

Family Wealth Management

Tips for a Successful Transition Between Generations

Passing on wealth is not just about getting financial assets to future generations. It's also about passing on what you think is important and avoiding damage to your children's relationships with each other. Unfortunately, research shows that for many families the process goes awry. Here are some steps you can take to try to avoid common and costly mistakes while increasing the likelihood that your estate transfers successfully and lasts through another generation.

KEY POINTS

- Develop a family financial map
- Communicate early and often
- Be clear about your expectations and values
- Introduce your heirs to your financial advisor or investment professional

AVOID THIS UNFORTUNATE INHERITANCE SITUATION

It's not an uncommon scenario: The parents pass away and leave the family home to the children, Joe, Bill and Marie. Joe wants to keep the house and live in it to preserve the homestead for generations. Bill is fine with that as long as Joe can buy out Bill's share. Marie insists they sell the home because the market is hot and there's a good profit to be made. And so the fighting begins. Certainly no family likes to think that the parents' legacy will turn into a tussle over assets. Yet it happens all too often.

UNDERSTAND WHY MOST TRANSFERS FAIL

While wealth transfers fail for many reasons, the top explanation is simple: lack of communication. Most parents are uncomfortable discussing money with their children. Perhaps we fear such talks will reveal children's greed or that by talking about inheritance the kids will be less motivated to strive in life. Maybe parents believe such a discussion would be all about trusts, tax strategies and insurance policies. While your financial advisor or investment professional might use these tools to achieve your wealth transfer goals, the real purpose of talking with your heirs ahead of time is to express the impact you hope the assets will have on your family and community – both now and after you're gone. Pointed communication of what you would like to accomplish with the assets can help legacies endure for generations.

FAMILY WEALTH MANAGEMENT: TIPS FOR A SUCCESSFUL TRANSITION BETWEEN GENERATIONS CONTINUED

PLAN TO AVOID MISTAKES

Before you talk with family members about your legacy, it's critical to fully consider all of your potential beneficiaries. Map out and identify all of your immediate and extended family members so that you will have a clear picture of whom you and your financial advisor or investment professional may want to plan for. Perhaps you have a child who requires custodial care when you're gone. Or you may have elderly parents whom you hope to support financially if you predecease them. Before you talk with your heirs, take time to document specific details – including names, addresses and contact numbers – and then use the map as the basis for a planning conversation with your attorney, tax professional, financial advisor or investment professional.

SHAPE THE CONVERSATION APPROPRIATELY

A thorough discussion of family wealth may be confusing to underage heirs. Minor children should probably be kept on a need-to-know basis and given increments of information as they mature. Older heirs, however, may benefit from knowing what they will inherit so that they can make plans for future assets that fit with their life choices and plans. This is especially true when passing on the family business. Such a legacy may affect an heir's decisions about college or other opportunities that could enhance the business's health. On the other hand, if an heir doesn't want the business, it's best to know that when the heir is a young adult so you can make alternative succession plans.

TAKE YOUR TIME

The family wealth conversation should not be a one-time event. Legacies can be complicated. So can the reactions of family members as they review inheritance plans. There is no reason why everything needs to be discussed in one meeting around the kitchen table. If, for example, you choose one child to be your executor, disclose this one-on-one so the conversation can take place undistracted by the reaction of other family members. Many investment professionals may recommend you choose a disposition officer outside of the family to be the executor. This way siblings can communicate with an outside party as executor, rather than be inclined to hound or badger an executor who is a relation. You might also want to talk about the dispensation of family heirlooms. Asking each child privately if he or she has an interest in grandmother's jewelry or your valuable artwork may be easier than an open discussion when the entire family is gathered for the holidays.

SHARE YOUR VALUES

Sometimes, legacies involve arrangements outside the family boundaries. Maybe you'd like to leave a portion of your stock holdings to a favorite charity. Or perhaps you've decided the summer home should be bequeathed to a nonprofit organization for housing or educational facilities. Let your children know the reasons behind the division of your estate so they won't feel confused or resentful when your legacy transfers to others. The why of your estate is as important as the what if you hope to minimize conflict when you're gone. This can also be a time for your heirs to make their own wishes and feelings known so that they, too, can share their values with the whole family.

FAMILY WEALTH MANAGEMENT: TIPS FOR A SUCCESSFUL TRANSITION BETWEEN GENERATIONS CONTINUED

INTRODUCE YOUR FINANCIAL ADVISOR OR INVESTMENT PROFESSIONAL

If possible, this should happen well before your children inherit your estate. If one child is your executor, invite that child to your annual review with your financial advisor or investment professional so you can begin to discuss financial matters openly. If another child is just starting out on a career, arrange a meeting with your financial advisor or investment professional to explore saving strategies for long-term goals. He or she can educate your heirs on general money management, help build trust and communication concerning family wealth and work with your family to ensure your legacy endures.

COMMUNICATE EARLY AND OFTEN

By keeping loved ones engaged in the inheritance planning process, you can increase the opportunity to transfer your wealth successfully. For example, when you open an account for an heir and want him to be aware of it, include that person in the meeting with your financial advisor or investment professional to talk about what you're doing and why. The same goes for any gift you might make to a savings account or a retirement or college financing investment vehicle. Ensure that your loved ones have easy access to the names and numbers of all your legal, tax, insurance, employer and financial contacts. By engaging and educating heirs along the way, you can help them avoid common and costly mistakes later on while protecting against the negative impact that surprise and a lack of preparedness might have on your estate.

AIM TO ACHIEVE WEALTH TRANSFER SUCCESS

While one of the greatest challenges in passing on wealth is the high frequency of transfer failure, most inheritance transitions derail for reasons you can potentially control. Not having a plan, not communicating your plan and failing to prepare your heirs top the list of mistakes many people make and you can avoid. You can leave a lasting legacy. Together with your financial advisor or investment professional, make sure you understand the common mistakes, develop a plan for those you want and need to provide for and make sure everyone knows your wishes and intentions before the time comes. If you express what you'd like to see your heirs accomplish with the inheritance, you improve the odds that those assets will be there for your family for generations.

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