"Do not educate your child to be rich. Educate them to be happy. So when they grow up, they'll know the value of things, not the price."

EDUCATING THE NEXT GENERATION:

A Guide to Preparing for an Inheritance & Responsible Financial Management

HIGHTOWER
Westchester

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Introduction

People spend their whole adult life working, saving and investing money so they can provide for their families, live the lifestyle they want and accumulate enough wealth to be financially stable throughout retirement. Now that you've accumulated said wealth, what are you going to do with it?

When planning your estate, there are a number of things to consider. First are the legal and practical subjective issues, some of which include:

- Will vs. Trust
- Revocable trust vs. Irrevocable trust
- Family vs. Community
- Taxable assets vs. Tax advantaged assets
- Retirement assets vs. Non-retirement assets
- Physical possessions vs. Financial possessions
- Permanent instructions vs. Temporary instructions

You will spend many hours with your attorney, CPA and wealth advisor carefully crafting your final wishes, but when you've figured out the legal side of estate planning, you then have to consider whom will be the beneficiaries of your estate. Have you spoken to your children about your wealth and what your goals are? Do you think your family will be able to work together to make decisions to manage the family wealth once you're gone?

You will also need to consider who will be the right person(s) to execute your carefully laid out plans. Should this individual be a corporate trustee, a family member, a business associate? Some of these people may be perfectly capable of handling your wishes, but will they be able to have a personal connection with your heirs?

Your heirs are probably your children, grandchildren or other members of your family. It is estimated that over the next 30-40 years there will be $30 trillion in financial and nonfinancial assets transferred from the current generations (baby boomers and older) to the generations after them.[1]

But are these younger generations ready? In recent years, the perception has been that young adults are unable to do for themselves what previous generations were able to do.

Many think it's because our children are growing up in easier times and times of abundance—not only an abundance of material items, but an abundance of information, which provides instant access to so much more. Despite this shift in times, what remains constant is the desire of each generation to provide a better life for their children than they had themselves. This may pose a challenge as we reach a certain saturation point in what we give our children.

Additionally, when so many things are handed to children, they can develop a certain lack of appreciation for what they have. This in turn substantiates the perception that younger generations are privileged, seem to want everything and are unwilling to wait or work for what they want.

> When your wealth is transferred to your children, how will you ensure that they handle this wealth responsibly?

Older generations, who have accumulated more wealth than ever in human history, are now planning to turn over their vast wealth to a generation that they see as not ready, not appreciative and possibly just lazy. But is that really the case, or is it just the perception? And if it's the perception, what are parents doing to prepare their heirs to handle this wealth?

If you are like most people of means, you don't discuss money with your children. According to a study of more than 100 people representing families with an average net worth of more than $20 million, only a third of wealthy parents have discussed their wealth and its implications with their children before the age of 21.[2] Parents often fail to bring their children into the "wealth conversation," either because the thought of mortality can be terrifying and difficult to contend with, or because they don't know how to start the conversation, let alone to what extent their children should be involved. Talking about money is challenging, but starting the conversation early on may help to ensure that your wealth will not be lost once it's transferred to your offspring. This also gives your family the opportunity to ask you questions directly, instead of the executor of your will or trustee of your trust.

With that said, starting the conversation does not mean you have to tell your family everything. The conversation is more about concepts than dollar amounts, and is meant to help to prepare your family to be fiscally, socially and philanthropically responsible.

Longevity & Gifting Considerations

While education starts in childhood, it continues all along the age continuum. People are living longer, so it's not surprising to see children retiring when their parents are still living. It's no longer uncommon to see four generations of one family together, and this changes the dynamic around passing down your money.

In 1960, the life expectancy at birth for all races in the U.S. was 66.6 for males and 73.1 for females.[3] In 2014, the life expectancy at birth for all races in the U.S. was 76.4 for males and 81.2 for females.[4] With a longer life span, you also have to account for higher health care costs and the potential for long-term care.

Additionally, if you wait to give your children money until you pass away, they may be approaching the point where they may not be able to enjoy the money as fully as they would have in their younger years.

