donor
	• Family history in sharing
	• Difference between nonprofits and social enterprises
		• Encourage your teen to become involved — spending time, not solely money — with a charitable organization
		• Explain your reasons behind getting involved with specific charities and organizations
		• Support your teen's philanthropic endeavors, whether it be volunteering or starting a nonprofit
		• Encourage your teen to look beyond individual organizations (as these can come and go) and to identify the causes that most resonate with him/her, such as feeding the hungry and saving the planet
			• Council on Foundations website
			• Charity research websites:
			  – Charity Navigator
			  – GuideStar
			  – Give.org
			• *Philanthropy, Heirs & Values: How Successful Families are Using Philanthropy to Prepare Their Heirs for Post-Transition Responsibilities*, by Roy Williams and Vic Preisser
			• *Everyday Ambassador*, by Kate Otto
			• Learning Service website

Spending

We value designing a budget aligned to personal goals.

Shopping is at the top of the list for some teens. To rein in what could become out-of-control spending, it's important to teach young people about comparison/"smart" shopping. For example, your teens may be enthusiastic about a retail store's offer of a purchase discount in return for signing up for a credit card. Explain that the initial savings could be quickly offset by the potential costs and fees.

	Insights	Exercises	Resources
Spending	• Factors that can affect spending choices – Supply/demand, inflation, opportunity cost • Writing checks • Comparison/"smart" shopping	• Discuss supply and demand situations that either increase or decrease the price of something • When shopping together, compare similar items that have different prices such as name brand versus generic products • As you pay household bills, have your teen sit with you to develop awareness of the cost of day-to-day living expenses • Educate your teen on the potential dangers of signing up for deals or promotional store credit cards that may have hidden costs or fees	• "How to set a budget and stick to it," Better Money Habits website • "Budgeting" music video, Flocabulary website

With wealth comes great responsibility

Your young adult is an emerging steward of your family's assets. As such, you have the opportunity to help him or her prepare for the decision-making that comes with inheriting and managing wealth. With increasing maturity, young adults begin to demonstrate a strong sense of self that exemplifies their social and moral conscience. Therefore, speaking of family wealth now is about more than dollars and cents — it's time to reinforce the personal accountability that can help ensure the wealth can be sustained.

Saving

We value saving for a rainy day, including an emergency fund.

Young adults need to be aware that each major life stage or event ahead — marriage, buying a home, birth of a child, children's education — brings financial challenges that will require them to prepare in advance by saving and accumulating assets.

	Insights	Exercises	Resources
Saving	• Prepare for future/retirement – Retirement plans • Real versus nominal interest rates • Create an emergency fund and save enough to cover three to nine months of living expenses	• Help your young adult define a financial or purchasing goal and construct a plan to reach it • Discuss your retirement plan • Discuss inflation and how it affects interest rates • Explain to your young adult the adage "Pay yourself first" by making regular deposits to savings	• *Remember the Vine: A Story about the Value of Time in Growing and Harvesting Capital*, by Samuel Edwards • *The Wall Street Journal Guide to Understanding Money and Investing*, by Lightbulb Press Guides • *The Will Power Instinct: How Self-Control Works, Why It Matters, and What You Can Do to Get More of It*, by Kelly McGonigal

Investing

We value preserving and growing family wealth across the generations.

There are different levels of investing. Young adults typically begin with systematic investing — that is, regular and planned contributions to an IRA or mutual fund account. The next level is strategic investing, which is based on a strategy to build and manage an investment portfolio according to the investor's goals and comfort level with risk. Now, young adults get to spread their wings, but they should do so only after acquiring basic skills and knowledge about the relative potential for risk and reward associated with various investment vehicles.

