"The Millionaire Next Door: Part II of II: Giving Money to Your Children"

This completes the review of *The Millionaire Next Door: The Surprising Secrets of America's Wealthy*.[1]

There is a detailed discussion of Economic Outpatient Care (EOC), the money you give your children. *"In general, the more dollars adult children receive, the fewer they accumulate, while those who are given fewer dollars accumulate more* (italics in the original). A simple rule of EOC: "It is much easier to spend other people's money than dollars that are self-generated". The more EOC, the more financially dependent your children become.

On average, gift-receivers have only 91% of the total household income, and 81% of the net worth of non-receivers. Please read that again to let it sink in. The less money you give a child, the more they earn on their own, the more they save, and the higher their net worth. The glaring exception is gift-receiving teachers, who have a net worth of 185% of the non-gift receivers. Teachers as a group are very thrifty, and invest the cash they receive rather than blow it on consumption.

Millionaires appreciate the importance of education, so the #1 cash gift they give their children is tuition. In addition, the authors recommend "create an environment that honors thoughts and deeds, cherishes individual achievement, and rewards responsibility and leadership. . .Teach your own to live on their own".

Affluent parents want to give money to their children before they die.

1) To minimize estate taxes.
2) As a general rule, you make better decisions when you are above the ground than when you are below it.
3) To minimize estate squabbles. Even (apparently) close-knit families can become vicious when money and personal property are involved. The authors suggest at least one outsider, especially an estate attorney, as a co-executor(s) of your will. They also note "Spouses are often the initiators of family conflicts regarding inequities in the distribution of wealth".
4) To be able to appreciate the results of their largesse.
5) To maintain control over their children. The authors say "One of the proven ways that domineering parents control their adult children is by living close to them".

EOC is fine if the recipient has already shown they are well disciplined and can generate a decent living on their own without other people's money. If EOC just allows them to live above their means, you are hurting them. The real tragedy is the helplessness of those who come to depend on EOC.

After reading this book, I developed a strategy behind giving money to my sons. *(A)* It will improve their financial security, but *(B)* will not affect their life style. Let me provide several examples.

1) I paid them $30 to mow the lawn. They were given $15 to do with what they wished. They never saw the other $15. It went straight to the bank. Lesson: if you can always save 50% of your income, you'll do fine.
2) As soon as they got a job, we opened a Roth IRA. I made the following offer: I'll match dollar for dollar whatever you put in. They were encouraged to save, and in their teens were introduced to the magnificence of compound interest.
3) I don't give them money on any regular basis, so they can't expect anything, and when I do give them something, I strongly encourage them to use the entire amount to pay down debt, such as the mortgage.

In the end, if you teach your children thrift and respect for money, they will do fine. If you don't, you can create the most restrictive, oppressive and expensive trust in the world, but as soon as they get their hands on the money, money you worked hard to save, it's gone.

Acknowledgments

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Disclosures

Dr. Doroghazi is not a registered financial advisor under federal law or any state law. The advice provided is of a general nature, and should not be interpreted as personalized or individualized to your specific portfolio

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1. Stanley TJ, Danko WD. *The Millionaire Next Door: The Surprising Secrets of America's Wealthy*. Longstreet Press; 1996.