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How Can Parents Avoid Spoiling Their Kids?

It's a natural impulse. You want what's best for your kids, and you have the means to ensure they want for nothing. But shielding your children from financial realities—spoiling them, in other words—can have unintended consequences. "You're neglecting the preparation for adulthood every child needs," says Thayer Willis, a licensed clinical social worker who counsels affluent families and their advisors on the impact of wealth. The right kind of financial grounding, on the other hand, can help kids develop financial literacy, and along with it, a meaningful life, Willis says.

The author of *Navigating the Dark Side of Wealth: A Life Guide for Inheritors*, Willis knows first-hand the challenges family wealth can present. An heir to the multi-billion-dollar Georgia Pacific Corp. fortune, she helped pioneer a career niche counseling the wealthy about the meaning of their lives—and their money.

"What no one can inherit is a meaningful life," Willis says. "We must all create that for ourselves. Our wealth is a great resource for creating meaning, but wealth itself does not deliver meaning or purpose. The greatest gift you can give your children is to facilitate the discipline, focus, and initiative to help them make their own way."

Here are suggestions from Willis for giving your children the financial building blocks they need:

Give an allowance. As soon as children express an interest in money, typically at age five or six, provide an allowance with guidelines for what proportion of the money to spend, how much to save, and how much to give to a charitable cause.

Show them how to keep a ledger. At about age eight, have your kids start tracking every dollar that comes in—from their allowance, investment earnings, or gifts—and goes out. This will help children understand the value of money, and it will be useful later when the child has a bank account or credit card and needs to establish a budget.

Help them become savvy consumers. Rather than letting your kids shop with an unlimited budget, coach them to become informed and choosy. Willis, for example, recently gave her 15-year-old daughter three gift certificates, of the same amount—one to a high-end boutique, a second to a department store, and a third for a discount outlet. "I'm going to take her myself," Willis says. "It's a great lesson. Retailers market so heavily to teens, and I want her to think about whether she wants a trendy brand or something that's exactly the same but less expensive." Willis also suggests talking about products' short- and long-term appeal.

Encourage kids to get a paying job. Earning a paycheck is a self-esteem builder and an important component in developing financial competence. "One of the greatest plagues of kids that grow

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Leaving A Legacy: Building Our Children's World

In this issue, we focus on leaving a legacy. Whether or not we leave children, money, or an organization behind, we all will leave some trace of our time on this earth. Leaving a legacy can mean passing on your values, protecting the environment, helping your children and grandchildren financially, or connecting with your community.

One way to engage with the community and take action to protect Colorado's natural environment is through a local organization called Wildlands Restoration Volunteers. WRV organizes about 20 volunteer projects per year, completing a wide variety of important habitat restoration and conservation work in the Northern Colorado Front Range area. Projects can last a single day or a weekend. Some are appropriate for families, and there are opportunities for corporate team-building on mid-week projects.

Colleen serves on the board of directors of Wildlands Restoration Volunteers and can sometimes be found wielding shovel or pickax to plant willows or restore vegetation to overused areas. Log onto wrlv.org for more information.

At Knopinski & Fauver, we are dedicated to providing you with the tools to reach your life goals and leave a legacy that reflects your cherished values.

Colleen & Rob

Put Structure Behind Your Philanthropy

When the stock market rebounded, so did charitable giving. And this could be the time to reconsider how you give. Though sporadically writing checks to worthy causes is one way to go, a more structured approach might better serve both your philanthropic and financial goals.

Contributing to a donor-advised fund or establishing a private foundation gives you a current charitable deduction for the full amount of your giving, up to IRS limits. Moreover, both allow you to carry forward any excess deductions for up to five years. But that's where similarities end.

Donor-advised funds. "With a donor-advised fund, you irrevocably donate assets to an account run by a charity or a firm administering the account for charities," says Eileen Heisman, president of Jenkintown, Pennsylvania-based National Philanthropic Trust (NPT), which handles donor-advised funds for brokerage firms. You could also make the charity your local community foundation. She notes several potential advantages:

- Minimum investments normally range from $10,000 to $25,000.
- Unlike foundations, donor-advised funds require minimal paperwork and no staff. "There are no audits, no board meetings, and no special tax returns," Heisman says. Annual fees are usually 1% of assets, according to NPT.

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- Your charitable deduction can be as high as 50% of your adjusted gross income for cash donations, or 30% for appreciated assets such as stocks, bonds, and real estate.