Let's expand a bit more on the topic of giving money to your children while you're alive. Currently, the annual gift exclusion is $14,000 per person. That means you can gift any one person $14,000 per year with no tax implications for you or the person who receives it. Making annual gifts to your children might accomplish three goals at once:

1. You get to provide a meaningful gift now to your children or grandchildren, allowing them to enjoy it and do something useful with it.
2. You'll get insight into how your children will spend money, and it is important to not criticize how they use the money. This will help you determine their readiness for a full inheritance.
3. Gift-giving will reduce your estate, and potentially lower estate taxes if your estate is close to or over the estate tax threshold. In 2016 this threshold is $5,450,000 per person (this number adjusts annually).

There are also two exclusions where you can exceed the $14,000 limit: education and healthcare. If you pay for private school or college tuition directly to the school for someone's benefit, there is no limit. Additionally, there is no limit for the payment of healthcare-related expenses, such as hospital visits, doctors etc. In both cases, the payments need to be made directly to the educational institution or healthcare provider, and not to the person whom it benefits.

Making these interim smaller gifts has many benefits, but most importantly, it gives you, the gift-giver, the opportunity to see how the recipient will handle the money. After all, the biggest fear people have is that their children will be frivolous with their inheritance and spend it all on fast cars and luxury vacations.

The Importance of Developing a Family Mission Statement

Some studies show that there is a 70 percent failure rate in the successful inheritance between generations, even when the legal issues have been well taken care of.

Not having the proper documents drafted is not on the list of reasons that passing down wealth fails, yet that is where most of the time is spent. A lack of trust and communication between members and generations seems to be a main contributor to the failure of wealth transfers. In a survey of affluent Americans conducted by the U.S. Trust, the following was found to be the "major subjective concerns of affluent parents."[5]

Some studies show that there is a 70 percent failure rate in the successful inheritance between generations, even when the legal issues have been well taken care of.

WHAT WORRIES AFFLUENT PARENTS MOST ABOUT THE EFFECT OF WEALTH ON THEIR CHILDREN:

Too much emphasis on material things	60%
Naïve about the value of money	55%
Spend beyond their means	52%
Have their initiative ruined by affluence	50%
Not do as well financially as parent would like	49%
Not do as well financially as parent did	44%
Hard time taking financial responsibility	42%
Resented because of their affluence	36%
Suffer from parent not being around	35%
Date or marry someone who wants affluence	34%
Limited exposure to non-affluent people	33%
Feel they have big shoes to fill and will fail	18%

In many cases, improving the probability of a successful wealth transfer means simply devoting some time to education, alignment and understanding. One such step is establishing a family mission statement. A family mission statement is "a combined, unified expression from all family members of what their family is all about – what it is they really want to do and be – and the principles chosen to govern your family."[6] A family mission statement can help align the values that matter most to the family. Any steps that can be taken to help make sure that everyone understands and agrees with those values will aid in the success of passing down wealth.

A family mission statement can serve as a way to unite your family by providing the members, parents and children with a unifying statement to remind everyone of what is most important. One of the key benefits of a family mission statement is facilitating open and better communication amongst family members, which can also lead to deeper and improved family relations, and make time spent together more enjoyable. The family mission statement also supports greater trust among the members, as everyone will be working together towards a common goal.

Increasing communication and trust via the development of a family mission statement will lower the risk of wealth transfer failure and improve your odds for success.

Not sure where to start? Here are some samples of family mission statements:

- To use our resources to strengthen our family and support causes in which we believe.
- To create an environment for making choices that benefit ourselves and the world for generations to come.
- To maximize the equitable transfer of my assets in a way that will enable and encourage my heirs to work for the benefit of humanity.
- We are committed to family bonding, community outreach and fun. We grow the family assets and provide for the family's education growth and security.
- To strengthen our family and use its assets wisely: to enable our family and others to realize their fullest potential; to value and encourage love, work, selfsufficiency and cooperation within the family and in the larger community.[7]

Work together with your family members to come up with a family mission statement that everyone agrees with and takes ownership of. The key to any mission statement is to provide family members with a North Star, a guiding voice or mission to fall back on and remind everyone of the core values and principles that govern your wealth and family dynamic.

Be sure to provide your trust advisor, attorney, CPA and financial advisor with copies of your family mission statement. Lastly, make sure those same professionals understand what their roles are in your family and fulfilling your mission statement.

