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10.17.2024

Raising Competent Adults Amidst Wealth: Ideas for Nurturing Children with Responsibility and Independence

By David Colton

How do I raise children with wealth in a way that ensures they will be motivated and can make good decisions independently? After more than 25 years as an advisor to wealthy families, I am frequently asked this question, or a variation of it, by many of the families I work with. Throughout my career, I have learned various parenting approaches that seem to work in different situations, and I have seen others that had unintended consequences. Recent research in psychology and neuroscience has also provided meaningful insights about motivation and happiness that families can incorporate to help the rising generation and their children be better prepared to navigate the world.

While a full discussion of this issue is beyond the scope of this article, the suggestions set forth below may help you start thinking about some of the ideas you may want to incorporate with your family.

1. Aiming to raise “happy” kids isn’t an ideal goal for their success.

“Happiness” can be defined in many ways, and usually includes the absence of negative feelings. Unfortunately, a childhood focused on optimizing happiness while trying to eliminate negative emotions can lead to an adulthood of anxiety, as Dr. Becky Kennedy, a clinical psychologist, explains in her book *Good Inside: A Guide to Becoming the Parent You Want to Be*. This is because if you don’t know how to regulate distress or negative emotions when you feel them, they can trigger an alarm, making you believe something is wrong, rather than interpreting the feeling as information that can be used to cope with the situation. Kids need to learn how to deal with their negative feelings, and that won’t happen if they are taught to ignore them or push them aside to focus on being happy. It may not seem intuitive, but cultivating happiness requires an ability to tolerate and regulate distress, not prevent it altogether.

2. Happiness is a direction you can move towards, not a feeling or a destination.

Happiness is not a state you can reach, but rather a direction you move towards by engaging in specific actions. This concept was aptly described by Don Draper’s character in Mad Men when he said, “Happiness is a moment before you need more happiness.” Doing something meaningful can trigger an emotional response that leads to a feeling of happiness. What are these actions? Arthur Brooks, a Harvard Professor and leader of the Leadership & Happiness Laboratory at Harvard Business School, describes happiness as stemming from a combination of enjoyment, satisfaction, and purpose. Enjoyment involves being with friends or others while doing activities that create lasting memories. Satisfaction comes from the joy experienced after a struggle or effort. Purpose gives a sense of meaning (separate from the family's wealth) and the feeling that your life matters. Helping your children prioritize activities that include these three components can lay the foundation for a happier life.

3. Struggling is vital; suffering is not.

Knowing you can tackle difficult tasks is a crucial life skill built through experience and perseverance. This "muscle" takes time to develop, usually involving mistakes and failures. However, parents must strike a balance between deprivation—providing no guidance and leaving a child to figure everything out alone—and overindulgence, where parents take full control and fix any problem that arises.

Families can foster productive struggle by not rescuing children from every school or personal challenge, especially when the consequences are manageable. If they struggle in a course, offer a tutor but don't do their work or negotiate grades for them. If they receive negative feedback at work, encourage them to reflect on the feedback and consider ways to improve rather than dismissing the criticism. You can't snowplow the path for your children and expect them to know how to handle obstacles when you're not around.

4. **Prevent kids from running on the hedonic treadmill.**

The hedonic treadmill, or hedonic adaptation, is the concept that people tend to return to a stable level of well-being despite major life events. This idea also applies to our constant desire for "more" – whether it be money, fame, or material possessions. Many of us think, "I will be happy when I get [fill in the blank]," but the excitement from achieving that want is usually short-lived. Like running on a treadmill, no matter how much you achieve, you end up in the same place. This is true for your kids with the latest toy or video game. The sooner they understand that having more material items will not necessarily lead to lasting happiness, the better they will manage their desires, which leads us to #5.

5. Help your kids understand the difference between needs and wants.

A need is required for survival, whereas a want is desired but not essential for living. Each family will have its own interpretation of needs versus wants, so it's important to discuss this concept with your children. Failing to distinguish between the two can lead to future financial troubles or disappointments. As William Dawson wrote over a century ago in *The Quest of the Simple Life*, "The thing that is least perceived about wealth is that all pleasure in money ends at the point where economy becomes unnecessary. The man who can buy anything he covets, without consultation with his banker, values nothing that he buys."

6. Teach your kids a minimum level of financial literacy.

While some children may naturally inquire about investing or real estate, others might not show the same level of interest. For those who are curious, there are various ways to encourage this and help them learn (Gresham has resources for this). There are also benefits to starting early: The FDIC has noted that financial education has been linked to lower debt levels, higher savings and higher credit scores as children mature into adulthood. However, it is essential for all kids to grasp the fundamentals of budgeting, understanding debt, and the power of compound interest. These skills are crucial for successfully navigating life and avoiding financial pitfalls. By the time they graduate high school, children should possess a basic level of financial literacy.

7. Be prepared to address the question, "Are we rich?"

Kids are perceptive and often talk among themselves. If you own a large house or multiple homes, stay at luxurious hotels during vacations, or fly private or first class, your children will notice. Eventually, they may ask about the family's wealth. This question provides a valuable opportunity to engage with your kids and help them understand financial concepts. One effective approach is to respond with curiosity: ask them why they're inquiring. They might simply want to buy something and are trying to determine if the family can afford it. How you address the "Are we rich?" question can set the stage for your children's future interest in learning about money and wealth planning, or it could close the door on the subject in a non-productive way.

8. You can't force your kids to have a desire to be good stewards of family wealth.

While you may have a complex estate plan and considerable family wealth that you want to prepare your kids to manage, they might not be interested or ready for these conversations. Be cautious about pushing these discussions. Every child is different. While everyone should have a basic understanding of financial literacy, not everyone follows the same timeline for learning more complex ideas like stewardship. It helps if certain self-discovery milestones have already been met, such as the child having a sense of their own self-worth or feeling confident in their ability to earn their own money. Self-determination theory, which incorporates the importance of autonomy, competence, and relatedness, is also useful in shaping an environment to motivate someone to learn about concepts such as legacy and generational responsibility. It is difficult to impose the responsibility of stewardship on someone who is not interested or ready for it.

9. Your actions speak louder than words; your kids are watching and learning from you.

It's essential to align your financial decisions and lifestyle with the lessons you're trying to impart. While some "textbook" education can be outsourced to an advisor, your behavior sets a powerful example. For instance, if you fly private or first class on family trips but don't intend for your children to adopt the same practice once they are independent, you need to discuss these expectations with them. Similarly, if they use a credit card you cover, they may assume this arrangement will continue indefinitely, or they might expect you to fund a future home purchase similar in size and scale to your own. Explaining to your kids how and why you make certain buying decisions sets the stage for them to make better choices.

10. Raising competent, high-functioning adults is an ideal goal.

As noted above, aiming to raise “happy” kids can result in unintended consequences, but trying to raise kids to eventually become competent adults who can navigate the world on their own is an ideal aspiration. Viewing your decisions and actions through that lens is helpful and may give you the ability to tackle some of the difficult conversations that arise when preparing your children to take on the responsibility of managing wealth.

While the above ideas may be helpful to your family’s education and relationship towards money, unfortunately, there is no guarantee that everything will work out as you hope or intend. Implementing guardrails with wealth transfer planning tools and flexible trust terms is also recommended. By incorporating concepts early, you can put your children in the best position to make informed decisions and better navigate their world.

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October 17, 2024