Private foundations. "Private foundations give you total control over how your assets are invested and which charities you support," notes Doug Mellinger, vice chairman of Foundation Source, a Norwalk, Connecticut company that helps financial advisors establish and operate foundations for their clients. With a donor-advised fund, you can suggest how assets should be used, but the fund manager has the final say. Other differences include:

- A board of directors oversees a foundation, which can make grants directly to individuals or create structured giving programs such as scholarships. The IRS mandates that at least 5% of foundation assets be distributed annually to charities, regardless of investment performance.
- Because of high start-up and administrative costs, a foundation is normally feasible only if you can contribute $1 million or more, though Foundation Source has started foundations with as little as $100,000. If attorneys draft the required paperwork, setting up a foundation usually costs about $10,000, and there are substantial annual maintenance fees. But if you're on a budget, you could get by for less. "We've created corporate shells in Delaware that can be used for foundations, and our set-up charge is $4,000 plus $750 in filing fees," Mellinger says.
- For a large foundation, you may need several people to oversee distributions and prepare federal and state tax forms. For smaller entities, Foundation Source will provide all foundation-related functions for $4,000 a year plus 0.30% of assets.
- Deductions for cash gifts to a foundation can be as much as 30% of gross income, or up to 20% for appreciated assets. ●

A Way To Make Life Easier For Your Child In Years To Come:

One of the best ways a parent or grandparent can help a child get off to a good start financially is by setting up a Roth IRA in the child's name. Scraping together the $4,000 annual contribution for just a few years will provide your child with a significant cushion for retirement.

If your child mows lawns or works as a babysitter, the income qualifies for contribution to a Roth IRA. You can also hire your child if you are a business owner. If your child spent the earnings, you can make a gift to the child to fund the contribution. You will need to report your child's earnings, and keeping a diary of how much your child earned and for whom he or she worked would be wise.

This very straightforward planning strategy is so effective because it takes advantage of investment compounding, which Albert Einstein called "the eighth wonder of the world." When you invest $1 at 10%* annually, it grows to $1.10 after a year. In the second year, the 10% is earned on your entire $1.10. You receive a 10% return on your $1.00 principal as well as on the previously earned returns. The longer this goes on, the more impressive the results. You don't have to be an Einstein to see the benefit of that.

Let's say your 16-year-old daughter has a summer job and babysits regularly, earning $4,000 per year. If you were to invest $4,000 on her behalf in a Roth IRA each year until she turns 21 (for a total contribution of $24,000), your daughter would have just over $2 million when she turns 65, assuming an average 10% return. She can then begin making tax-free withdrawals. (Prior to age 59½, there's a 10% early withdrawal penalty.)

Now, let's take this a step further. Say your daughter doesn't need the Roth IRA money to live on. Maybe she

Transferring The Family Business

If it were easy to hand off a business to the next generation, more than just one in three would successfully complete the trip. As it is, many factors contribute to a high mortality rate for family companies. Estate and gift taxes take a toll, and so do family conflicts about who will take over, how to compensate heirs who don't work in the business, and how to keep the company safe from divorcing spouses and creditors who want a piece of the action. A well-thought-out plan can head off many problems, but what works for one family may be wrong for another.

Gift and estate taxes kill many family firms. Though the first $2 million of an individual's estate is currently shielded from estate taxes, inheritors of a company worth, say, $4 million, might owe almost $2 million in taxes, and coming up with the cash often means selling assets or the business itself. Meanwhile, giving away a business before death could trigger punishing gift taxes that kick in after you've used up a $1 million lifetime gift-tax exclusion.

The simplest solution is to transfer ownership of a company gradually, or to fund a trust that helps reduce taxes. There's an annual gift-tax exemption that permits tax-free gifts of as much as $12,000 to an unlimited number of recipients. Such relatively small gifts add up over many years, particularly if you take advantage of techniques the IRS allows for discounting a gift's value. But a gradual transfer requires a sound succession plan and the right business structure.

You may want to begin plotting your exit from a business years before you leave. An early start lets you groom your successors and choose a business entity

that serves your ends. It also gives you a chance to see who among your heirs is interested in working in the business and perhaps one day taking the helm. Meanwhile, you can consider how to structure your estate to provide fair compensation to heirs who choose a different career.

You won't be able to transfer your business piecemeal if it's organized as a sole proprietorship, which must change hands all at once. Shares in most other business entities—so-called C and S corporations, limited liability companies (LLCs), and limited partnerships (LPs)—can be broken out and given away a few at a time, and you may be able to retain management control even when you become a minority shareholder. Moreover, if children can't sell their stakes, the IRS considers the shares to be worth less than their full market value—so that, say, an $18,000 piece of your business that you give to your daughter might count as a gift-tax-exempt transfer of $12,000. But you'll need an entity that passes muster with an increasingly wary IRS. Owners who want to transfer value but keep management control must be particularly careful.

Various trusts can help reduce gift and estate taxes, deal with control issues, and shield personal assets from creditors. For example, you could sell the company to a grantor trust created for your heirs. You'd get an IOU, and the business would gradually pay for the shares transferred into it. Or you could set up a grantor retained annuity trust, or GRAT. If the company gains value at a rate exceeding an interest rate set by the IRS, you could end up with a major break on gift and estate taxes.

Regardless of how your business is constituted, and however you decide to hand it off to your heirs, you need a formal buy-sell agreement spelling out what happens if you die unexpectedly or simply choose to walk away from the company. Such an agreement obligates partners or heirs to purchase your share according to a specified formula, and it's typically funded with life insurance on you and other owners—likely the heirs to whom you've begun to transfer ownership. If you die, they get the proceeds and can buy back your stake.

