KEEN ON
RETIREMENT

How to Teach Your Kids (and Grandkids) Good Financial Habits

Welcome to Keen on Retirement
With Bill Keen and Steve Sanduski

Steve Sanduski: Hello everybody, and welcome back to Keen on Retirement. I'm your co-host, Steve Sanduski, and we talk about things you need to know before and during your retirement years. And I'm here with Bill Keen, and Matt Wilson. Guys, how are you today?

Bill Keen: We're doing good here in Kansas City, Steve. How's it going in your neck of the woods up there?

Steve Sanduski: Very good, very good. Just got back from New York City for a few days with my daughter, so that was a lot of fun. Had great weather, so that always makes it more pleasant.

Bill Keen: This isn't quite as nice as the last place that we recorded our podcast.

Steve Sanduski: Not quite, no. Nope. It's a little overcast here today up in Wisconsin. A little different than Newport Beach, California where we were last recording.

Well, we are going to talk about money like we usually do, but we've got a little bit of a different twist on it today. We're going to be talking about how to talk to your kids and grandkids about money. And we thought this actually would be a pretty good time to talk about that because here we are, we're in graduation season, and I know you guys are getting a lot of questions and comments from your clients about what to do with some of the money the kids are getting for graduation. So, we thought this would be a great time to be talking about that.

Matt Wilson: There's a few phases that we want to talk about this, and it's younger children, up and to, and prior to graduation from high school, and then kids that are just graduating from college and entering the workforce. And then we've got the older children, probably in their mid-30s and over, about how to talk to them about your money, and engage them in the estate planning discussion.

When we have children under the age of 18, generally the questions we get are about setting up accounts for them on their behalf. So what we typically do is set up an investment account and keep it in their name, but maybe just earmark it specifically for a young child or grandchild. And then show them the activity that happens in that account.

Bill Keen: It's funny, this time of year, I don't have any graduates this year, but I do have kids that are back from college. So it's nice to have a little activity at the house with the kids. But I wrote a couple checks just now to graduates, and I'm thinking, now do I write the checks to the parents, or do I write the check to the child? Steve, what would you do? And we're talking high school graduates now.

Steve Sanduski: I would write the check to the child.

Bill Keen: I think so. That's what I did. And I'm thinking I guess they're all age of majority, 18, at this point, if they're graduating from high school. But if not, parents have to co-execute that check and put it in their account.

Steve Sanduski: Yeah. No, I would definitely write it to the child, and either they have their own account, I mean most likely a lot of kids these days, certainly the ones we interact with normally are going to have a bank account of some type, and that's a good way for them to keep learning what to do with their money.

Matt Wilson: Yeah, it's funny, these kids nowadays, I don't know how many checks they actually get. They may not even know what to do with it if you handed them a check.

Steve Sanduski: Well, that's a good point, in the age of Venmo and other types of apps that we can use to transfer money, yeah, they may not know what to do with a check. But most likely, their parents still know what a check is.

Matt Wilson: Mm-hmm (affirmative). That's right.

Steve Sanduski: So we've got these younger kids up to maybe age 18 or so, and I think I heard you say, Matt, when you set up these accounts, if parents are setting up these accounts on behalf of the child, it should be in the parents' name. Now there used to be these custodial accounts, are those still even in play anymore?

Bill Keen: They're still around. We don't see a lot of use out of them anymore. And part of the reason is because when you set up that account, it is an account that's going to be transferred to the beneficiary, the child in that case, when they're 18. So you kind of lose control at that point. So depending on how much you want to deposit in that account, that can be an issue that you're going to have to deal with down the road. So a lot of times what we'll recommend is for the parents or grandparents to keep the money in their name, especially when it's a very young child and they just want to get this account started, which is great.

Then, as I was mentioning, what I think is very important for the children is to help educate them about this process. There's a certain age where we're going to start, and that's probably sometime when they, when a person gets into, 11, 12 years old to where they're gonna really understand what's happening. But set up this account, invest the money, and then potentially go over the statements and talk about what's happening, and the deposits that are going in and the transactions, and show them how the money is compounding over time. It can help get a child excited about saving, and really seeing the results of it.

