

CIBC FAMILY OFFICE

# HOW CAN WE MITIGATE THE DOWNSIDE OF ENTITLEMENT?

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Susan guides ultra-high-net worth individuals, business owners and family enterprises through their unique opportunities and challenges. Susan works with your trusted advisors to provide guidance and ensure alignment on all fronts in the areas of wealth, tax and estate planning, philanthropy, family governance and business succession planning.

With over 30 years' experience in private wealth management, commercial banking, investment banking and public accounting, Susan is a trusted and skilled professional.

Susan holds an Honours Bachelor of Commerce in Finance and the Family Enterprise Advisor (FEA) designation. She is also a member of the Chartered Professional Accountants of Ontario since 1992.

## Executive Summary

You may be concerned your children will fall victim to a negative sense of entitlement when it comes to family wealth—taking it for granted and not appreciating the need to manage it prudently. In this article, we examine some of the ways you can encourage your children to take responsibility for family wealth and become good stewards of it.

Budgeting helps children appreciate the value of money and encourages mindfulness in consumption habits. Also, you can inspire a positive attitude towards wealth by being good role models through philanthropy, demonstrating the good that can be done with wealth.

This piece focuses on helping your children to develop healthy attitudes towards wealth, rather than specific financial management skills.

High-net-worth and ultra-high-net-worth clients aren't alone in worrying that their children will feel entitled. This is a common concern for parents across many wealth brackets, as more parents have children later in life when they're already financially secure. Children aren't necessarily growing up in the same environment as their parents, who may have had to save for a home or a car, or be frugal with their money. Today's kids may never have those formative experiences and may miss those valuable lessons.

For parents who've amassed or inherited significant wealth, the concern that their children or grandchildren will develop a sense of entitlement is even more persistent. They may be concerned their children will take the wealth for granted, be wasteful, and not fully appreciate their position of privilege. Worse, they may be worried their children will feel entitled to special status as a result of the wealth. Here we're using the word entitlement with a negative connotation.

Entitlement, however, can also be a positive thing that could and should be encouraged. For instance, we want our children to feel entitled to basic freedoms and rights. As it relates to wealth, you may also want your children to acknowledge that they or their family may have wealth—not deny it or be embarrassed by their legacy. To a certain extent, we want to encourage a sense of positive entitlement, so they feel some ownership of that wealth. Ownership can help build a sense of responsible stewardship so that they feel empowered and take responsibility to ensure it's well managed and put to good use. For that to happen, they need to feel some entitlement to it, even if they didn't necessarily earn it through their own efforts.

When you're trying to encourage positive and discourage negative entitlement, it can be helpful to consider wealth as neutral. Money is neither good nor bad. It is simply a resource that the family happens to have in substantial supply. In the end, it's what you do with wealth that matters.

So how do we stop our kids from becoming entitled in a negative way? How do we make them appreciate the value of this resource when money is so abundant in their family and potentially in their circle of friends as well?

First and foremost, we need to be good role models for our children. As one of my colleagues says, "entitlement is learned." The other key may be focusing on gratitude and appreciation for what they have.

## Getting kids to appreciate the value of money

Money may be abundant in your household, but there's no denying it's a scarce resource around the world. Substantial wealth deserves to be treated with respect, used thoughtfully and not squandered.

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Budgeting is a useful tool for everyone, as it helps people sit back and objectively assess what's reasonable to spend on certain items. Without getting into the details of budgeting (perhaps the topic of another article to come), it also teaches other key concepts like prioritizing needs over wants, expense deferral, and savings.

Budgeting fends off entitlement by encouraging mindful spending and by treating money as a limited resource that should be carefully managed. It may be okay to spend a lot on something if you can afford it, have given it thought and have concluded that the value you'll receive in return warrants it.

Mindful spending also encourages gratitude and appreciation. Here, we can borrow from Economics 101 and apply the law of diminishing marginal utility. That first luxury car or designer jewelry purchase can bring tremendous satisfaction.

The second or third purchase may do the same. However, by the tenth or twelfth one, these things can start to mean less and less and the incremental value and pleasure one gets from each successive purchase can diminish. Being mindful of this is important.

