Make your legacy last by educating your children about wealth management

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If you've worked to build a large estate, you undoubtedly would like to leave a lasting legacy to your children and future generations. Educating your children about saving, investing and other money management skills can help keep your legacy alive.

Teaching techniques

There's no one right way to teach your children about money. The best way depends on your circumstances, their personalities, ages and your comfort level.

If your kids are old enough, consider sending them to a money management class. For younger children, you might start by simply giving them an allowance in exchange for doing household chores. This helps teach them the value of work. And, after they spend the money all in one place a few times and don't have anything left for something they *really* want, they will learn the value of saving. Opening a savings account or a CD, or buying bonds, can help teach kids about investing and the power of compounding.

Timing and amount of distributions

Many parents take an all-or-nothing approach when it comes to the timing and amounts of distributions to their children — either transferring substantial amounts of wealth all at once or making gifts that are too small to provide meaningful lessons.

Consider making distributions large enough so that your kids have something significant to lose, but not so large that their entire inheritance is at risk. For example, if your child's trust is worth $2 million, consider having the trust distribute $200,000 when your son or daughter reaches age 21. This amount is large enough to provide a meaningful test run of your child's financial responsibility while safeguarding the bulk of the nest egg.

Or maybe you want to encourage financial success by making matching gifts equal to the amount of income your children earn each year. Be careful, though, not to accidentally dissuade your beneficiaries from pursuing other worthwhile though less financially rewarding endeavors.

Introduce incentives, but remain flexible

An incentive trust is one that rewards children for doing things that they might not otherwise do. Such a trust can be an effective estate planning tool, but there's a fine line between encouraging positive behavior and controlling your children's life choices. A trust that's too restrictive may incite rebellion or invite lawsuits.

Incentives can be valuable, however, if the trust is flexible enough to allow a child to chart his or her own course. A so-called "principle trust," for example, gives the trustee discretion to make distributions based on certain guiding principles or values without limiting beneficiaries to narrowly defined goals. But no matter how carefully designed, an incentive trust generally won't teach your children critical money skills.

Planning for future generations

If you plan on leaving a sizable amount of your estate to your children, consider incentive trusts, educate your children on money management and be smart with your distributions to them. Also, communicate with your children about the reasons behind your decisions. These steps will increase the chances there will be money left to pass on to your grandchildren.

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