We actually had, this was really exciting, we had a client set one of these up, and his grandchild gets paid from the parents for doing some chores around the house, and doing some certain schoolwork activities, and so he had saved some money. About 50 dollars. And because his grandpa had taught him about this process and provided him the statements and educated him on it, he wanted to add that to his investment account.

He brought in the check and so we walked through the process with him, how it all was going to work, and taking this money and depositing it for him, and then showing him how it's going to work. It was cool to see that, have someone that young really excited about saving for the future.

Steve Sanduski: You know there's no other way for that to take hold in a young person's mind than to start talking about it earlier. To foster a stewardship mindset. That money is a tool, not a toy, and that if we work hard, live within our means and don't just look at this immediate gratification thing ... now you're talking to a 10 year old, right, in this example Matt? Or 11 year old?

Bill Keen: That's right.

Steve Sanduski: But still yet, thinking about that and saying, "Hey, some point down the road, if you take care of your resources now, you will have enough to be secure when you're older." Having those conversations when kids are that young, I think, makes a world of difference. And you all know my story, when I was 10 years old, I kinda felt the anxieties around a family that didn't have a whole lot of money. A lot of financial stress and strife. So my mind was thinking about those things very, very early. It's part of the reason, a good part of the reason, that I'm in this industry, that we have this firm, is to help people make those decisions and think ahead.

To your point, teaching kids to be stewards, and not just, "Me now, me now, me now," it's a tall order, but I think it's good that we talk about it a little bit today, and at least start to have those conversations.

Matt Wilson: Yeah, it's great. Get them set up on a budget, and understanding how much they can spend, and where it all goes. You know, even teaching them about taxes is important. Because that can be a shock to some kids as they get older, how that all works.

Steve Sanduski: Yeah, and at this age, in your late teens and early twenties, I think that's a great time for kids to really start understanding the value of money. And I'll give you an example. My youngest daughter is going to be a senior in college this fall. And she's been working for a number of years, and works part time, gets paid what, I don't know, 10 dollars an hour, maybe 11 dollars an hour. And when she buys a gift, she was telling me one time when she was buying a gift for her boyfriend she was equating it in terms of the number of hours she had to work in order to afford that gift. And so she had a very viceral reaction to how much I'm spending here, how much time I have to put in at work in order to afford this gift. So it was very real to her, the value of that, versus me just giving her 50 bucks or 75 dollars to go buy a gift for somebody.

So she really understood the value of that, and I think that's such an important lesson. And I think the younger we can get our kids to really equate the value of money with, perhaps, the work that's required to generate that, that that's a good lesson to learn at an early age.

Bill Keen: Steve, congratulations. You must have done something right. Well, I know, you've done a lot right. Because I know your kids are very, very solid. But equating that, I was just going to say that, equating your purchases, having that dot connect in your mind before you buy something that, hey, what did that take? How many days did that take, of work? If you're going to buy a pair of shoes for 300 dollars, how many days? Did it take an entire week? Did you work a whole week for those shoes, for real? And if that's a decision you want to make, at least it was a thoughtful decision. I love that. And these are things that you might think are just the abc's, or common sense, but especially when we're getting started, now this could go for anyone of any age. But when we're especially just getting started in instilling these things in these young people.

they're not doing it in school. They're not being told these things, or taught these things. So that's wonderful, it's a great point.

Matt Wilson: Yeah, and that's a good age, too, because we talked about the younger children, so now, as children are graduating high school, they're graduating college, they're entering the work force, we get questions about, "Well, what should my child do?" I want to help them get ready for retirement, from a client standpoint, and teach them about their 401K and the options that they have, and so what we offer for any of the clients we have is to sit down with any of their children, and of course do any planning that they need, based on where they're at in life, just as a service to our existing clients.

We do, I love doing this with recent college grads, too. Because getting that mindset up front about, "Okay I just graduated college," or "I just graduated high school, and now I'm earning a wage. And I'm most likely getting a salary or a nice hourly wage, and I have these tools available to me, and I might have some debt. I might have some student loans. So what do I do? Do I pay off the student loans first? Do I save in this 401K or this retirement plan? Do I go save for a house? What do I do?"

And so we break it down for them. There's no one size fits all answer for everybody, but we do say you should always take advantage of any company match inside a 401K, because you're just throwing away that money if you don't. So if you do have access to a 401K, get started and get started with at least the company match. And I typically recommend that someone that's just entering the workforce start with saving 15% of their paycheck into their retirement plan.