The money spent on the tenth luxury purchase may give you more satisfaction if it's spent elsewhere—potentially on someone else, put to work for some cause, or invested for a longer-term benefit.

**Philanthropy** can play a real role here, as it can also give us the reason for wanting to continue to build wealth. At that point, wealth itself is no longer the goal, it's what good can be done with that wealth.

We're powerful role models for our children. Demonstrating our values through our actions speaks more loudly than any discussion about those values. Philanthropy and modeling responsible wealth stewardship can have a tremendously positive impact on our children. Note that good modeling requires both parents, and even grandparents to be on the same page. One parent spending mindfully while the other spends with abandon (or grandma indulges their every whim) may not be helpful.

Here are some real life examples of clients we've worked with.

## Buying a round for everyone

A client gave his child an emergency credit card to take to university. One day, dad noticed a charge on the card for over \$2,500. As it turned out, his 20-year-old son had celebrated homecoming weekend by buying drinks for everyone. This wasn't a precedent that dad wanted to encourage or support.

It surprised the parents as they thought they'd done a good job teaching their kids the value of money. In fact, whenever the

kids needed or wanted something, they'd have to come to mom and dad with the request, along with their rationale for the purchase. However, what they had not communicated was that money is a limited resource. Their children didn't yet understand that even with significant wealth, you must still make thoughtful choices.

At this point, the parents drew a hard line on further expenditures (room and board were already paid!) until their son delivered a budget proposal. After some negotiation, they approved a lower monthly amount than was requested, explaining that the son would have to make some trade-offs. Although the family had the means, they'd done their own budgeting and had concluded that this lower amount was reasonable given the other demands on their wealth. The rest was spoken for with other priorities such as retirement savings, school for his younger siblings, support for grandma, and philanthropy for others in need.

### Giving as a family way of life

Another couple has always supported a few children in developing countries. They've used this as a means of fostering appreciation and mindfulness in their children from a very early age.

They found that putting a face to giving helps their children understand how lucky they are relative to others in the world. It also takes the focus off comparisons to the other kids at school. It allows their children to become more mindful with their consumption decisions, which are heavily influenced by social media, and helps them distinguish wants from needs.

As a family, they often consider major purchases together, evaluating whether the money is best spent on the purchase or given to a child or a community in need. Even if the family ends up making the purchase, they appreciate it more because they've taken the time to be mindful about it. They also find that their children will sometimes volunteer to wait for the item to go on sale or take a lesser model (with fewer bells and whistles), so the difference can be donated.

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They're very careful not to judge their children, regardless of their choices. The purpose isn't to guilt their kids into depriving themselves, but to encourage thinking through a purchase and fully appreciating it after the fact, rather than engaging in mindless consumption.

### They know where we live, mom

My client shared a funny story with me.

Her 10-year-old was arranging for a friend to come over. My client asked her daughter if the friend needed their address, to which her daughter rolled her eyes and declared with great drama, "Of course they don't mom... it's so embarrassing, they think I'm rich!"

In fairness, my client does have one of the largest, most beautiful homes in their already affluent neighbourhood. However, rather than sharing in her daughter's embarrassment, my client helped her daughter reframe her thinking in a more positive way. She was happy when, a few days later, she overheard her daughter repeating some of their conversation with another friend. "No, I'm not rich, it's just my mom and dad that are rich. I'm just lucky to live with them. And besides, they work really, really hard for their money and we help others with it too."

While my client acknowledged there was room for improvement, she heard her daughter reflect some of the family values they'd discussed, including gratitude, appreciation, work ethic, and giving back. What's more, she heard pride rather than embarrassment.

### A final point about philanthropy

If you're worried that you're not philanthropic enough to have these conversations with your kids, just look at your taxes. For every dollar of income that you earn, you likely give a significant portion of it to various government bodies, arguably the biggest not-for-profit charitable organizations around. It's not a bad thing to point out to our kids that all those taxes that you pay go to building and maintaining streets, supporting social programs and helping others.





CIBC Family Office helps you and your family manage the complexities of multi-generational wealth. Working with our clients to help them organize and understand the intricacies of wealth ownership, we develop a plan that is tailored to each individual family, responsive to the needs of each member and reflects the family's current and future vision.

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