Once you've gone through these exercises with your children and they have a better understanding of how to be financially responsible, the next steps are to introduce your family members to your advisor. Fostering this relationship over time will create trust amongst all parties, so when the time comes to discuss your wealth transfer plans, it will be comfortable for all family members.

Educating The Next Generation

As the primary influence on your children, you, as a parent, have the most impact on shaping your children's financial acumen. As such, you should look at your interactions with money as teachable moments for your children at almost any age.

What you may not realize is that you've already laid some of the groundwork without even trying. Children observe the way you view and handle money, and in many cases, start to model their behavior after yours. Do your children see you spend frivolously, buying things you don't need just because you can? Or do they see you doing research and comparing prices before making purchases?

To build on this initial foundation, start talking to your children about the value of money and hard work. Most people worked very hard for what they've earned and achieved, and a good place to start might be telling your kids about your experiences: jobs you've had, how many hours you worked in a typical week, what experiences were pivotal in helping you understand the value of money, etc.

Audit yourself and take note of the examples you're setting for your children. Do you hand your children money every time they ask for it, or do you give them an allowance and expect they do certain chores in return? Do you have the expectation that your children will help around the house— be it cleaning their rooms, setting the table, helping with yard work, shoveling the snow, etc.—or is everything done for them by either you, your spouse or someone else who lives/works in your home?

Parents make small financial decisions every day, whether it's getting gas at a specific gas station because the price per gallon is lower, or purchasing a generic brand over a commercial brand if it means you're not sacrificing quality. These seemingly quick and mundane financial decisions that we make are good opportunities to start teaching your children about financial decision-making.

The reality is your children aren't going to be able to grasp everything all at once, and some moments are better suited for different age ranges. The following are agespecific suggestions for educating your children on financial responsibility, accountability and social responsibility.

As the primary influence on your children, you, as a parent, have the most impact on shaping your children's financial acumen.

Teachable Moments - The Early Years

The next time you are comparison shopping, bring your children into the decision-making process and have them help you decide which product to purchase. Show them the items you're considering, and explain to them what factors go into your decision-making. The next time a similar situation arises, let them lead the decision-making process and show you what factors they are considering to help them make their decision. Be patient, and let them explain their thought process before chiming in and either agreeing or disagreeing. If you feel that the conclusion they came to was not the best decision, be sure to constructively tell them how and why you came to a difference conclusion.

When you are paying bills, let your children know what you are doing and why, and explain to them the options of paying by check or paying online and how both work. It's sometimes challenging for kids to understand how the banking system works because it is an abstract concept. It's not as simple as giving your children $20 to spend in a store and they end up with an item to show for it. Getting a paycheck, which these days is deposited electronically in your bank account, and then paying bills electronically from your bank account is not tangible. Make the direct correlation between your paycheck and what it helps pay for, such as the home they live in, the food they eat and the clothes they wear.

The Elementary School Years

AGES 5 - 11

This is the age range where it's important to teach your children about making choices when it comes to spending money. When your children reach the age of 5 or 6, you may want to consider giving them an allowance. Along with the allowance should come some chores or responsibilities.

Some common chores are cleaning their rooms, unloading the dishwasher, setting the table at mealtime, helping around the house, and so on. What you choose as the chore is completely up to you, but it has to be something. Contract upfront with your children about the level of expectation for each chore and the frequency. Don't be afraid to deduct from their allowance if they have not done what was asked of them—it's important to start teaching the lesson of consequences early. This simple lesson can have profound impact on your child's future in all aspects of their life, including their future employment.

It is equally important to talk with your children about what they plan on doing with the money they're earning. A beneficial and highly recommended tool to help with this conversation is giving your children a three compartment piggy bank and labeling the compartments, "Spend", "Save", and "Give." These three things are what we do every day with our own money; we spend money on what we need today, save money for bigger purchases and to build a cash cushion for the unexpected things, and give to charity to help others. While it may seem simple, this can have long-lasting implications and help instill key values and good money management habits in your children.

Once a child experiences the feeling of regret, they will most likely weigh their options more carefully the next time around and better understand the value of good decision-making.

