

Discussing Money with Family and Friends

## Speak Now, Retire Rich

Forget stocks and real estate. The big profits are in straight talks with your nearest and dearest

By Richard Sine / May 2008

I've always been a cheap [skate], but I'd spare no expense for a chance at love. Those forces finally collided on my honeymoon. The journey from bended knee to crossed threshold had felt like a 15-round prizefight for my life savings, but I'd stayed calm. Then we pulled into Chez Absurde and I caught a glimpse of the \$60 beef medallions. My mouth gaped, her eyes narrowed, and the trip dissolved into a storm of angry recriminations. It took a few years, but I eventually learned to trust my wife with our money. Not all husbands are so lucky.

**Burk Rosenthal, a certified financial planner (CFP) in Fort Worth, Texas, has clients who are hiding thousands in credit-card debt from their spouses. Rosenthal calls it financial infidelity.**

Men feel fine talking about oil prices, but when it comes to their own financial stats, they clam up. "It's like we're paralyzed by the shame that comes with poverty or by the guilt that comes with wealth," says Spencer Sherman, a CFP in Sebastopol, California.

Meanwhile, we toss away thousands each year trying to impress girlfriends, wives, friends, and colleagues. "This is how men communicate about money," says Sherman. "We let our spending speak for us. That's not financially smart, but it's all we know."

Financial advisors like Sherman know better. Here are five money conversations you should be having -- not to feel better, but to live richer.

### With your friends

*"I'll take care of the hotel. You get the canoe rental."*

You're a lawyer; your best friend is a social worker. "You both know who makes more," says Sherman. "But unless you acknowledge the disparity, it could drive a wedge between you."

Say you're planning a weekend trip. If you invite your buddy along without considering his ability to afford it, you risk creating resentment. If you offer to foot the entire bill, he's likely to decline so he doesn't feel like a charity case. Instead, says Sherman, divvy up the expenses in advance and volunteer to pay for the pricier items. "Be up front about what you're doing," he says. "You want him to come, and you've got the budget to pay the larger share."

One strategy: Ask your friend how much he'd be willing to spend if he were footing the entire bill, and have him pony up that amount. "The goal is to create a sense of parity and partnership," says Sherman.

### With your girlfriend

*"How did your parents handle money?"*

Whatever her spending habits are, they will eventually come to annoy you. Her attitudes toward money, just like yours, were shaped by her family, so asking this question early in your relationship will give you a preview of potential strife down the road. "Ask specifically about her mother," says Paul Webley, Ph.D., of the University of London. "Our research has found that children are more likely to pick up a mother's propensity to spend or save than a father's."

This topic can be hard to bring up, of course. Start by coming clean with your own financial family history, advises Sherman. Then coax her into doing the same.

### **With your wife**

*"Here's your play dough. Have fun."*

She just bought new curtains for the family room. You just picked up a new suit for the office. What do each of these transactions have in common? The purchaser views it as a necessity, the spouse as a splurge.

How much income is considered "discretionary," and who's spending the bulk of it, is one of the most common financial fights between partners. But the solution is simple: an allowance for both of you. "Set aside a specific amount each month as play money," says Jon Yankee, a CFP based in Reston, Virginia. "I use this approach at home. If I see a \$300 clothing bill from Penney's, it doesn't bother me. And if I lose \$100 playing poker, it doesn't bother her."

With an allowance, says Yankee, your indulgences will stay within your family's budget. You do have a budget, don't you?

### **With your kids**

*"Which power drill do you think is the best value, Jimmy?"*

All kids want stuff. Don't make them feel guilty about it. In fact, encourage them. In a 2007 study, Webley found that adolescents who perceived their parents as financially controlling were less conscientious about money and more likely to make impulse purchases. But adolescents who were given financial freedom as kids were more likely to be fiscally responsible as adults.

How do you give kids freedom? Involve them in buying decisions, says Michael J. Smith, an Atlanta-based CFP. Say you're building a Pinewood Derby car with your favorite Cub Scout. Take him to Lowe's and compare prices for the tools and materials. "The child will feel like he's playing an important role in the family's finances," says Smith. "When he's older, you can even involve him in decisions about cars and homes."

Try to link present behavior to future consequences, adds Webley. "Explain that if he skimps on materials, he'll compromise quality -- that sort of thing. Children have a strong tendency to focus on the present. You have to work hard to overcome this."

### **With your parents**

*"I'll take my inheritance now, thank you."*

Do you dream of owning a sports bar or Curves franchise? If Mom and Dad are in a position to help, each can give you up to \$12,000 a year without tax consequences for you or them. And if you're married, they can do the same for your wife.

Okay, but how do you possibly broach this subject? Try Smith's three-step plan.

**1. Emphasize the "investment."** They're not giving you a gift. Explain how you'll use that money to go back to school, buy a home, or start a business -- investments that will pay you back for life.

**2. Put your pitch on paper.** Treat it like a business arrangement. Put together a formal presentation for your parents and make sure you're ready for every possible question. Offer a repayment plan -- with interest -- even if you're hoping for a gift.

**3. Brace yourself for "no."** Your parents may not feel comfortable cracking open their nest egg yet. Thank them for listening, and drop the subject. Besides, haven't they been supporting you long enough?