

A Guide to Important Money
Lessons to Teach your Children
and Grandchildren



SUCCESSION
WEALTH

Welcome to Succession Wealth

Our Wealth Planners are here to help you take control of your finances and provide you with the confidence you need to go after the things that matter to you.

Succession Wealth Management Limited is a large national UK financial advice firm. Our teams of Wealth Planners deliver high quality independent advice to thousands of clients across the UK, and we're committed to helping people achieve more with their money.

Our clients are at the heart of everything we do and looking after their wealth journey is a privilege to us. The relationships we build last longer than a lifetime, and we are proud to provide advice across generations.

When you choose to work with us, we promise to provide an exceptional personal service tailored to your unique financial aspirations.

If you would like to discuss ways we can help you and your family prepare for the transition of wealth between generations, or would like us to meet with you and younger family members, feel free to email us at hello@successionwealth.co.uk or call us on 0800 051 4659 and we will arrange for someone to contact you.

The importance of money lessons

Over the next 30 years, £5.5 trillion of wealth is set to transfer between generations. As baby boomers pass assets to their children and grandchildren, the global value of wealth set to change hands is vast, with most of it expected to be transferred through inheritance or gifts.

Barclays estimate that £327 billion is expected to transfer from parents and grandparents to around 300,000 younger people in the UK, over the next decade alone.¹

Dubbed “the great wealth transfer”, this mass migration of assets means that it’s more important than ever that younger generations are prepared.

Financial education starts with the family. According to the Young Persons’ Money Index, published by The London Institute of Banking & Finance, parents and other family members are the primary source of young people’s financial knowledge.²

The lack of financial education given in schools means it’s up to parents and grandparents to help inform and educate young people about ways to look after their money and protect their financial wellbeing.

Whether you’re considering gifting money to help your children or grandchildren while you’re still alive, or you intend to leave them money in your will, practical money conversations are crucial.

Helping the next generation gain financial literacy can give them a sound start in life. Understanding how to look after their finances can help them:

- Form healthy money habits
- Be prepared to deal with costs when faced with unexpected events
- Benefit from greater opportunities as they progress through life
- Attain long-term financial security.

Spending time teaching the young people you love about money and finances is an investment worth making. In fact, according to findings from CBI Economics, financial literacy has been shown to raise early-career earnings prospects by up to 28%.³

Teaching children, teens, and young adults basic financial skills can help them plan for the future, allowing greater opportunities throughout life. Financial knowledge can mean they are more likely to remain financially secure, enabling them to be well-positioned at every life stage from leaving home, to buying their first property, and starting a family of their own.

Talking about money isn’t always the easiest or most exciting topic of conversation. So, this guide has been created to provide a practical and accessible overview of money lessons that may be useful to share with your children and grandchildren to help them become more financially savvy.

Having a trusted financial planner to help establish and implement a sound financial plan based on your beneficiaries’ circumstances and goals, ahead of time, could provide peace of mind for everyone concerned.



[1] Are you ready for ‘The Great Wealth Transfer’? Barclays

[2] Young Persons’ Money Index 2022/23 The London Institute of Banking & Finance (LIBF)

[3] Levelling-Up – A report by the All-Party Parliamentary Group for Challenger Banks and Building Societies

Set a realistic budget

Budgeting well is the foundation for managing money responsibly.

Knowing how to budget is an important life skill and is the first financial lesson that can help young people start to manage their finances.

Being able to set out essential costs in relation to income can help young adults gain a better understanding of their finances and encourage them to start thinking about medium- and long-term financial goals.

Gaining confidence in balancing incomings and outgoings early in life can also help ensure that they live within their means.

An essential part of budgeting is understanding the difference between "wants" and "needs".

Once they understand how to budget for financial commitments, they can make sure that they meet their needs, before buying life's "nice to haves".

50/30/20 method

One common way to budget is to use the 50/30/20 method:

- 50% of their income is spent on needs: housing costs, household bills, food, transport to work/school/university
- 30% of their income is spent on wants: meals out, shopping, trips, subscriptions
- 20% of their income is spent on saving or debt – paying off debt beyond minimum payments or saving.

Make sure they have a rainy day fund

One crucial aspect of maintaining a sound budget is having a safety net to fall back on in case something unexpected strikes.

A rainy day fund, sometimes called an "emergency fund", can provide some reassuring financial security when life throws a curveball.

It's generally advised that you should keep enough money to cover three to six months' worth of normal expenses in an easy access savings account.

If your children don't already have a rainy day fund, it's important to encourage them to start building one.