SPEND - Ask your children what they want to spend their money on and figure out how long it will take for them to have enough money to buy this item/experience. If it's something that will take more than a year, encourage them to choose something less expensive to use their "Spend" money on. They can always use their "Save" money for the more expensive item down the road. The goal is twofold; you want your child to be able to buy what they want so they can start understanding the value of money and benefit directly from spending their own money, but you also want them to make purchases so they can make some mistakes along the way. Once a child experiences the feeling of regret, they will most likely weigh their options more carefully the next time around and better understand the value of good decision-making. How children behave and deal with money at this age will affect how they deal with and manage their money when they are older.

SAVE- Explain to your children why we save money using examples they can understand. Some common reasons are to have money to buy things that you don't have money for now or to feel secure and to have the freedom to make independent choices. If your children learn to put money in the "Save" compartment each week/month, eventually they will be able to buy that expensive item they wanted. Once they have enough money to buy the item, you can then reiterate what you've been teaching them about comparison shopping when you go grocery shopping. By doing research, they may be able to find that expensive item on sale somewhere, or a similar item that costs less money.

GIVE- At this point in life, your child is aware of the fact that there are people and animals in need of help, or they've noticed things about our environment that need fixing. This is a great time to teach your kids about donating to causes they feel strongly about. Whether it be feeding children who are hungry, providing food and shelter to animals who have no home, or helping to keep our oceans clean and healthy, philanthropy is an important lesson to teach your child at a young age so it becomes a way of life. The act of charity will benefit your child in their journey to becoming a decent, selfless person who appreciates what they have.

How do your children learn how much to put in each compartment? It's encouraged to sit down with your children and show them the possible ways of divvying up each compartment according to a percentage. The general suggestion would be anywhere between 40-50 percent for spending, 35-45 percent for saving and the rest for donating.

Below is a matrix adapted from information contained in Nuveen Investments' "Family Wealth Education Workbook"[8] that focuses on specific goals for children ages 5-11, and the corresponding curriculum for three qualities: Financial Intelligence, Intellectual Maturity and Social Responsibility. We will include this matrix in each subsequent age range, which will also include the goals and curriculum.

	FINANCIAL INTELLIGENCE	INTELLECTUAL MATURITY	SOCIAL RESPONSIBILITY
GOAL	▪ Understand the value of a dollar ▪ Instill a good work ethic	▪ Understand that you must work hard to get results ▪ Instill entrepreneurial spirit	▪ Understand the importance of giving to those less fortunate ▪ Gratefulness ▪ Learn about donating to charities, volunteer and choose organizations to support as a family
CURRICULUM	▪ Pricing Games ▪ Allowances ▪ Saving – 3 banks	▪ Household and Neighborhood Chores ▪ Delayed Gratification ▪ Needs vs. Wants ▪ Neighborhood Businesses	▪ Saving, Spending, Giving ▪ Thank You Notes ▪ Choose your Charity ▪ Volunteering ▪ Create a Family Charitable Planning Worksheet

The Teen Years, Middle & High School

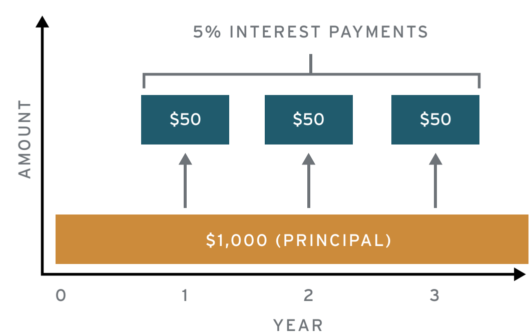
AGES 12 - 17

Now that your children are more familiar with the concept of spending and saving, and they're taking more complex math classes, it's important that you teach them about compounding interest and how it impacts both saving and borrowing money.

To understand compound interest, it's helpful to be familiar with simple interest, or the interest calculated based on the principal (the amount deposited/borrowed) only. Compound interest is the interest calculated on both the principal and the accrued interest (interest you earn/pay each year).