That's a big number, but what all the data shows, and we all know this, the sooner you start compounding that retirement account, or any investment account, the better off you're going to be, long term. So if you start with 15%, you will be set for retirement. And you get used to that.

Bill Keen: We have a podcast out there we did, it might have been 20 or 30 episodes ago, where we can look back to some of the compounding that happens for young people. But Matt, wouldn't you say, too, lot of these kids say, "Well, you know, we're going to be at so many different jobs," one works anywhere four years anymore, at least not that we're seeing in the new folks coming on line. But you can roll those accounts to the next 401K or to an IRA. So that's not a reason not to do it, is it?

Matt Wilson: That's right, or you know, the other excuse is, "Well, I've got these student loans, I want to pay those off first," and that's great to think that way. Now we put it in the context of, "Okay, what's the interest rate you're paying on those student loans? Compare that to what you might make in the investment account, and then also "What's the minimum dollar amount that you can pay on these student loans?" Because of course we don't want you going backwards on those. The student loans are interesting because you can defer payments and the interest just continues to compound, which can add up to a very sizeable number, long term. So if you aren't focused on that in some aspect, that can go backwards very quickly.

But we've got to put it in context of the overall plan, as to what are we trying to accomplish. We want to save for retirement and pay off any student loans, if we have them. Then in addition to that, let's come up with some of the items we want to save for. So if we do want to purchase a house, let's come up with a saving plan for that, to make that happen.

And the other thing that we really remind people of is not to compare yourself to your friends. Because you might see your friends going out buying a new car. They might be buying a house, again, you don't know specifically about their situation unless they told you. Maybe they're getting help from parents or grandparents to make that happen. But one of my teachers in college, she was an economics teacher, and what she suggested was to live like a college student for the first six months after you graduate.

Bill Keen: Okay.

Matt Wilson: And that's interesting advice, and essentially what she's saying is, just save the first six month of your salary, because while you're in college, you're probably not living on a whole lot. And you'll be that much further ahead than everybody else. It's easy to want to go out and purchase a new vehicle, to treat yourself after you've worked this hard over so many years, getting a degree, but that can be a very detrimental purchase, early on in your career.

Bill Keen: Now Matt, you're telling folks not to compare themselves to others, are you talking about the Facebook comparison, where you compare everyone's outsides, their Facebook persona, to your insides, and feel depressed all the time? Right?

Matt Wilson: Well, that's part of it, too. The emotional aspect of all these decisions we make.

Steve Sanduski: That's definitely easier said than done. And one thing I'd add to what you just said there, Matt, is thinking about the reason why you're saving, and certainly we want to be thinking about retirement. And I think oftentimes a 25 year old maybe has a difficult time thinking about retirement, which could be 50 years away. And so, one of the things that seems to be popular with a subset of the millennials is the concept of fire. Have you guys heard of that?

Matt Wilson: Oh yes.

Bill Keen: Yep.

Steve Sanduski: Yeah, so financial independence retire early. So these are people that are saving not just 15%, but sometimes upwards of 50, five zero, percent of their income. Or maybe they're a dual income household and they're just living on one income and banking the other one, and then they want to, quote, retire by the time they're age maybe 35 or 40. And by retire, that doesn't mean they just sit at the beach all day, or watch t.v., but typically they may now be investing in rental real estate or be a handy man or handy woman, or something like that. Maybe going to the geek economy or write books or something.

So it's not like they just do nothing. But I think, whether it's 15% or 20%, it should be, ideally, a big number. Because what that does is it gives you options. It gives you the ability to take a job that you want to do. Not take a job because you have to do it. Or not be bound to a job because it pays you so well, even though you hate it, but you feel trapped because you've raised your standard of living to accommodate the level of income that you have.

By saving as much as you can early, it really gives you a lot of career options, gives you a lot of lifestyle options, and there's really no downside to it.

Bill Keen: Right. And I'll tell you, that's a great point. I also think we'd be remiss at this point in the trajectory of our discussion today to not talk about the support that we provide the kids. Now, I'm saying as kids get older, we clearly have to communicate expectations about the amount of financial support that we, I say "we" because mine are still in those ranges, that we will give them. And be specific. Like, you might be willing to cover a used car. But not a new one, post-graduation. Or you might cover undergrad, but not grad school. And how long? I mean, will you help them with rent until they're 25? 35?

