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Where Paris's parents may have gone wrong

Smart financial parenting avoids child entitlement syndrome

Michael Nairne, Serious Money

Mark Ralston, AFP, Getty Images Files

The disturbing antics of wealthy young celebrities such as the socialite Paris Hilton can add to an affluent parent's anxiety about how their children will handle money.

Several generations ago, the prevailing belief was "spare the rod and spoil the child." Today, a more apt adage is "spare the budget and spoil the child."

At least that sums up the advice some experts have given affluent parents who are troubled about the negative impact wealth can have on their children.

Such worries are very common. A survey of millionaires by PNC Advisors in the United States found that nearly half the respondents with children living at home worried they would grow up with a sense of entitlement. The same amount felt that their children were spoiled and didn't know the value of a dollar. The disturbing antics of young celebrities that frequent the headlines only adds to the anxiety.

Some of these concerns are overblown. The children of affluent families are undoubtedly privileged, but most are level-headed and understand the virtues of education and hard work. PNC, in a survey of teenagers from wealthy families, found the vast majority had discussions with their parents about the family's wealth and possessed a strong sense of responsibility to properly manage whatever money they received. They understood that hard work was usually behind the family fortune and were prepared to work for the purchases they wanted to make.

The stereotype of the overindulgent rich parent is also overdone. American Express, in a survey of Platinum cardholders, found that wealthy parents typically are not extravagant spenders on the basics for their children such as clothing. Where they spend more is on enriching activities like music and sports lessons as well as international travel.

One of the largest expenses in many of our clients' budgets is their children's education. Funding private school costs, university tuitions and postgraduate degrees abroad can easily approach $500,000 per child. Despite the sums involved, parents see building their children's intellectual capital as one of the wisest investments they can make.

Smart financial parenting starts with proper role modeling. Most developmental psychologists believe the manner in which parents handle money can have a powerful influence on their children's behaviour, often leaving internalized messages that play out later in adulthood. Spending judiciously, putting limits on luxuries and giving time and money to charities are all ways to set a good example.

The financial education of children starts by teaching them they are responsible for taking care of their possessions. When they enter grade school, an allowance can be started or jobs-for-pay provided. The key message is that work and money are interrelated. They should be encouraged to save with specific goals in mind.

As children get older, setting limits on spending in our brand-conscious society is essential if they are to learn to use money wisely. Discussions can evolve to more complex topics, such as investments and taxes. Some parents even fund their teenager's first mutual fund or stock investment. There is nothing like suffering a loss to teach a lesson. For older teenagers, insisting on summer employment, summer school or volunteer work is a must. "No loafers allowed" has to be a family policy.

Helping university-bound children work through a detailed budget can be an eye-opener for them. As one college student mentioned to me, "I never knew just living cost so much!"

Older children can also be brought into the family's philanthropic-giving discussions.

Today, wealthy parents must view their children's financial education as a vital step in the future stewardship of the family's capital. At the heart of it is smart financial parenting.

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