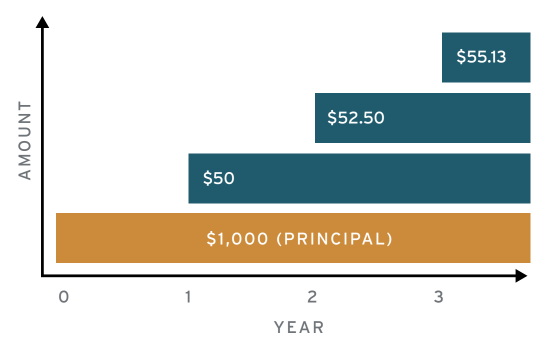
To the right is an illustration to help explain the two types of interest. Let's say you deposit $1000 into a savings account and your interest rate is 5 percent. Here's the difference between earning simple interest and compound interest. Now, $7.63 may not seem like a big difference, but calculating the difference between the two savings accounts over a period of 30

SIMPLE INTEREST



MONEY AFTER 3 YEARS: $1,150

COMPOUND INTEREST



MONEY AFTER 3 YEARS: $1,157.63

years paints a very different picture. If you calculate the simple interest and compound interest over a 30-year period, you will have saved $2,500 in the simple interest account and $4,321.94 in the compound interest account with the same $1,000 initial deposit.

So, how do you get your children excited about compound interest? Your children likely have been saving money for a number of years. If you haven't opened some sort of investment or savings account for them yet, now's the time to.

As an example, let's say your 15-year-old has saved $5,000, and you open an account that will earn them 7 percent interest. You can show them how long it will take for them to double their money without doing anything by using a tool called "The Power of 72."[9] Take the interest rate you expect to earn and divide it into 72 to get the number of years it will take to double your money.

$$\frac{72}{\text{INTEREST RATE}} = \text{YEARS}$$

$$\frac{72}{7\%} = 10.3 \text{ YEARS}$$

By the time your child is 25 years old, they will have $10,000 in that account! This account will teach your child firsthand how to manage a financial account. He or she will learn how to monitor his or her account, make deposits and withdrawals, and see the value time has on money. Once your child has this introductory grasp of financial accounts, you can gradually introduce them to the world of credit cards.

Using yourself as an example, explain to your children how and when to use a credit card, what you do when your bill comes (check each expense for accuracy, look for fraudulent charges, etc.), how much time you have to pay off your purchases, and the most crucial part, how much it will cost you if you don't pay the entire bill by the due date.

Compounding interest works the same way when it comes to money you owe to a credit card company.

Your children should understand that a credit card is essentially a loan; if you don't pay that money back by the due date, you will be charged interest on that loan.

To explain this to your children, give them an example they can relate to. Let's say your child buys an iPad and an iPhone for $1,150 using their credit card. If he or she pays the credit card bill by the due date indicated, that iPad and iPhone will still cost $1,150. If he or she can't pay the full bill on time and choose to only pay $50 a month, with an Annual Percentage Rate of 19 percent, it will take him or her two years and five months to pay off the iPad and iPhone, and both devices will essentially have cost $1,441. Another thing to consider is that by that time, Apple will have come up with newer versions of both, and they'll want to upgrade!

Prolonging payments not only ends up costing a lot more money, therefore making purchases more expensive, but it also negatively affects your credit score. When you sign your child up for a credit card, you should review the many factors that make up a credit score. It's important to relay to your child that credit cards usually affect credit scores more than other types of debt, as they are an indication of how someone makes decisions when it comes to borrowing money.[10]

With credit card companies targeting young adults more than ever before, it's important that your children understand how to use a credit card responsibly and how they will benefit from doing so. A good rule of thumb to teach them is to only use the credit card if they can pay the balance off in full. This will help them build their credit scores, which in turn will help them make larger purchases down the road, such as a car, a house, getting funds to start a business, etc.[11]

With credit card companies targeting young adults more than ever before, it's important that your children understand how to use a credit card responsibly and how they will benefit from doing so.

As your children approach their mid- to late-teens it's important to start talking to them about getting a job. In addition to instilling a sense of responsibility and a strong work ethic, your child's first job outside of the house teaches basic job skills, the importance of showing up on time and how to conduct oneself professionally. This will provide a sense of satisfaction when they get paid. To avoid confusion or disappointment when they receive their first paycheck, sit down with your children to explain gross pay vs. net pay, tax brackets, what taxes pay for, etc.[12] This is also a good time to reiterate the lessons they learned about spending, saving and donating, as well as potentially introduce the idea of investing.

Below is a matrix adapted from information contained in Nuveen Investments' "Family Wealth Education Workbook"[13] that focuses on specific goals for children ages 12-17, and the corresponding curriculum for three qualities: Financial Intelligence, Intellectual Maturity and Social Responsibility.