I think you have to have these conversations. I know some of them might feel arbitrary, but I think if you get a clear vision about the future lifestyle that your kids desire for themselves, and to have those discussions- these are kind of awkward discussions, at times, and I think by default, we want to help our kids. Really help our kids, and if they come on a hard time, we want to step in. But I don't know if that's always the best thing. I think it is a lot of the time, but I think there's also letting them have their own experience.

You know, I look back at being totally financially insecure as a young person, as a young boy. And I'm grateful for the experience today. I don't believe that I would have been where I'm at today if I hadn't had that insecurity. I'm not saying put people through that. I'm just saying in my experience, I don't want to rob my kids from having some semblance of, "Hey, I've got to go out and stake my claim."

Steve Sanduski: Bill, you're going to love this. When our oldest daughter graduated, we bought her a car. But what we did was, as part of her graduation gift, we made a down payment on the car, and then we set up an automatic bank draft. So every month for three years, there's money coming out of her bank account directly into my bank account, to pay me back as the car payments. So I ended up being, I was her banker on the car. So I paid a down payment as part of a graduation gift. But then she has to pay the balance of the car. So it's an automatic draft every month coming right into my account from hers.

And she reminds me of that, from time to time.

Bill Keen: I think the key is establishing clear financial boundaries and limiting the safety net.

Steve Sanduski: Absolutely.

Bill Keen: I really do.

Matt Wilson: Yeah.

Bill Keen: And but, before emotions run high, as well. Like an unlimited financial safety net can truly stifle a child's ability to build character and self-confidence. I believe there's not question about that. Now, your emotional support can be limitless. But the financial support should not.

Matt Wilson: I was just going to say, too, I'm glad she didn't change the bank account on you, Steve.

Steve Sanduski: She hasn't done that yet.

Bill Keen: He didn't have very tight documentation on this, he was trusting, weren't you, Steve?

Steve Sanduski: I don't have a, I didn't create a loan document with her. So it's all on good faith. But I did set up the automatic account. So it comes in every month.

Matt Wilson: Hopefully had a reasonable rate, too.

Steve Sanduski: I don't think I'm charging her interest. Or it may have been 2%, now that I think about it.

Matt Wilson: Okay.

Steve Sanduski: It wasn't much, if it was.

Bill Keen: Now, I say that, and I've got everybody on my cell phone bill. So I've got like seven phones that I'm working with now, I don't know when we'll ever get those off. But I will get those off-

Steve Sanduski: Well, here's what we did, Bill-

Bill Keen: ... kids graduate, at least. Not my mother. My mother's exempt. She forever. The kids, no. They will come off at some point.

Steve Sanduski: Here's what we did with that, Bill. I don't know if this a good strategy, but it seems to work for us, so far, is this cell phone bill is basically the last part of the umbilical cord. And so, our plan right now is, you can stay on mom and dad's plan until you get married. And so when our oldest daughter got married, we finally kicked her off of the cell phone plan. So her and her husband, actually, I think are on her husband's parents' plan now.

Bill Keen: Oh, well done, I guess.

Steve Sanduski: But our other two kids who are not married, are still on mom and dad's plan. So that's kinda what we said to them. "Once you get married, you go off the cell phone plan."

Matt Wilson: It was interesting, too, how you said awkward conversations around making clear what your intentions are and how long you're going to support your children. Well, when I graduated from college, because I never even thought of it, but my dad told everybody at my college graduation ceremony and then get together that we had afterward, that I'm off the payroll now. So that was the conversation that I had, I guess, that my parents gave me, telling me they weren't going to support me anymore.

Bill Keen: Oh. Well. Very nice. You came on to the Keen Wealth payroll at that point.

Matt Wilson: That's right.

Bill Keen: And you definitely earned your keep.

Steve Sanduski: And I've used that language as well, with my kids, "off the payroll."

Bill Keen: Yes.

Steve Sanduski: I try to say it in a fun way, but they understand that we're not an unlimited pipeline to money.

