THE GLOBE AND MAIL

When kids squander money, parents are squarely to blame

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SPECIAL TO THE GLOBE AND MAIL
PUBLISHED JANUARY 14, 2019 UPDATED JANUARY 17, 2019

Billionaire Bill Gates once said, “With great wealth comes great responsibility."

In high-net-worth families, that responsibility falls squarely on the parents if they want to prevent their offspring from frittering away the family finances. Teaching children, whether young or old, how to appreciate and manage assets can help sustain wealth for future generations, experts say.

“I don’t think we can blame the money” when wealth is squandered, says Margaret O’Sullivan, managing partner at O’Sullivan Estate Lawyers LLP, a boutique trust and estate law firm in Toronto. “It’s really the lack of skills, not building the confidence, the self-esteem and ability to manage the wealth.”

A lack of communication and education can lead to mismanagement of funds and put offspring at a higher risk of being taken advantage of by friends, acquaintances and even disreputable relatives. It can also lead to infighting and even lawsuits, which are costly, can tear families apart and make disputes public.

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Children who run into trouble with money sometimes blame their parents for not showing them how to manage it.

Family wealth offices and other experts can teach the financial basics and arrange for education about legal rights and responsibilities, relationship management, wealth preservation, philanthropy and succession planning.

In addition to education, parents should include checks and balances that will hold their children accountable, says Gary Brent, chairman and co-founder of Toronto-based HighView Financial Group, which works with high-net-worth families. Among them is coming up with a personal wealth plan and helping them meet the goal of becoming financially independent.

“We try to bring a stewardship mindset to the families,” says Mr. Brent. “We get them to run their wealth like a business with the same discipline, oversight and governance. It’s about preparing them today for tomorrow.”

Helping the next generation manage family money is becoming a bigger part of HighView’s business, Mr. Brent says, given the massive transfer of wealth under way.

RBC Wealth Management estimates more than $400-billion is expected to be passed down to inheritors in Canada within a generation, considered the biggest intergenerational wealth transfer in Canadian history.

But how can younger members of a wealthy family learn to manage money when their parents won't talk about it?

In many cultures, discussing money is considered taboo. But it shouldn't be for families that want to sustain their wealth, says Elizabeth Dorsch, chief executive officer of BMO Trust Co., which works with wealthy clients.

"Removing the myths and mystery around money is important," Ms. Dorsch says. "It's amazing how many families just don't talk about it."

The problem with not discussing wealth is that children may be unprepared when they receive it, especially if they are given a lump sum as part of an estate. A poll commissioned by IPC Private Wealth of Investment Planning Counsel shows 58 per cent of high-net-worth Canadians haven't discussed instructions for their estate with their heirs, and 12 per cent never plan to.

To educate their families, some wealthy people set up foundations that will help their kids learn how to manage money while also giving back to the community. Parents can also establish a trust, which can control how much their children spend, and when. Trusts can be set up when the parents are still alive, through what's called a living trust, or include it in a will, which is a testamentary trust.

"The beauty of trusts is they are extremely flexible," and can be catered to a family's circumstances, says Ms. O'Sullivan. Another advantage to trusts is that the assets are not subject to probate fees and are protected from creditors or legal disputes. The contents of a trust also remain private, unlike a will, which becomes a public document when an estate goes into probate.

Like the rest of society, wealthy families also need to budget how much they spend if they want to grow and sustain their wealth, experts say, also a worthwhile thing to teach younger members of the family. They also need to set aside funds for unforeseen circumstances such as a stock market downturn, legal challenges or even falling victim to fraud.

"There are all sorts of things that can happen to you, and if you don't protect the wealth, it can go very quickly," says Ms. Dorsch.

Experts recommend parents start the discussion and education about wealth early and do it gradually, while also sharing their values around money, including how to spend and share it.

"The key is building financial competence early," says Ms. O'Sullivan.

“It’s better than going the other route, which is being so protective that they exclude their children,” she says. "If they do that, they don’t have the skills. Often when they do come into it, they’re not able to handle it.”

Parents should view educating their kids about wealth as a strategy to help them spend it wisely later on in life.

“This is all part of their children’s future," she says. "They have to be able to bring them along and build the skill set to allow them to be successful.”