	FINANCIAL INTELLIGENCE	INTELLECTUAL MATURITY	SOCIAL RESPONSIBILITY
GOAL	• Instill a good work ethic • Understand how to budget for current and future expenses	• Instill entrepreneurial spirit • Understand other cultures, other ways of life • Learn about those less fortunate • Understand how Trusts work	• Learn about donating to charities, volunteer and choose organizations to support as a family • Take the initiative to volunteer independently, choose causes you are passionate about
CURRICULUM	• Saving • Performance-based earning • Learning to budget • Keeping a budget	• Neighborhood Chores • Delayed Gratification • Needs vs. Wants • Language Skills • Trust/Beneficiary Education	• Philanthropic Values • Mentor Younger Children • Community Projects

The College Years

AGES 18 - 24

The college years pose two financial challenges: paying for tuition and paying for the other expenses associated with college.

With college tuition costs increasing at a rate that's outpacing inflation by almost 6 percent, sending your children to college is a huge financial undertaking. The average cost of tuition and fees at a private, non-profit, four year university has risen to $31,231 annually, not including room and board[14], so it should come as no surprise that the average Class of 2016 graduate is carrying $37,172 in student loan debt.[15]

As a parent, do you pay for college? Do you partially fund it? Do you have your child take out loans? The soaring student loan debt that kids have today might be a real hurdle for young people to advance themselves, but it also provides a learning opportunity. As a parent, if you decide that your children will be paying for their own college education, you need to help them understand how to manage this debt once they graduate. Graduating with $50,000+ of debt is not an easy thing to get out from under, unless your child is going into a very lucrative field. Having student loan debt will undoubtedly influence your child's decisions when it comes to choosing a job, what city to live in, how much they can afford to pay in rent, and so on. For most, this will be their first real experience with debt, so teaching your children about budgeting is imperative.

Ideally, it's best to teach your children about budgeting before they go to college. For most, college is the first time they're living away from home and are truly independent.

With independence comes the responsibility of making your own decisions, and arming your children with the right tools to make self-directed decisions is invaluable. In addition to college tuition, your children will be spending money on books, school supplies, food, their cell phone, trips home, as well as personal expenses, such as clothing, toiletries, haircuts, entertainment and activities. Whether you or your children will be paying for these expenses, they will have to learn how to budget properly. Helpful tips include:

- Explain the difference between "needs" vs. "wants" (i.e., food is a necessity, but buying groceries is a "need" and eating out is a "want").
- Figure out approximately what the expenditures will be each month so you can come up with a realistic monthly budget to adhere to.
- Explain the importance of not spending too much too soon – encourage them to think about each expenditure and avoid impulse buying.
- Teach them how to track expenses. After a few months, you and your children should have a better idea of what their true "needs" expenses are each month so they know whether they can afford to spend money on their "wants."
- Open up a no-fee bank account that includes a debit card. It makes sense to open this account at a bank close to campus or that has an ATM on or close to campus to avoid any additional fees.

With college tuition costs increasing at a rate that's outpacing inflation by almost 6 percent, sending your children to college is a huge financial undertaking.

- Set-up a low-balance notification to avoid incurring any overdraft fees.
- Teach them to save receipts and monitor their accounts online weekly to ensure all charges are correct.
- Each month, have your children total their income (money you've given them and/or money they've earned) and their expenses and make sure their budget balances. If they find that they're running out of money before the end of the month, they either have to reduce their expenses or find additional sources of income.

To simplify this, there are now apps available to help you with this. It's recommended to research the different options to see which app would be most beneficial.

Below is a matrix adapted from information contained in Nuveen Investments' "Family Wealth Education Workbook"[16] that focuses on specific goals for children ages 18-24, and the corresponding curriculum for three qualities: Financial Intelligence, Intellectual Maturity and Social Responsibility.

