# Planning Matters

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## Conversations for Generational Wealth Transfer

For the last decade, experts have been talking about the "Great Wealth Transfer" – that trillions of dollars will be changing hands, from Baby Boomers down to their children, and maybe directly to grandchildren.

While the transfer has started, it has been more of a trickle than a flood so far as advances in health care (and all that money) have helped Boomers live longer! However, holding on to money longer shouldn't prevent anyone from helping prepare the next generations to receive any anticipated wealth, regardless of the amount. It's never too early for a conversation. The only variable is the appropriate type of conversation for the age group (or maturity) of the expected recipient.

One of the first things that I often speak to families about is whether they have enough to live on for the rest of their lives (for example, taking into account increases in health/care costs). If the answer is "yes" and there are resources in excess of one's needs, there are a few things to think about.

## Money Has Meaning

Money has different meaning for different people – we all have a different relationship with it, depending on whether (or not) it was discussed while we were growing up, if it was scarce, or whether there was always enough.

While not having enough money has its own set of problems, challenges can often arise when there is more than we need, and when there will be some (or a lot!) left over for our kids and grandkids. How do we transfer that wealth to subsequent generations successfully? How can we help foster responsible beneficiaries?

Let's start with some examples.

## Two Differing Approaches

Here are two families on extreme ends of the spectrum: each came from very humble beginnings and had extraordinary financial success with a net worth in the low to mid 8-figures.

The first family has a matriarch and patriarch in their 70s, three kids in their 50s, and 10 grandkids. Homes and cars continue to be purchased for the kids, and each grandchild's education and first condo are paid for. The children will inherit one-third each, but without any structure currently in place. There are already cracks in the family foundation, with two siblings ganging up on the third because they don't like her spouse. To make matters worse, none of Generation 2 has proven themselves capable of taking over the family business, having recently mismanaged a few projects. There's an attitude from the parents of, "they'll figure it out for themselves." The looming problem is that even if they do (potentially with the help of lots of lawyers), no one is likely to be happy with the result, especially once the parents aren't around to referee anymore.

For the second family, each of the kids gets a starter home, an education, and a relatively nominal fixed amount of cash. Everything else that the matriarch and patriarch (in their late 60s) don't spend is going to charity – no ifs, ands, or buts – and everyone knows it and is on board with helping give it away as that's the new "family business" after the liquidity event. Using a philosophy out of Warren Buffet's playbook, the kids ranging from early 20s to late 30s are given "enough money so that they would feel they could do anything, but not so much that they could do nothing."

**Education and communication are the keys to successful wealth transfer.**

While there is no "right way" to transition your wealth to your family, there are clearly some potholes to avoid and best practices to incorporate. ***In my experience, education and communication are the keys to successful wealth transfer.*** Let's see what that can look like in practice.

## The Conversations

For mature / adult recipients of financial gifts, I find it helpful to prepare in advance and clarify a few things first:

1. Will they be receiving anything during your lifetime? Or only after?
2. If there are multiple recipients, is everyone getting the same amounts, or different amounts? (Sometimes "fair" doesn't always mean "equal.")
3. Are there any strings attached? (i.e., trusts; provisions that funds be dripped out over time; or other).
4. Will this gift change their life? Or supplement their own existing pot? (i.e., do they currently live a modest lifestyle and an inheritance would be akin to winning the lottery?)

The initial key is to put yourself in the recipient's shoes and think about how they might react (positively or negatively) to this sort of money. Will they spend it all? Pay off a mortgage? Also, consider whether this will help or harm any other relationships they may be in. If they're in a rocky marriage, for example, then a trust of some kind might be appropriate, instead of an outright gift.

Once these items are clarified, the answers will help inform the approach that should be taken:

- **Set the tone:** Will it be a formal discussion? Or more casual while in the bleachers of a grandkid's game? Often, somewhere neutral works best as it can take away any perceived advantage or power over the other person.
- **Go beyond the "what's":** It's important to be transparent and open about the "why's" and the "how's" up front. Understanding the motivations and practicalities can help encourage acceptance and build consensus early.
- **Plan your messaging:** Do you have several bite-sized conversations with a little bit more information each time? Or should this be a one-time "rip off the band-aid" and get-everything-on-the-table discussion? Key to this planning is deciding whether or not to talk numbers. If that will be touchy, it may be best to leave the amounts for a follow-up discussion. Depending on the current state of the relationship and openness of communication you already have, you'll hopefully know which approach is best.

Another factor that can impact a conversation around money is whether there are any feelings of entitlement. If you're planning on leaving some (or a lot) to charity, it would be helpful to talk about the reasons behind this – whether it's to share your passion to support a cause or if it's for tax planning purposes. Sharing your intentions and the reasons behind them clearly and concisely can help ensure there are no misunderstandings.

It's important to listen and "read the room" to ensure the conversation remains respectful and level. It's not unusual for things to get emotional, so bringing it back to love, preparation, avoiding surprises, and answering questions while you're here and still can, is key. Reiterate that the reason for this conversation is to help avoid a situation where you're gone forever and the recipients aren't able to ask questions.

An important nuance to convey, however, is that while the purpose is to prepare future beneficiaries, answer questions, and share your plans and intentions, these are your wishes, and this isn't a negotiation. Absent extraordinary circumstances – i.e., if the recipient thinks it's too much, or has concerns about being able to manage it, or lose it to a soon-to-be ex-spouse – stick to your plan. As needed, you can bring in the professionals to potentially restructure but otherwise, your wishes are your wishes and should be respected.

## If You Can, Start Them Young

I recommend initiating conversations about money and finances with your family as early as possible.

If your kids (or grandkids) are young, there's no need to share any dollar figures. It's about educating them about the value of money and the responsibility that comes with it – including how hard it can be to earn, what it can and can't do, how to respect it, and even how to give it away.

If the inheritors are a bit older – teens or young adults – they probably already have a good idea about the comfort level of your family compared to their peers. Maybe they were young when the family was struggling or even just moderately comfortable, but are acutely aware of new toys, vehicles, or the size difference of the new home. This is a good time to start setting expectations of what may or may not be coming down the pipeline. Again, include comments around any charitable intentions, and your right to spend the money you worked hard to earn and save.

Regardless of the number of zeros, the basic worries and solutions are generally the same. We've seen too many cases where nothing was communicated or shared, and inheritors can only speculate on the intentions of the departed. This void in knowledge can destroy a legacy and replace a lifetime of positive and cherished memories with unanswered questions and speculation on reasoning of intention.

Planning a thoughtful conversation rooted in honesty, openness and transparency, however, can help you and your family enjoy a smooth transfer of wealth.

## Contributors

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