	Insights	Exercises	Resources
Investing	• Asset allocation and diversification • How economic conditions affect market value of stocks • Responsibilities/power of a shareholder • Behavioral finance • Understanding available retirement vehicles, including employee retirement benefits • The power of participating in a 401(k) plan with a (potential) company match and related tax advantages • Benefits of long-term compounding by investing at a young age	• Help your young adult open an investment portfolio • Encourage your young adult to research different companies and stocks • Discuss how negative/positive firm performance can affect investments • Share how biases can affect our decision-making • Introduce study of behavioral finance • Arrange an introductory meeting with your financial advisor	• *The Intelligent Investor,* by Benjamin Graham • *The Little Book of Behavioral Investing: How Not To Be Your Own Worst Enemy,* by James Montier • Educational videos on the Khan Academy website, see chapters: – Investment vehicles, insurance and retirement

Earning

We value pursuit of meaning and purpose in one's life and work.

Whatever earned or unearned financial resources your children can rely on, it's important they understand the correlation between income and lifestyle. Whether they choose to earn income at a traditional job, show potential as a budding entrepreneur, or want to pursue humanitarian aims, the expenses they incur in living out their lives should not exceed the resources they have to support themselves.

	Insights	Exercises	Resources
Earning	• Correlation between income and lifestyle • How identifying consumer needs and enhancing products and services can create earnings opportunities • Economic and other outside factors that can affect employment and income	• Share how career decisions and earnings have formed your, and your family's, lifestyle • Review important factors in building a resume • Discuss career goals as they fit with your young adult's interests and strengths • If interested in entrepreneurship, discuss your young adult's area/industry of interest, the potential size of the market and the demand for different solutions • Help your young adult recognize outside effects on employment. Explain how, regardless of macroeconomic conditions, finding and keeping a good job is highly dependent upon his/her efforts.	• Job Crafting™ Exercise, Center for Positive Organizations website • *The Defining Decade: Why Your 20s Matter — And How to Make the Most of Them,* by Meg Jay (See also related TED Talk: Why 30 is Not the New 20) • *The Career Playbook: Essential Advice for Today's Aspiring Young Professional,* by James Citrin • *StrengthsFinder 2.0,* by Tom Rath • "Write your business plan," U.S. Small Business Administration website

Sharing

We value focusing our philanthropy on our top priorities of interest.

Philanthropy is considered an important aspect of a life well-lived by wealthy individuals.[7] Moreover, the *2012 Bank of America Study of High Net Worth Philanthropy* reports that 74% of wealthy donors are "impact driven." There are new and exciting ways for individuals to match their charitable intentions with their desire to know and see the impact they're having.

	Insights	Exercises	Resources
Sharing	• Financial benefits of donating money • Importance of giving back to the community • Evaluating a charitable organization's efficiency in using donated funds • Proactive or strategic philanthropy versus reactive charitable giving	• Encourage your young adult to look beyond the financial implications of donating by discussing the nonfinancial benefits of donating as well as the potential tax benefits • Discuss charitable groups to get involved with at your young adult's college or in the community • Invite your young adult to attend a charitable event important to the family • Research the ratings of various 501c(3)/nonprofit organizations for efficiently using donations on websites like Charity Navigator and discuss	• *The Art of Giving: Where the Soul Meets the Business Plan,* by Charles Bronfman and Jeffrey Solomon • *Inspired Philanthropy: Your Step-by-Step Guide to Creating a Gifting Plan and Leaving a Legacy,* by Tracy Gary • 21/64 Next Generation program, 21/64 website • Social Venture Partners website

Spending

We value spending for experience rather than consumption.

Spending on credit is a personal choice. If individuals choose to purchase on credit, then the general guideline is for them to have enough in their checking account to pay off the amount owed in full at the end of the month. Making only minimum payments — which means paying high credit card interest rates on the remaining balance — isn't only wasteful, it detracts from a sound financial strategy.