Almost all of these strategies require an accurate fix on what your business is worth, and that means periodic assessments by a professional business appraiser. We can help you find one and work with you on a succession plan that reflects the make-up and goals of your family and business. ●

Roth IRA Offers Planning Tool

works until age 65 or 70. Remember, with the rapid pace of medical advances likely to occur over the next few decades, it may not be uncommon for people to live into their 80s, 90s, or beyond. If left untouched until, for example, your child is 81, the Roth will have grown to more than $10 million. Also consider that in 2008, the contribution limit goes up to $5,000, adding opportunity for an even greater accumulation.

What's nice about a Roth IRA is that you're never required to withdraw money. That's different from a regular IRA, which requires that you begin annual withdrawals when you turn 70½. That leaves less in your regular IRA to compound on a tax-deferred basis.

Using the Roth IRA as a savings account of last resort is also attractive because the Roth IRA receives favorable tax treatment after you're gone. If you die and leave money untouched in your Roth IRA, your beneficiaries can withdraw it tax-free. While the Roth IRA is part of your estate and subject to estate taxes, once those are paid, your beneficiaries will be able to receive tax-free the required annual distributions from what's left for years to come. ●

*** For illustration only; does not represent any specific investment.**

The Ethical Will: How To Leave Your Wisdom Behind

You are far more than the sum of your possessions. Yet when it comes to bequests, your last will and testament probably deals just with concrete assets. What happens to the intangibles: the wisdom, values, experiences, and stories you've accumulated over the years?

Enter the ethical will. In its simplest form, an ethical will sets forth the moral and spiritual "capital" you may want to leave to the next generation. While not a legal document, this message to your heirs is often recommended by attorneys and financial advisors as a tool for establishing a family legacy built on pillars you hold dear.

Almost anything can go into an ethical will. Some people pass along the life lessons they've learned over the years. Others articulate specific moral values, describe mistakes they've learned from, fill in the context surrounding major events of their lives, articulate spiritual beliefs, recommend meaningful books, share funny experiences, and express their love. Some even ask or bestow forgiveness. Though in many cases, those for whom ethical wills are intended—family, friends, even organizations—have heard these insights before, this sets them down in a tangible, immutable form.

With today's technology, creators of ethical wills are no longer confined to acid-free paper and fade-resistant ink (both are recommended if you do use pen and paper). You can not only record your wishes on audiotape, but create an entire DVD, complete with video clips, photographs, navigation, and music. This allows loved ones to read your words and pick up your inflections, adding shades of meaning to your message.

The benefits, however, are not just for those left behind. Many of those who draw up an ethical will find it gives them a deeper, clearer understanding of their own value systems or life stories. That's an argument for creating one well before the end of life. A couple could use this tool to learn more about each other before the wedding, or as they start a family. Those in midlife or about to retire could use an ethical will to clarify the direction for the next stage of their life.

Families in business together might also benefit from creating ethical wills. All too often, after the death of the parent who ran the company, heirs will bicker about a business's future direction, frequently invoking "what Mom and Dad would want." An ethical will, thoughtfully set forth by the head of the family, can give descendants a shared framework and clarify the business's original values.

There's no fee or formal process to create an ethical will. Just carefully reflect on what you want to say to those dear to you, and then create your will in any form or format that appeals to you. This simple, straightforward act could have a profound impact on generations to come.

To find out more about why and how to make an ethical will—including examples for each life stage—visit www.ethicalwill.com. ●

Avoid Spoiling Kids

(Continued from page 1)

up in wealthy families is never becoming good at anything," says Willis. "Unfortunately, that's quite common. But earning money is a step forward in helping kids become competent—a priceless treasure."

Model your values. "The most important values in life are caught, not taught," Willis says. So make sure you and your spouse are on the same page, and be creative in using your wealth to set the kinds of examples you'd like your children to follow. That could mean a family philanthropy project, cash rewards for accomplishments, or achievement-oriented travel.

Encourage community service. Hands-on volunteer work can help your kids gain perspective on what's truly important in life. From an early age, children can learn to make decisions about giving money, saving it, and spending it. A priority on community service will deepen the message.

Guard against a sense of entitlement. Children who lean on their family wealth often fail to become people of significance in their own right. Working recently with five generations of a wealthy family, Willis had the third- and fourth-generation inheritors answer the question: "We are the first generation of what?" As Willis notes, "Your whole reality doesn't have to be based on those who created the wealth. This question is about what you have accomplished."

Answer your children's questions. If they ask, "Are we rich?" give a truthful answer, but phrase it carefully. When her 11-year-old son asked if he was going to get an inheritance, Willis replied, "You are going to get a great starter kit, a great education, and maybe money to start a business or get into a house. But you are not going to get so much that you can do nothing." She also used the question as an opportunity to teach gratitude. "We are so fortunate in that we have enough money to pay for what we do," she told her son. "Many families don't have that."

Not spoiling your kids is a lifelong process. But these suggestions can be a good beginning, Willis says. "Most young people do not grow up with this kind of guidance, and learning these lessons will set your young adult offspring apart from their wealthy peers," says Willis. "Your best gift is to allow them to develop competence and the opportunity to make a life for themselves." ●

Articles are written by a journalist hired by Knopinski & Fauver Financial Advisors, and are general information not intended as advice to individuals.

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