	FINANCIAL INTELLIGENCE	INTELLECTUAL MATURITY	SOCIAL RESPONSIBILITY
GOAL	▪ Understand how to budget for current and future expenses ▪ Financial Independence ▪ Understand your credit score	▪ Become fluent in another language ▪ Understand other cultures, other ways of life ▪ Learn about those less fortunate ▪ Strong character, uncompromising morals, responsible behavior, leader qualities	▪ Take the initiative to volunteer independently, choose causes you are passionate about ▪ Understand methods of giving, choose appropriate method depending on financial situation and philanthropic goals
CURRICULUM	▪ Budgeting for college ▪ Get a part-time job ▪ Run a credit check and read through and understand the report	▪ Language Skills ▪ Global Travel ▪ Volunteer and/or Work Abroad	▪ Philanthropic Values ▪ Mentor Younger Children ▪ Community Projects ▪ Personal Mission Statement ▪ Personal Philanthropic Philosophy Statement

Going Their Own Way

THE TWENTIES

As your children move past college, this is the most opportune time in their lives to take risks, be it starting a business, taking a job at a fledgling company, or moving to a new city or town. They will learn what they like to do, what they do not care for, and most importantly, they will learn the value of money by paying their own bills, rent, and expenses, as well as the consequences of not doing so. If your child is not in a financial position to live on their own and they live with you at home, consider charging them rent or a portion of the utilities to further instill a sense of responsibility.

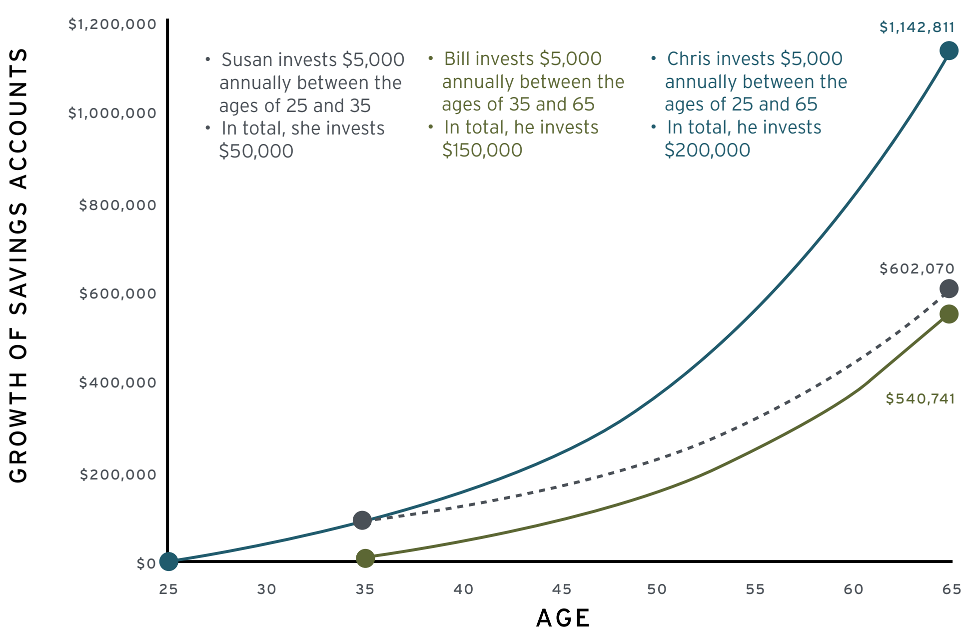
The best piece of advice you can give your 20-something is to start saving. Suggest saving at least 10 percent of each paycheck, as well as setting up an automatic weekly transfer or payday transfer from their bank account to their savings account to make saving much easier and less painful. The short-term goal of saving is to build up an emergency fund that covers three months of living expenses in the event that your child loses his or her job. After they've achieved an emergency fund goal, it's time to increase the saving percentage to 20 percent per paycheck, allotting 10 percent for savings and 10 percent for investment in a balanced portfolio.

Encourage your children to start saving for retirement early. Your twenty-something may think they have plenty of time to save for their retirement and delay making contributions to their 401(k), but it's been shown that saving even small amounts for shorter periods of time starting at age 25 results in more money than someone who started at age 35 and saved for a longer period of time. The below chart by JP Morgan Asset Management illustrates this concept perfectly.[17]

> The best piece of advice you can give your 20-something is to start saving.

By the time your children retire, they may need in excess of several million dollars to continue living a similar lifestyle. If they have the ability to contribute to a 401(k) through their job, they should do so. If they're lucky enough to work for an employer that offers to match their contributions in any capacity, it's essentially free money deposited into their retirement account that will also benefit from compounding interest.

BENEFIT OF SAVING EARLY



Source: J.P. Morgan Asset Management

SAVING FUNDAMENTALS

Harnessing the power of compounding can greatly impact the amount of savings over the long term.