Bill Keen: Speaking of cell phones, you two, I just want to bring this to our listeners here. You know how the new iphones have facial recognition on them? Instead of putting in your password, they have facial recognition, so you just hold it up to your face and it lets you in. Well, Steve, I was sitting out back with Devon, who was home from Rolla here this week, and he was messing with my phone, and he puts it up to his face, and it allowed him into my phone.

So now, I can't deny that he's my son. We do look alike, but I need to have a talk with Apple about this.

Steve Sanduski: Yeah, wow. That's not supposed to happen.

Matt Wilson: Yeah.

Bill Keen: Isn't that interesting? Now, luckily I trust him, he's a good kid. But just beware, on the cell phone issue.

Steve Sanduski: I'm not doing that with my cell phone. I'm using the fingerprints. So I unlock my phone with my fingerprint.

Matt Wilson: Aah.

Bill Keen: Okay. Okay.

Matt Wilson: Now is Devon upset that it actually worked, because now he looks like you?

Steve Sanduski: Right. I kind of feel bad for him. He looks like an old man, now. He's a good-looking kid. Or maybe I feel the opposite.

Matt Wilson: Yeah, it works both ways.

Steve Sanduski: Right, alright Matt. We're holding you up from moving through your outline there.

Matt Wilson: Well, so the, we talk about kids graduating college, and just getting started in the workforce, but we have many clients that are in their 70s and 80s, and their children now are almost at retirement age. And the conversations that we have with those children, one, definitely around retirement planning for them. But then more so about the parents and their money. And this is more and more common as folks are aging, is to have a discussion around estate planning.

And that conversation doesn't have to take into consideration dollar amounts. It can be more about specific concepts. And you're really talking about what's going to happen when they pass on. And where to find the documents, for one. So they do set up an estate plan, maybe they have a safety deposit box at the bank. Where's a listing of different insurance policies, investment accounts, and now digital assets. What's the passwords to some of your online account?

That can be an evolving list, just how much your passwords need to change over time. And what happens with different investments and types of accounts as things become more digital. But making sure that they have access to that. But then, on top of everything else, it's, Okay, when they pass away, what happens? Who's the executor? And what does that mean? To be the executor? How does the trust work? How do the IRAs work? Just because things get passed on to the next generation, there may not be any estate tax, but there could be income tax, based on certain decisions.

We have a lot of conversations around that now, and as I mentioned, some will involve the dollar amounts, because parents are old enough, and the children are old enough, they all understand. Others, maybe not so much, they just want to get the basic concepts laid out so that people know who to contact and everyone's on the same page.

Bill Keen: In some case, we have clients who have multiple children, and they're all doing well, they're all healthy and happy and productive, and we sit down in those estate planning meetings with the family and we talk about how and why they chose the one child, let's say, that's local, to be the executor, or the trustee, if there's a trust, not to be offensive to the ones they didn't choose, just to make things more simple to operate if and when that time comes.

And a will, or a trust, probably better to make things more specific. Things still get executed and split up correctly, it's just that they don't have to have five kids all sign, agree and sign, every single document that happens, once that is in play. So a lot of those meeting around that are super important. And when we're having those meetings, it reminds the kids now that we're talking about that are in their 40s and 50s, to set their own estate plan up as well. So I think it's great for both generations there.

Steve Sanduski: Yeah, this is something I don't think I've done a good job with, in my family, in that we certainly have our estate documents, that stuff's all set up just fine. But in terms of, as mom and dad talking to the kids about our financial situation, and we live in a fairly wealthy neighborhood, and so the kids have been surrounded by people, oftentimes, that have a fair amount of money. And I've never done a good job of kinda positioning where we are and how they need to be thinking about money and not worrying about money, or worrying about money.

And so I think this is such an important conversation for parents to really think about, how do you want to talk to your kids about your money? And if you happen to be fortunate enough to have a fair amount of wealth, how do you want to have that conversation? How much do you want to share? And I know, Matt and Bill, you guys were just talking about that. But, I think this is a real area that people really need to be thinking about, how far do we want to go? How do we have those conversations?

And let me just ask you two guys, how do you advise your clients to have those kinds of conversations with their kids?