To begin, suggest they start making regular payments to a separate savings account. This may help make building a rainy day fund more manageable.

Rainy day fund

Having a rainy day fund will mean that there is money available so they can say "yes" to that once-in-a-lifetime opportunity to go to a music festival with friends or fix their car when away at university.

Understand the need for short-term and long-term saving

Teaching your children and grandchildren how to save money is one of the best lessons you can share.

Saving money isn't always easy, so adopting a good savings habit early in life can help them carry the rewarding habit forward through life.

While having a rainy day fund gives peace of mind, having extra savings in the bank can help pay for holidays and trips with friends, a first car, and, eventually, a place of their own.

Understanding how to save money and delay gratification can also help kids feel in control of their money, as they strive to reach their financial goals.

A strong saving habit can also provide more opportunities in adulthood. For example, if they have an entrepreneurial spirit, they can use their savings to start a business or invest in a new venture.

Saving for the long term

Cash savings are often viewed as a safe way to hold money, but this doesn't account for the detrimental effect of inflation. Even with interest rates rising, over the long term it's likely the value of cash assets will slowly lose value in real terms – reducing the spending power of your child's money.

With this in mind, any excess cash that your children are holding, beyond their rainy day fund or money that they expect to need within the next five years, may be worth investing.

Investing money that's earmarked for long-term or distant goals could allow more potential for growth.

Teaching your children and grandchildren about when investing is appropriate can help them grow their wealth in the long term.

Once they have built up an emergency fund and start thinking about long-term saving goals, it may be time for them to look at investing as a way to beat inflation and benefit from decades of compound growth.

Support their savings goals with financial incentives

Saving to buy a big-ticket item is hard at any age. So, showing your support through financial incentives may help your kids reach their goals and keep their motivation high.

If your child or grandchild has set themselves a goal to buy a £500 laptop, why not offer to match what they have saved when they reach certain milestones? For example, offer an extra £10 for every £50 they've saved or reward them with a greater sum when they reach the halfway mark.

Stay on the right side of compounding

It's said that Albert Einstein called compound interest "the eighth wonder of the world".

While compounding can help grow savings, it can also result in debt mushrooming.

With good and bad outcomes equally possible, it's essential to make sure your children and grandchildren understand compounding.

Helping your children understand how compounding can work for and against them could help them make better decisions throughout their lives.

Time is key to making the most of compounding. Investing early means you have the longest possible time for compounding to work its magic and grow your wealth.

As such, the earlier your children start saving, the better, and this includes pension savings – it's never too early to make a start on saving for your future.

Once your child or grandchild has started saving, sticking to the habit, and saving consistently could, over the long term, help put them in a stronger financial position.

Research from Standard Life has shown that saving early can make a significant difference to the amount of money it's possible to accumulate over a lifetime.

Thanks to the positive effects of compounding, over the long term, saving even a small amount of money could make a substantial difference. Helping your children and grandchildren understand this early in life could pay dividends.

Compounding can conspire against borrowers

While compounding is one of the most beneficial aspects of long-term saving, it can prove very bad news for borrowers. This is because, if you're borrowing, you end up paying interest on top of interest that has already been charged on your loan.

As a result, the effects of compounding can be financially devastating if you end up on the wrong side of it – with spiralling credit card debt, for example. Over time, the interest payments and the debt grow larger and larger.

Ultimately, the quicker young adults are able to repay any debts, the less interest they'll have to pay.

Bad debt is bad news

In today's material world, it can be easy for young people to think that having debt is no big deal. But being on the wrong side of compounding can have serious consequences.

If debt spirals out of control, it's not something to be taken lightly. Lenders will want to be paid and left ignored, they will start hounding to collect what's owed.

Not paying their debts could ruin their credit history, making it very difficult to climb out of a financial hole and far trickier to get a foot on the housing ladder, too.

Compounding, explained

Put some cash in a savings account and you'll earn interest. The following year, you'll earn interest on your original savings, plus interest on the interest you earned in year one. In the third year, you'll earn interest on your original savings, plus interest on the interest earned in the first two years.

While the difference is small to begin with, it grows over time so that year after year, your interest payments get larger.

Think of a snowball rolling down hill – as it rolls it picks up more snow and grows bigger. Likewise, your interest payments get bigger and bigger, and your bank balance grows faster and faster.



Think about financial goals

Having financial goals can help a younger person stick to their savings or investment plan.

These may be short-term goals like saving for a holiday or buying their first car. Alternatively, they may be long-term goals like saving for a deposit to buy their first home, investing for a comfortable retirement, or ensuring they have financial security before starting a family of their own.