	Insights	Exercises	Resources
Spending	• Implement your family's spending values • Responsibilities of spending on credit • Effect of good versus bad credit • Difference between buying and renting car/home and the advantages/disadvantages of each	• Pay credit card bills with your young adult and discuss the elements of credit • Share what a credit score is and why it matters • Access one of the credit reporting sites (Equifax, Experian, Transunion) together, request your young adult's credit report and check what's been reported • Walk through the factors that led to your decision to buy/rent your car/home • Your young adult has entered the world of incessant financial demands. Work together to adapt spending plans to this new phase of maturity and encourage him/her to make adjustments.	• Better Money Habits website: – "Preparing your child to make borrowing decisions" – "5 ways to improve your credit score" – "What is a credit score and how is it calculated?" – "How to set a budget and stick to it" • The Mint Grad website

Ongoing support

The key role of an allowance

In a family of means, intentionality is essential in financial parenting. Giving your child an allowance can be a catalyst to generate many teachable moments.

An allowance isn't a handout. Rather, it's a surefire, long-term means of providing a plethora of teachable moments to learn key principles, such as delayed gratification and balanced money management. Giving children an allowance empowers them to have a voice, to make choices, and to make and learn from their own mistakes.

Start younger kids with an allowance amount that corresponds to what they're responsible for paying for and not tied to their chores. An allowance is a privilege of being a member of the household and should be instituted to empower decision-making and learning financial skills. As responsible members of the household, children can be assigned and expected to complete chores. If chores aren't completed, consequences unrelated to the allowance can be put in place. You can also create a list of earning opportunities with extra chores that they can choose from to earn extra money to augment their allowance.

To prepare teens for money management, you can increase the amount of the allowance in line with increases in what they're responsible for paying. For example, teens may become responsible for paying for their sports fees, music lessons, school clothing, gas and so on — all budgeted from their allowance. As teens build their skills and knowledge on how to budget for longer time periods, you can move to a quarterly allowance. The key here is to not bail them out if they come up short.

Begin today to preserve what you started

Prepare your family to live with the values and wealth you leave behind. As your loved ones in the rising generation grow and mature, you'll ultimately pass on to them much more than your wealth and values. You'll pass on the freedom and opportunities to fulfill their own unique promise and create their own legacies.

There are also many things it'll be important for your young ones to recognize — not the least of which is the need for the previous generations to share with them and arm them with the insights, skills and beliefs they'll need to succeed as stewards of the family's values and wealth.

Starting the ongoing conversation with your children, grandchildren and other prospective successors early and often can be the key to effectively passing on family values and wealth. The earlier you start, the more opportunities you'll have to create and take advantage of the personal, teachable moments that can be most effective in conveying key concepts for a lifetime — and beyond.

Take care to introduce ideas and concepts in stages, in digestible bits. After all, it's often worse to share too much and risk overwhelming or turning off your young ones than to spend a little while longer in a process of engaging them and answering their questions. How children interact with you as they learn about financial matters will have a significant impact on how well they'll integrate wealth and values into their lives later.

Finally, we encourage you to reach out to your Merrill advisor, who can help better explain the financial concepts to your children, regardless of their ages.

Glossary

Accrued interest – Describes an accounting method that records interest that's either payable or receivable as income, even if not yet paid or received. It results from the difference in timing of cash flows and the measurement of these cash flows.

Annual return – The gain or loss of a security in a one-year period, based on its income and the capital gains. It's usually quoted as a percentage. The general rule is that the more risk you take, the greater the potential for higher return or greater loss.

Assets – Items of ownership convertible into cash; total resources of a person or business, as cash, notes and accounts receivable, securities, inventories, goodwill, fixtures, machinery, or real estate.

Bond – A debt investment in which an investor loans money to an entity (corporate or governmental) that borrows the funds for a defined period of time at a fixed interest rate. Bonds are used by companies, municipalities, states, and U.S. and foreign governments to finance a variety of projects and activities.

Bottom line – Refers to a company's net earnings, net income or earnings per share (EPS). Bottom line also refers to any actions that may increase/decrease net earnings or a company's overall profit. A company that's growing its net earnings or reducing its costs is said to be improving its bottom line.

Budget – An estimate, often itemized, of expected income and expenses for a given period in the future.

Capital – Financial assets, or the financial value of assets, whether in money or property, owned or employed in business by an individual, firm or corporation.