Matt Wilson: We'll use ourselves, as, have them come talk with us, if your not comfortable, or at least if you feel that maybe they're not going to listen to you, if you're trying to give them advice on what to do as they enter the workforce, or even as you get older and you have the older children and you're talking about estate planning. Yeah, we'll bring up that topic, too. And just suggest that we're willing to have a meeting, and have it at our office, and we'll coordinate everything, so it just makes that conversation much more comfortable for everybody involved. Because it can be a difficult conversation.

We do get feedback from clients that are trying to have that conversation with their parents. They might have parents that are in their late 80s, early 90s, and they don't necessarily know. And they've tried to get information from them, and it's just hard to have. The more we can, at least, facilitate that, the better.

Bill Keen: That's right, and I would add to that, every situation is different. Every child is different. So if you're at a point in life where all of your kids are out, they've staked their claim, they're doing well, they're successful, you can make a judgment, an evaluation, case by case, on who can know what information. But I have seen other cases where, when kids understand early on, that they might not have to work, to fend for themselves, it truly could stifle them.

I was reading a book recently called, "Choking on the Silver Spoon." And it's pretty devastating, some of the things that can happen to kids that grow up in environments that don't believe that they have to go out and live in the world, like most of the rest of the world. So, Steve, I know that you probably get tired of hearing us say, "Well, everyone's situation's different, we have to look at this case by case," but in this situation, it is very, very pertinent that we have to look at things case by case and make decisions with our clients about who gets to know what, and when.

Steve Sanduski: Well, and we've seen examples. You mentioned, Bill, that there are lots of stories out there of really wealthy families that have kinda screwed up their kids. And I think we also have another example of an extremely wealthy family, that, from what I can tell, has done a pretty good job of putting money into perspective, and they're in the news as we're talking about this today, which is the Rockefeller family. And the last surviving grandson of John D. Rockefeller, of the oil fortune fame, passed away in 2017. And his art auction, he and his wife, their art, she had passed away a few years earlier, their art collection went up for auction. And it recently was all auctioned off and I think the total value was somewhere in the six hundred million dollar range, for their private art collection

And 100% of those proceeds are going to charity. And one of the articles I was reading talked a little bit about how the parents set up the kids and grandkids and whatnot. But anyway, the bottom line was, they really instilled a work ethic in their children. Even though they had hundreds of millions of dollars, or may have been a billionaire. Their kids knew that, we have to work. And we're not going to be able to live a life of leisure.

Now, I'm sure they got a headstart in things, but they're not slackers. And so there are ways to have those conversations and it's not easy. That's why it's really helpful to talk to professionals like you guys there at Keen Wealth, who do these types of conversations on a regular basis and can help keep things in perspective.

Bill Keen: I love that we're not just black and white here. Yes, we talk about choking on the silver spoon, and that concept, but that doesn't mean that every person that's born into a family that has some wealth is going to have a bad life and that they're not going to be productive. So please don't hear that message. There's a lot of really, really fascinating, wonderful people that are in that situation. It wasn't my journey. So, I relate to my journey more. But to your point Steve, there's a lot of really solid folks that have that journey, and they live it well, as well.

Steve Sanduski: Alright guys, well, anything else here that you want to say as we wrap up?

Bill Keen: We've talked about a lot of different ages and conversations and strategies, I would just say the theme of our talk today is, "Have these conversations." It's about communication and if we're talking to our kids, I think the thing to say, whether they're 10 or 30 or 40, is "What do you think are the most important things to our family? And why do you think those are important?" And share back and forth your opinions and your thoughts. What do you dream about doing or being in your life? I think that's a great question to ask a young person. And then how do we define success in life, and success in work? And success in money? What are we afraid of or worried about in life or work or money? And then what subjects or activities or hobbies make you feel most alive? And most joyful, and most happy?

Not being afraid to talk about the things. Yeah, it's going to be a difficult path. There's going to be tough times. But framing it that way, and having some of these conversations with the ones you care about the most can be very empowering and pay off in the long run, for sure.

Steve Sanduski: Excellent. Well, I think that's a great way to wrap up here, Bill. And always, you can go to keenonretirement.com, that's K-E-E-N- onretirement.com, for the show notes and you can access the episode there, as well as all the previous ones, so guys, thank you, as always, for another great show, and continuing to educate all the folks out there, all the listeners, on some of these important topics related to money.

Bill Keen: Thank you, Steve.

Matt Wilson: Thanks, Steve.