CALAMOS®
WEALTH
MANAGEMENT

FAMILY MATTERS

Insights on key topics—
through a multi-generational lens.

TOPIC:

MONEY & WEALTH CONVERSATIONS

Wealth management considerations for:

PARENTS & YOUNG CHILDREN | PARENTS & ADULT CHILDREN

What to say and when to say it.

Talking about money and wealth is often difficult—and can be especially awkward across generational lines. This edition of *Family Matters* gathers input from Calamos Wealth Management experts on how to teach young children positive attitudes about money and how to prepare older children and young adults for stewardship of family wealth.

We created the *Family Matters* insight series to spark ideas and spur conversation among family members on a wide range of important financial topics. They're purposely written as a primer for more in-depth discussions with your Calamos Wealth Management advisor on how the matters presented will apply to you and your family's unique situation. We hope you find that the multi-generational lens by which topics are presented promotes pass-along readership to multiple family members. Your Calamos Wealth Management advisor is available to all members of your family to provide guidance on matters you care about most.

PARENTS AND YOUNG CHILDREN

Hector de Cárdenas is transforming the roofing business his father built into a major solar player in Southeast Florida.

Like his father before him, Hector has always heeded his grandmother's warnings never to talk about money—because to do so is impolite.

But now, with children of his own, Hector is questioning that advice. He didn't grow up learning much about personal finances. He cringes when reflecting on choices he made—and loved ones he may have disappointed—as a carefree and frivolous youth, prior to joining his father in the family business.

Hector wants his children to learn how to think about money.

The benefits of early immersion

The vocabulary of money and wealth, like any foreign language, is most easily acquired at an early age. But, thanks in large part to technology, today's children are anything but immersed. "It's a real challenge," says Richard Gotterer, Senior Wealth Advisor with Calamos Wealth Management in Miami, whose clients include many affluent families. "When we grew up, parents mostly paid with cash, not credit cards or Apple Pay, where kids don't actually see money changing hands." On top of that, children's participation in the workforce—and the regular paycheck—can be limited due to competition and time commitments.

The obstacles are tough. Gotterer says affluent parents who do the best job in promoting financial literacy in their children must consciously work hard at it—actively looking for every opportunity to teach.

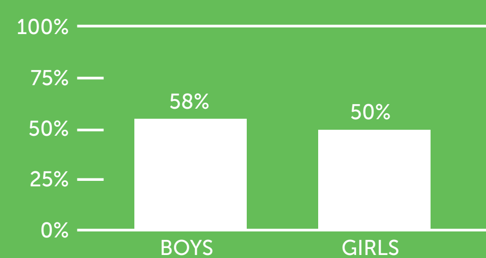
One teachable moment: whenever a child receives money. For example, a check from their grandparents or a pocket full of tips after serving as a counselor-in-training at the town camp over the summer. He suggests encouraging kids who come into some cash to engage in a rough budgeting exercise in which they allocate their windfall across three buckets:

Mind the gender gap

Parents of young girls should be especially diligent about teaching financial literacy to their daughters. A report in Business Insider noted that parents are measurably more likely to discuss personal finances with boys than with girls.

It's not surprising, then, that more boys (45%) than girls (38%) believe they are "extremely smart" about money. The discrepancy is also evidenced by the number of boys who carry a credit card (12%), versus 6% for girls.

"My parents have occassionally discussed setting financial goals"



Source: Business Insider 2014

Obviously, children of both genders need to be ready to manage money in adulthood. In society as a whole, women increasingly control wealth decisions. In addition to their own earnings and their influence on their families' outlays, women are predicted to inherit 70% of wealth passed down over the next two generations, according to the Boston College Center on Wealth and Philanthropy.

The SPEND Bucket contains a portion they can spend freely on whatever they want; say, treating a friend to a movie or a new fidget spinner. "You can't be completely heavy handed, or it won't work," Gotterer says.

The SAVE Bucket stores funds for a major purchase such as an upgraded phone, a class trip or a down-payment on a car. Even if you agree that the child's share will be only a small percentage of the total, this can be an excellent tool for teaching financial goal-setting and discipline.

The PREPARE Bucket contains reserves for a long-term/emergency fund to cover unexpected costs that come up. Obviously, most parents don't expect their kids to cover the cost of a true emergency like, say, a ruptured appendix or a totaled car. What Gotterer has in mind are "teen-aged emergencies" like a cracked iPhone screen or a trip to the body shop after their fender got scraped by a recklessly driven mailbox.

Gotterer says he understands that it can be difficult saying "no" to children or making them use their own money for expenditures. This is especially true for more affluent parents who can afford to be more generous. In particular, he has noticed that parents who had less when they grew up often overcompensate and attempt to completely shelter their children from financial burden. However, being smart with money is a valuable lesson best learned early, regardless of present and future circumstances. These skills prepare a child for whatever life will bring their way.