Cash flow – A revenue or expense stream that changes a cash account over a given period. Cash inflows usually arise from one of three activities — financing, operations or investing — although this also occurs as a result of donations or gifts in the case of personal finance. Cash outflows result from expenses or investments. This holds true for both business and personal finance.

Certificate of deposit (CD) – A savings certificate entitling the bearer to receive interest. A CD bears a maturity date, has a specified fixed interest rate and can be issued in any denomination. CDs are generally issued by commercial banks and are insured by the FDIC. The term of a CD generally ranges from one month to five years.

Compound interest – Interest computed on the original principal plus any accrued interest. Thus, if 5% is the rate of interest per year and the principal is $1,000, the compound amount after one year will be $1,050, after two years it will be $1,050 x 1.05 = $1,102.50, after three years it will be $1,102.50 x 1.05 = $1,157.63, and so forth. The growth of the compound amount is exponential and not linear.

Coverdell Education Savings Account – A savings plan for higher education. Parents and guardians are allowed to make nondeductible contributions to this type of plan for a child under the age of 18 or special needs individual. The funds can be withdrawn tax-free when they're needed for educational purposes.

Credit – Contractual agreement in which a borrower receives something of value now and agrees to repay the lender at some date in the future, generally with interest. The term also refers to the borrowing capacity of an individual or company.

Deficit – A situation in which liabilities exceed assets, expenditures exceed income, imports exceed exports, or losses exceed profits.

Deposit – To place for safekeeping or in trust, especially in a bank account. ("He deposited his paycheck every Friday.") To give as security or in-part payment.

Depreciation – Decrease in value due to wear and tear, decay, decline in price, and so on. Depreciation is used in accounting to try to match the expense of an asset to the income that the asset helps the company earn. For example, if a company buys a piece of equipment for $1 million and expects it to have a useful life of 10 years, it will be depreciated over 10 years. Every accounting year, the company will expense $100,000 (assuming straight-line depreciation), which will be matched with the money that the equipment helps to make each year.

Discretionary – For any use or purpose one chooses; not earmarked for a particular purpose: discretionary income; a discretionary fund.

Diversification – A risk management technique that mixes a wide variety of investments within a portfolio. The rationale behind this technique contends that a portfolio of different kinds of investments will, on average, produce higher returns and pose a lower risk than any individual investment found within the portfolio.

Dividend – A distribution of a portion of a company's earnings to a class of its shareholders. The dividend is most often quoted in terms of the dollar amount each share receives (dividends per share). It can also be quoted in terms of a percent of the current market price, referred to as dividend yield.

Donee – A person to whom a gift is made.

Donor – A person who gives or donates.

Due diligence – Generally, due diligence refers to the care a reasonable person should take before entering into an agreement or a transaction with another party.

Earnings per share (EPS) – The net income of a corporation divided by the total number of shares of its common stock outstanding at a given time. The portion of a company's profit allocated to each outstanding share of common stock. EPS serves as an indicator of a company's profitability.

Entrepreneur – An individual who starts his or her own business rather than working as an employee.

Equity – A stock or any other security representing an ownership interest. The term's meaning depends on the context. You also can think of equity as ownership in any asset net related debts. For example, the value of a car or house with no outstanding debt is considered the owner's equity because he or she can readily sell the item for cash. Stocks are equity because they represent ownership in a company.

Fixed costs – Expenses that are constant, such as rent.

Grant – A giving of funds for a specific purpose, such as federal grants for medical research.

Interest – The cost of using money, expressed as a rate per period of time (usually one year), in which case it's called an annual rate of interest.

Legacy – A gift of property (usually personal property or money) by will; a bequest. Anything handed down from the past, as from an ancestor or predecessor.

Leverage – The use of various financial instruments or borrowed capital to increase the potential return on an investment.

Liquid assets – An asset that can be converted into cash quickly and with minimal impact on the price received. Liquid assets are generally regarded in the same light as cash because their prices are relatively stable when sold on the open market.

Liquidity – The ability or ease with which assets can be converted into cash.

