

Will Your Kid's Inheritance Make Her a Monster? Not If You Plan Carefully

The airwaves are full of cautionary tales of young people with too much money too soon – wretched excess is in, and responsibility seems, well, pretty boring. And your last name doesn't have to be "Hilton" for you to worry.

Inheritances, trust funds and other benefits from hard-earned family fortunes of any size can affect the children of wealthy individuals in incredibly positive and negative ways.

Most financial experts, such as Certified Financial Planner™ professionals, will tell you the best scenarios involve early planning, solid parenting and complete family involvement from the start. Here are some suggestions on how to raise a responsible heir:

Get advice early: If you have created a successful business or amassed a fortune working for a fast-growing employer, it makes sense to sit down with tax, legal and financial advisors to talk not only about the No. 1 goal of protecting those assets, but passing them intelligently to the next generation. Because these conversations should go beyond sensible money and tax management to how these assets will affect your family's entire life, one of the first questions you should ask is, "How do I train my kids to inherit this money?" Also, it's critical that you include the unthinkable in your discussion – how your surviving spouse or designated guardians will continue this stewardship if you die. You need to make sure your plan is effective particularly if you're not there to carry it out.

Start basic money training early: In most households, kids start learning about money and what it does around age 4 or 5, even if it's only centered on how to buy a popsicle. Obviously, your kid might have some idea already that his parents have money, so you have to strike a balance between the reality of your fortunate situation and the responsibility training all kids need no matter what their circumstances. You don't need to lie about what you have, but when kids are this young, you're not anywhere near discussing what they may inherit when they're older. It's not their money anyway. Your job should be to introduce your kids to chores and a modest allowance to cover essentials, treats and savings that you'll agree upon. Then watch closely to see how your kid is learning these skills. This is the bedrock of how they'll be handling money the rest of their lives.

Lead by example: If a kid grows up in a house where parents spend indiscriminately and settle disputes with the kids with money and toys, chances are the kids will repeat those patterns as teens and adults. If a kid grows up in a house where parents set money priorities for themselves, participate in charity and community service and expect children to do the same, that's a powerful lesson about wise choices in time and money for a lifetime.

Do a family mission statement each year: This may get an eye roll from some family members. But a once-a-year meeting to discuss what's important in family life is a great mechanism not only to find out how the entire family is doing with regard to personal values and goals, but a great way to work in a purposeful wealth message that expands over time. When children are young, they should be allowed a vote in how family money is spent for particular luxuries like vacations, and as they get older, parents can elect to expand their vote in other areas, such as general investment policies for the family holdings.

Involve the kids in investment and planning: If a child is inheriting wealth at a certain age, it is entirely fair to bring them into the process of the care and feeding of that wealth at a significantly earlier age, possibly in their early teens. Before that, it might be fun for them to buy a particular stock or mutual fund that they can own jointly with you so they can see how investments perform. Eventually, you can migrate their attention to their potential inheritance, how that money is currently invested and what efforts are taken to protect its principal are essential if they are going to take over responsible management of those funds someday. Kids need to understand that wealth needs to be tended to in order to grow – you might even consider bringing them to meetings with your money managers so they can learn about the process over time.

Raise the suggestion that wealth should stay invested. Wealthy relatives need to tread carefully here, because if a young person gets money, they're going to understandably want to have some fun with it. But it's important to teach the message that a significant part of the inheritance should stay responsibly invested so the child can address a personal goal (advanced education, starting a business or their own philanthropy) or have wealth to pass on to their families.

Get them some independent training: The wealth management industry – including financial planners – are directing training resources toward younger clients who may come into considerable fortunes at a later date. It's to their benefit – they want to keep that business. But if you are already working with investment experts whom you trust, why not ask them about training your kids can receive when you're not around? As adults, they are going to eventually handle decisions on their own – it might be wise to continue their learning in an adult environment where they can take the lead in a discussion.