The perils and promise of plastic

As kids get older, Gotterer recommends getting them a credit card the minute they qualify and are ready for one. This may seem counterintuitive—as already discussed, many children's exposure to the cash economy is limited—so, how can they handle credit? But Gotterer suggests that with proper guidance from parents, a credit card—paid off in full every month—can help teach financial discipline. Also, establishing a positive credit history can serve them well down the road.

Most often, parents add a card for a child to their existing account. But, that can defeat the purpose: How will they establish a credit history if the account is in your name? How will they come to appreciate the value of a dollar if they never see a statement of their expenses or if their purchases are commingled on the statement with their parents' expenses.

Instead, Gotterer suggests setting up a separate account (with a modest spending limit) in the child's name and making sure he or she pays it off every month.

The market as classroom

Legendary stock picker Peter Lynch has distanced himself from the "invest in what you know" advice that is often attributed to him because it glosses over the important role of rigorous fundamental analysis. "I've never said, 'If you go to a mall, see a Starbucks and say it's good coffee, you should...buy the stock,'" he told *MarketWatch* in 2014.

But, while "invest in what you know" may not be the best strategy for beating the market, Gotterer says it can be a great way to get kids interested in saving and investing: "Talk to them about companies they know—Nike or Apple or Starbucks—and check them out together. Then buy a few shares and let them monitor it." Additionally, there are mutual fund products available that are geared toward the young investor and often come with educational material.

One of the most difficult parts of being a good parent is letting children take risks and letting them fail. That applies to investing too. After all, the worst that can happen when you let kids manage a small portfolio of their own is that they discover that markets can go down, as well as up. And that's a lesson every investor should learn.

PARENTS AND ADULT CHILDREN

After his father died, Hector wished his parents had been more open to talking about money with him into his adulthood. It took Hector months to help his mother sort everything out. And even then, Hector felt troubled not knowing if his father had desires for his legacy that would go unfulfilled.

If the roofing and solar business keeps booming, there's the potential for substantial inheritances for Hector's three children as they become adults. Hector wants them to be prepared—with a clear understanding of the legacy of sweat and sunburn represented by that wealth.

And, more than anything, he wants to avoid his family getting torn apart someday by a hurricane of misunderstandings.

Know where key documents are:

» Social Security numbers

» Birth Certificates

» Marriage Certificates

» Company benefits
- Pensions
- Health Care

» Life Insurance policies

» Tax Returns

» Military discharge

Also, for a convenient form to record a complete inventory of vital key contacts and account information — ask your Advisor for a free copy of Calamos Wealth Management's Key Family Contact Information inventory (also available as a "fillable" PDF file).

Putting off no longer

If there is one thing people dislike talking about more than money, it's death: their own or that of the people they care most about. But putting off difficult conversations with adult children—from pragmatic guidance ("The will and deeds to our burial plots are in the safe deposit box and the keys to that are, naturally, in the coffee can in the usual spot in the kitchen") to complicated explanations for why one sibling will receive more than the others—can lead to stress, confusion and even acrimony when the time comes.

Whether it's a group conversation over breakfast the morning after a holiday get-together, one-on-one talks with kids or a letter to the family or iPad video to be viewed posthumously, Gotterer says the key is to provide practical information to guide children through a difficult period and context for the decisions reflected more formally in a will. "If you ask parents what they want more than anything when they are gone," he says, "they'll usually tell you, 'I want my kids to remain close.' But too often, by not communicating when they are alive, parents may be inadvertently creating circumstances that leave children feeling uneasy and uncomfortable due to lack of understanding about parents' final wishes."

Inventory important documents

Gotterer has put together a checklist of documents he recommends parents let their kids know how to access (see sidebar above).

As part of any document review, ensure that assets are titled correctly and beneficiaries are entered accurately. For why this is so important, see Calamos Wealth Management's article, *"Avoid Estate Plan Blunders: Pitfalls in Titling Assets and Beneficiary Designations."* Mistakes and sub-optimal choices can be costly in time and expenses to you or your estate. Even worse, oversights could lead to outcomes inconsistent with your wishes and affect family dynamics for years to come.

Communicate values

"Adult children need to understand the concept of money versus wealth," says Tom Kukulski, Senior Wealth Advisor with Calamos Wealth Management's Midwest team. "I always say money is having a Porsche, whereas wealth is having freedom."

Like Gotterer, Kukulski notes how difficult conversations about wealth can be: "In a family dialogue, money is a hard topic to approach. Why? Because it's emotional. It can raise emotions higher than conversations around sports team rivalries and politics."

Because wealth involves emotions and values, the conversation should take preparation. Building wealth is demanding—and so is stewarding it. In an ideal circumstance, adult children will be prepared to handle family wealth, with a positive outlook and attitude established from early childhood. But too often, the daunting task of managing wealth is hard for them for one, preventable reason: lack of communication.