Money market account – A savings account that offers the competitive rate of interest in exchange for larger-than-normal deposits. One typically has to maintain a certain balance in the account to receive the higher rate of interest.

Nonprofit – An organization that uses surplus revenues to achieve its goals rather than distributing them as profit or dividends.

Payout – The expected financial return from an investment over a given period of time. Payout may be expressed on an overall or periodic basis as either a percentage of the investment's cost or in a real dollar amount. Payout can also refer to the period of time in which an investment or a project is expected to recoup its initial capital investment and become profitable.

Philanthropist – A person who practices philanthropy.

Philanthropy – An activity performed with the goal of promoting the well-being of others. An altruistic concern for human welfare and advancement, usually manifested by donations of money, property or work to needy persons; by endowment of institutions of learning and hospitals; and by generosity to other socially useful purposes.

Pledge – Something delivered as security for the payment of a debt or fulfillment of a promise, and subject to forfeiture on failure to pay or fulfill the promise.

Portfolio – A grouping of financial assets such as stocks, bonds and cash equivalents, as well as their mutual, exchange-traded, and closed-fund counterparts. Portfolios are held directly by investors and may be managed by financial professionals.

Profit – A financial benefit that's realized when the amount of revenue gained from a business activity exceeds the expenses, costs and taxes needed to sustain the activity. Profit = Total Revenue – Total Expenses.

Profit margin – In a general business context, the difference between a product's (or service's) selling price and the cost of production.

Receipt – A written acknowledgment of having received a specified amount of money or goods.

Seed money – Also known as seed funding, a seed round, or friends and family round. Seed money is a capital investment in a startup business venture, to be used for early-stage business goals such as research, product development and beta testing. The goal is for the business to use the seed money to get to a point where it can generate revenue and sustain itself, or prove there's a market for the product or service so that the business is worthy of future rounds of funding.

Shareholder – Any person, company or other institution that owns at least one share in a company.

Social enterprise – Social mission-driven organizations that trade in goods or services for a social purpose. It could be that the profit (or surplus) from the business is used to support related or unrelated social aims, or that the business itself accomplishes the social aim through its operation.

Stock – A type of security that signifies ownership in a corporation and represents a claim on part of the corporation's assets and earnings.

Stock market – The market in which shares are issued and traded either through exchanges or over-the-counter markets. Also known as the equity market, it's one of the most vital areas of a market economy, as it provides companies with access to capital and investors with a slice of ownership in the company and the potential of gains based on the company's future.

Valuation – The process of determining the current worth of an asset or company.

Variable costs – Expenses that change in proportion to use or level of activity.

Yield – The income return on an investment. This refers to the interest or dividends received from a security and is usually expressed annually as a percentage based on the investment's cost, its current market value or its face value.

[1] Based on a survey conducted by the National Financial Educators Council between November 21, 2012, and August 14, 2013. (Latest available data.)

[2] Adapted from *Raising Financially Fit Kids*, by Joline Godfrey, 2013.

[3] Based on the works of Jeffrey Arnett: *Emerging Adulthood: A Theory of Development From the Late Teens Through the Twenties*, American Psychological Association. Inc., 2000; and *Emerging Adulthood: The Winding Road: From the Late Teens Through the Twenties*, Oxford University Press, 2004.

[4] See the About tab, Jack's Stands & Marketplaces website.

[5] "What the Marshmallow Test Really Teaches About Self-Control," *The Atlantic*, September 24, 2014.

[6] To determine the number of years it will take an initial investment to double, divide 72 by the expected annual interest rate; for example, with an investment at 4%, it would take 18 years (72/4) to double the initial investment amount.

[7] *2015 U.S. Trust Insights on Wealth and Worth®* survey.

Investing involves risk. There is always the potential of losing money when you invest in securities.

Strategic allocations are hypothetical and are not intended to indicate specific investment recommendations or advice. Asset allocation cannot eliminate the risk of fluctuating prices and uncertain returns.

Diversification does not ensure a profit or protect against loss in declining markets.

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