Whatever financial goals your children or grandchildren aspire to, setting them out and being definitive about them can help crystallise their aims.

This can help make it easier to visualise, even when a goal might be far in the future, understanding and committing to a goal, or goals, can help provide much-needed focus and motivation.

As with anything in life, having a firm idea of a goal can help set you off in the right direction. As such, these goals, and the anticipated time frame, will indicate the most appropriate way to save or invest to meet the objective.

Setting specific goals can also help your child or grandchild be more mindful about how they spend their money.

For example, if you don't have a financial goal, it's no big deal if you buy a deli lunch and coffee every day. But when you stop and think about how much that is actually costing, you begin to realise how you could make better use of that money.

Over time, they will start to see how their decisions add up and make a difference to their overall financial health.

Your children and grandchildren's goals are likely to be quite different to yours, and may centre around:

- Pursuing adventures with world travel
- Entering higher education
- Buying their first home, or moving out of the family home
- Being financially independent.

Understanding their financial goals

Having a good understanding of their financial goals may help young people be better prepared to manage an inheritance.

Without some forethought, receiving a windfall of cash may be less easy to handle in a healthy, balanced, and considered way.

Plan to manage an inheritance

Ideally, this lesson should begin with an open conversation about the future and the amount of money that your children or grandchildren might expect to inherit.

Additionally, future-focused conversations about the ways they might use their inheritance to improve their life or help support future generations now could go a long way to reassure you – and them – that they won't fritter it away.

Set realistic expectations early

Keeping your beneficiaries in the dark about your estate plan could lead to unrealistic expectations. Worse still, it could cause family arguments and fractured relationships down the line.

MoneyAge reports that many people tend to vastly overestimate the inheritance they are due to receive. Young people, aged 18 to 34 tend to hold the highest expectations, expecting an average of £151,000 in inheritance.⁴

Whatever the amount involved, the money lessons you've read about in this guide should help ensure that your children and grandchildren are better prepared to handle their future inheritance with care.

However, if you're concerned about the possibility of your children or grandchildren inheriting a substantial amount of wealth at an inappropriately young age, there are alternative ways to manage how you pass your wealth down the generations.

You could, for example, make regular financial gifts or consider using trusts.

A trust, or series of trusts, could allow you to manage how and when younger generations receive their inheritance. This could give you the ability to set milestones over a specific period, granting younger children a limited amount of control over their inheritance on a phased or gradual basis.

If this feels more appropriate than having a large lump sum land in their lap all at once, and you'd like to discuss using trust or making gifts, please get in touch.



Preparation is key for everyone

Preparing your children for financial responsibility is in everyone's interest.

Open conversations now can help you gain the valuable peace of mind that comes from knowing they are well-prepared for any challenges and potential life changes they will face.

Meanwhile, knowing what's likely to come their way could help your children and grandchildren feel more comfortable and emotionally prepared when the inevitable happens.

[4] UK adults hugely overestimating on inheritance money – MoneyAge

Prepare your family for financial success

Financial education can help ensure that your children and grandchildren will be better placed to navigate their finances with confidence. The lessons included in this guide are just some of the fundamental financial skills needed to enable young people to make informed decisions about managing their money.

Instilling good financial literacy lays a foundation to help build strong money habits from a young age to ensure future financial wellbeing.

While it may not always be easy, chatting openly and honestly about money and how to best manage it, both in the present and in the future, could provide reassurance for the whole family.

If you would like to do more to enable the young adults in your family build a healthy relationship with money ahead of an inheritance, expanding conversations with your young beneficiaries to include a Wealth Planner could help.

Input from a professional adviser can bring clarity and peace of mind by ensuring the discussion remains constructive, productive, and proactive.

A Wealth Planner will make recommendations and create a long-term plan based on your family's current circumstances and aspirations. Such practical advice could provide reassurance for everyone concerned.

A financial plan tailored to your children's life and ambitions can also help them to consider their long-term goals and provide invaluable peace of mind that they are on track to achieve their aims.

Financial knowledge

Financial knowledge can help young people think harder about the way they choose to spend their money. It can help focus their minds on their long-term goals while actively enjoying life in the here and now.

Having a handle on their finances from a young age can mean your kids develop a healthy relationship with money, improving their financial wellbeing throughout adulthood.



Contact us

If you would like to know more about how to best prepare your family for a smooth transition of wealth through the generations, please get in touch.

Email us at hello@successionwealth.co.uk or call us on 0800 051 4659 and we will arrange for someone to contact you.



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