"It's easy for families to think the need for conversation about wealth doesn't apply to them," says Kukulski. "People with $2 million often don't realize that figure might grow to $10 million by the time their assets are distributed."

"And even those with $10 million believe family meetings are really only for billionaires," says Kukulski.

Whatever the asset level, the most important aspects of communicating about wealth start with values rather than dollars.

Kukulski says, "Most successful people who have spent a lifetime building or safeguarding wealth are less interested in who gets what, than they are in imparting their values and vision for that wealth to their heirs."

Children need to know the reason for an inheritance—the purpose of the wealth, and the reasons for the structures used in the transfer.

Spouses need to be aligned on those reasons. Just as spouses may need to reconcile different levels of risk tolerance about investment strategies, they may also need to reconcile views on how wealth flows to their children.

And that "how" is certainly important—for tax optimization, efficiency, creditor protection, and more. (For more on estate and trusts planning, see a variety of articles posted in the Wealth Strategies Insights section of the Calamos Wealth Management website at www.calamos.com/wm.)

Avoid the path of least resistance

In Kukulski's experience, the path of least resistance is to say to oneself, "Oh, well, we'll address that next year." The result is one of two things:

- No conversation at all
- Limited conversation, perhaps including some rough numbers—but with no context

That context is important, because it helps avoid frustration and disappointment.

For example, Kukulski relates the experience of an inheritor receiving funds in the form of a trust—and thinking the reason that it was done in that manner was because his father didn't believe him responsible to handle the assets. The real reason, however, was the father's desire to protect the assets from potential lawsuits that might arise as part of the adult child's career as a physician.

Kukulski says, "It's common for adult children to respond with 'Mom and Dad don't trust me' when really what's happening is well-thought-out estate planning designed to protect the children — not from themselves but from others."

For parents at the beginning of the process of bringing adult children up to speed on these topics, one relatively easy way to “tip your hand”—as Kukulski says—“without giving too much away,” is let adult children know there’s a team in place to manage wealth: “Let them know who these people are and that you’d like your children to meet them, ‘just in case.’”

Holding a family meeting

Once parents are clear on their priorities and have in place mechanisms to carry them out, it’s often helpful to hold a family meeting to share aspects of those plans with adult children.

In many cases, it can be constructive to include professional advisors in family meetings. In addition to the obvious benefits—such professionals bring their experience and expertise, not to mention familiarity with the details of a benefactor’s estate plan. An advisor’s participation can also go a long way toward allaying sibling jealousies and suspicions that can arise, especially when one child has been closer to the parents and would otherwise appear to be “running the show.”

An advisor can help set the stage to deal with the inherent awkwardness of such conversations, which in many cases are the children’s first sense for the size of the family’s wealth. Many successful people are quite restrained in their spending, to the point that kids don’t have any idea the estate may hold millions.

These meetings provide an opportunity, too, for adult children to express their wishes and preferences. “We focus on the parents first—it’s their money, after all,” says Kukulski. “But sometimes important points come up from the children’s perspectives. For example, some would-be inheritors share that they’d actually prefer not to receive anything. That can lead to tough situations and hurt feelings—but ones that can often be addressed in other ways, sometimes through direct contributions to grandchildren’s 529 or UGMA accounts, for example.”

These conversations aren’t easy. Asking kids what they want—and inviting them to understand and embrace key values—requires everyone to get over a psychological hurdle. “The advisor can help facilitate,” says Kukulski. “Whereas some attorneys may approach meetings with more of a cut-and-dried sharing of the structures and amounts in place, the wealth advisor’s role—as always—is more holistic.”

Kukulski says, “What I hear from matriarchs and patriarchs is this: ‘I don’t want to have this conversation, but I know I should. Will you help me with it?’ That’s a question I’m always glad to hear, because it’s the first step toward ensuring a family’s legacy. And, of course, the answer is . . . yes!”

SECTION SUMMARY

1 Key Questions for Parents Teaching Young Children about Finances

- ☑ Are teachable moments yielding lessons on saving, budgeting and spending?
- ☑ Is the time right to support a child learning through having his or her own credit card?
- ☑ Is the child able to learn by taking risk and sometimes failing?

2 Key Questions for Parents Communicating with Adult Children

- ☑ Do adult children understand parents' wishes for themselves and their legacies?
- ☑ Are asset titling and beneficiary designations correct and consistent with parents' desires?
- ☑ Are all important documents identified and accessible? Have adult children met or otherwise become familiar with the parents' wealth advisor?

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Calamos Wealth Management | 2020 Calamos Court | Naperville, IL 60563 | 888.857.7604 | www.calamos.com/wm | cwm@calamos.com
 800525 0218O CWM