

Will Your Heirs Value and Appreciate Their Inheritance? Will They Know What To Do With It And How You Might Want Them To Use & Preserve It? The Family Meeting Makes That Happen.

By: David M. Frees III (with credit to an inspiring article by Michael Karwic)

I've been a trust & estates attorney for over thirty years. And it's been my honor to work with thousands of friends, family members, and clients from all walks of life and all levels of wealth. But I've seen some crazy things happen after a wealthy parent or grandparent has passed away.

I've seen greed, bad behavior, and sloth - just to name a few. But I've also seen families, in fact most of them, where children who have inherited assets have continued to work, carried out their parents' philanthropy....and developed their own ideas about "giving back" and how to be a productive member of society.

So what makes the difference? Well, let's start by saying you can never completely control these things, but, there are many ways you can increase the likelihood of a good result when you leave wealth or assets to the next generation. One of the things we suggest to clients is to consider a formal, or even informal, family meeting during which you can discuss important aspects of your estate plan, your personal goals, your shared goals, and your core family goals and values. You can answer their questions, while you're still here, about why there might be trusts (such as protecting heirs from divorce and law suits) and how and why you want wealth to be used (or preserved). And these meetings do seem to help with the bigger issues of good behavior with an inheritance.

But I've often noticed that clients are unwilling to even talk to their children and grandchildren (or any of their heirs) about inherited wealth and what they should know about it and what to do with it. Perhaps they're afraid that their heirs might no longer be motivated to make a life of their own and may rely, instead, on getting wealthy by inheriting assets rather than working or making a contribution to society. They may feel entitled to receive and to use that inheritance to support a lifestyle with which you do not agree. In short, many people are afraid that just by talking about it they may contribute to or create a problem. If you feel that way (or can relate to those fears), you're not alone.

In a 2015 CNBC Millionaire Survey, (tip of the hat to wealth advisor Michael Karwic for calling this to my attention) 44% of families having at least \$1 million in investable assets said that they had not yet told their children about their future inheritance. Another 27% said they had refrained from mentioning it until their children were 30 or older.

And I agree. It can be awkward to talk with your heirs (or even your spouse) about these matters. In fact, the vast majority of my clients feel that by revealing the existence of their wealth, they will have a negative impact on their heirs' work ethic.

They often believe, and in many cases cite examples, that a child who grows up knowing he or she can expect a sizable inheritance, may take an easier route through life and may not prepare to inherit and to preserve wealth. They may instead choose leisure. Other clients are afraid that their kids will have this attitude even though the wealth they will actually inherit will not support such choices and, as a result, it will be quickly wasted.

So how can a family, at whatever level of wealth accumulation, prevent this "entitlement attitude" and at the same time encourage positive behavior with inherited wealth? Karwic says: "It starts with values. From those values, goals, and purpose may be defined." I'd add to that, that it also depends upon great family communication, and ultimately, with involving your heirs in the process, showing them that you trust them to be involved and a few specific estate planning tools that can be built into the trusts you use.

Step One: Create a family mission statement. To truly share in the commitment to sustaining family wealth, you and

your heirs can create a family mission statement, preferably with the input or guidance of a financial services professional or estate planning attorney (we call these meetings “The Family Meeting”). We typically hold such family meetings with the parents, adult children and in some cases adult grandchildren.

According to Michael, and I agree, “Introducing the idea of a mission statement to the next generation may seem pretentious, but it is actually a good way to encourage heirs to think about the value of the wealth their family has amassed, and their role in its destiny.”

This mission statement can be as brief or as extensive as you wish. It should articulate certain shared viewpoints. What values matter most to your family? What is the purpose of your family's wealth? How do you and your heirs envision the next decade or the next generation of the family business? What would you and your heirs like to accomplish, either together or individually? How do you want to be remembered? These questions (and others) may seem philosophical rather than financial, but they can actually drive the decisions made to sustain and enhance family wealth.

Step Two: Be comfortable in exerting some control both during your lifetime AND after death. In CNBC's survey, 32% of parents aged 55 or younger said they were going to specify what their heirs could use their inheritances for, and that was also true for 15% of parents aged 55-69 and 9% of parents aged 70 or older. My parents always emphasized that lifetime gifts were designed to enhance the quality of life (and to reward good behavior) but should never create an expectation or dependency. So don't be shy about setting out rules, and about setting up trusts (during your lifetime, or under your will) that protect the assets for distribution later rather than earlier.

Step Three: Consider distributing inherited wealth in phases. A trust provides a great mechanism to do so; a certain percentage of trust principal can be conveyed at age X and then the rest of it Y years later, as carefully stated in the trust language. I personally favor a trust that allows distributions when they are needed for college etc but where larger sums are slowly distributed when the beneficiary reaches ages and levels of experience where they can actually deal with those distributions.

So for many years, the trusts under my own will allowed the trustees to distribute funds as needed but directed them to give my kids 5% of the principal at the ages of 25, 30, and 35. The balance was distributed at age 40 and was protected, up until then, from divorce and other creditors of the child. This is a way to avoid a classic mistake: giving your heirs too much money at once. In fact, a 2015 Merrill Lynch Private Banking & Investment Group report notes that 46% of high net worth parents share that very concern.

Just how much is too much? Answers vary per family, of course. In the aforementioned Merrill Lynch survey, 46% of families said that they wanted to avoid handing down the kind of money that would dissuade their heirs from realizing their full potential in their lives and careers. For example, you may want to maintain a trust but give heirs more control over time: There are significant risks in make in a trust end at a particular age. Once the trust ends, so does the creditor and divorce protection. So consider instead, a trust that last's for the heirs' lifetime, but where the heir gets more and more control throughout time and at ages where they are more likely to understand the benefits of the trust and to apply the family goals and values to their decisions. By involving your children and grandchildren in the discussion of family wealth and their duties and actions go when you are gone, you encourage their practical and emotional investment building and preserving family wealth.

Need to be a better communicator with children (young or adults) and grandchildren of any age? Dave wrote a book called “The Language of Parenting: Building Great Family Relationships at All Ages”. It's a bible for better communications skills and Steve Forbes, Editor-In-Chief of Forbes Media, called Dave a “Grandmaster” of family communications skills. You can get it from Amazon by searching “David M. Frees, III” or just **click here** if you're reading on line. **Want to schedule a Family Meeting to help your children to understand your goals and objectives, why you're using trusts, and to build a better understanding of their own goals and values? Call Lisa or Tammy at 610-933-8069 to schedule one.**