The above example is for illustrative purposes only and not indicative of any investment. Account value in this example assumes a 7% annual return.

Compounding refers to the process of earning return on principal plus the return that was earned earlier.

Lastly, if your children have any debt, you should encourage them to pay it off as quickly as possible so they don't pay more in interest than they need to by delaying payments.

Below is a matrix adapted from information contained in Nuveen Investments' "Family Wealth Education Workbook"[18] that focuses on specific goals for children ages 25+, and the corresponding curriculum for three qualities: Financial Intelligence, Intellectual Maturity and Social Responsibility.

	FINANCIAL INTELLIGENCE	INTELLECTUAL MATURITY	SOCIAL RESPONSIBILITY
GOAL	▪ Planning for the future	▪ Trust/Beneficiary Implementation	▪ Understand Socially Responsible Investing
CURRICULUM	▪ Save for retirement ▪ Build emergency fund ▪ Pay off debt ▪ Learn about different investment vehicles and risk tolerance	▪ Successful transfer of funds ▪ from parents/grandparents to children	▪ Research and understand the concept ▪ Allocate a fixed amount of funds to be invested and be responsible for investing and monitoring

The Thirties and Beyond

Hopefully by now, your children are on more solid ground financially, and it is time for them to rethink their priorities. The thirties are the age range when people start to build a family, think about making major purchases like an engagement ring and/or wedding, car or a house, and thoughts of retirement enter their mind a bit more frequently.

A few topics to discuss with your thirty-something include:

- **Rethink Your Budget** – Adjust your budget to align with all the things you want to accomplish in your thirties, with regard to your emergency fund, retirement account, paying off any remaining debt, investing, and making major purchases. Additional long-term goals can make keeping a budget more of a balancing act and prompt you to decrease your spending in some areas in order to invest more in your future or save for a large purchase.
- **Emergency Fund** – Start increasing your emergency fund to match larger, additional expenses. How much of a cushion you need will depend on your financial commitments and whether your income is steady or tends to be a bit unpredictable. A good rule of thumb at this age is to have an emergency fund that will last you six months.
- **Retirement Account** – Increase the amount of money you're contributing to your 401(k). How much you contribute will depend on how much you can afford, but a general rule of thumb is 15% of your annual salary. If you can't contribute that much without it becoming a financial burden, then contribute what you can and continue to increase the amount with each raise you receive. If you receive a bonus, allocate a portion of it to go towards your 401(k).
- **Large Purchases** - The most responsible way to approach a large purchase (i.e., engagement ring, wedding, house, etc.) is to keep your budget in mind and live within your means. You should work these purchases into your budget to understand how much you can afford before making the purchase. As tempting as it may be now that you have more income and savings, it's not advised to upgrade your lifestyle if you still have debt you're paying off or you don't have the ability to pay for these purchases if you were to lose your job.

Conclusion

Our goal in writing this white paper is to provide you with suggestions that will help you and your family navigate the softer side of estate planning. This "guide" provides you with information and tools to educate your children and grandchildren on good financial decision-making as well as encourage you to instill your values about money and hard work in your children and grandchildren.

It's not expected that you will check off every box, rather we hope that you will adapt the strategies within to suit your needs and those of your family. We recommend entering into this process responsibly, knowing that following every step outlined is not a guarantee of success, and measuring success in this area is a difficult endeavor.

The tools mentioned throughout this paper are merely a good starting point, for any family, regardless of the age of your children or level of wealth. You are now equipped with the strategies for starting the conversation about wealth and inheritance, so it's time to take that first step.

Passing down your family legacy will not be done in a day, a weekend, or a year, but over your lifetime. Remember what is important to you and try to pass those stories and values on to your children or grandchildren. They will remember the time spent with you and cherish the memories, the stories and the imprint you had on their lives.

Above all, be grateful for all you have and all you can share.

About Hightower

Hightower is a national, advisor-owned financial services company serving high-net-worth and institutional clients. Hightower advisors are experience investment professionals with large and established practices. As a dually-registered, multi-custodial firm, Hightower provides sophisticated investment solutions, as well as an independent and unobstructed view of the markets. The company is headquartered in Chicago and maintains corporate centers in New York and San Francisco and offices across the country.

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End Notes

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