Strategies for Preparing the Next Generation for Wealth

HOW NOT TO BE A STATISTIC

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The transfer of wealth from one generation to the next is an obstacle all high-net-worth families face during the estate planning process. Over the next 25 years, the United States will experience the most significant wealth transfer in history, with around $68 trillion passed to the next generation. Given the scale of this coming wealth transfer, the need for preparation is greater than ever. The need for proper communication about potential strategies to ensure these transfers go smoothly for families is even more significant.

Parents frequently express to us both qualitative (who and when) and quantitative (how much) concerns regarding passing their wealth to the next generation. Research from the Williams Group wealth consultancy backs up those parental concerns. Seventy percent of families lose their wealth by the second generation and ninety percent by the third. To avoid falling victim to this statistic, parents must be both proactive and intentional when it comes to transferring their wealth. Consider the following factors:

It's a marathon, not a sprint

A recent study found that two-thirds of Americans who have at least $3 million in investable assets have not talked to their children about their wealth or never will. This statistic is alarming, considering the amount of money set to be transferred to the next generation over the next 25 years. Unfortunately, parents often wait to talk to their children about money until they feel like they have the right thing to say, but in reality, it is more vital that you just start talking. Even if the conversation feels awkward, being honest, transparent, and specific will help your children better understand money at any age.

The "wealth talk" is much more than just one single conversation; it will take the form of many discussions over several years, if not decades. Keeping in mind that educating your children and informing them of family wealth is a marathon, and not a sprint, will help you frame your thoughts and properly communicate them.

One primary concern clients express is that they don't know what age to begin having these conversations. We believe

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that children are never too young to talk about wealth; they are smarter than we often give them credit for, and in most cases, given the house they live in, the cars your family drives and the vacations that you take, they can clearly see that the family has wealth.

Consider money as a foreign language: the earlier they begin learning it, the more fluent they will be. It is also essential to talk to children about your wealth before someone else does. If your children start to hear from their friends or other family members about your family's wealth, it could form a false narrative in their heads that will be difficult to reverse. Being proactive and framing their perspective from a young age can help direct that narrative in their minds.

Walk the walk and talk the talk

Just talking to your kids about money isn't enough — it is also important to lead by example. Children are in the attitude preparation years from as early as the toddler years, and it continues up to their early 20s. These are the years in which you are helping them form what they should think, feel and believe about money. For example, at age seven, you can have the "give, save, spend" conversation with your child, helping them understand the value of a dollar. You can also get them involved in investing by letting them invest some money in a stock that might get their attention. Then, at age 13, open a bank account and teach them how to use a debit card. Once children are in high school, encourage them to have a job so they can understand what it feels like to earn money in exchange for their time and talent. Then you can begin to discuss more in-depth investing and saving conversations with them as they build up their own bank account.

Keep in mind that your kids are not only listening to what you have to say, but they are observing what you do. They often see you spending your money, but they don't always get to see you earning it, investing it, or saving it. Having them sit down with you as you budget these things into the next month could help expose them to the realities of having wealth.

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Bring in a third party

There are times when your children might not want to listen to what you have to say as their parents; this is an excellent time to bring an advisor into the conversation. When we understand your goals and family dynamic, advisors can help you frame discussions with your children and suggest areas where it might be a good idea to have a one-on-one conversation with the children themselves.

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Children may be less likely to brush off financial advice when an outside party is facilitating that conversation. From there, the advisor can take these conversations about wealth to the next level and help them sort out their own financial goals and formulate how they would like to develop their personal financial plan. This process teaches children how to have a relationship with an advisor and ask questions they may not want to discuss directly with their parents.

There are ways to get creative when working with money with your children that an advisor could suggest. For example, some clients give their older children a sum of money to contribute to a charity of their choosing once a year. This gives them real-world practice with money management and a chance to work with an advisor on navigating the decisions that come with charitable giving. In addition, creativity and hands-on experience with money management at a young age sets the tone for their future with financial planning.

An advisor can also ensure that they have the following, which everyone should have when they turn 18:

- Financial power of attorney - allows someone to access their financial records and make decisions on their behalf if they are not able to do so.
- Healthcare power of attorney - allows someone else to make medical decisions on your child's behalf if they are not able to do so.
- HIPAA authorization - allows parents to have access to their adult child's medical records.

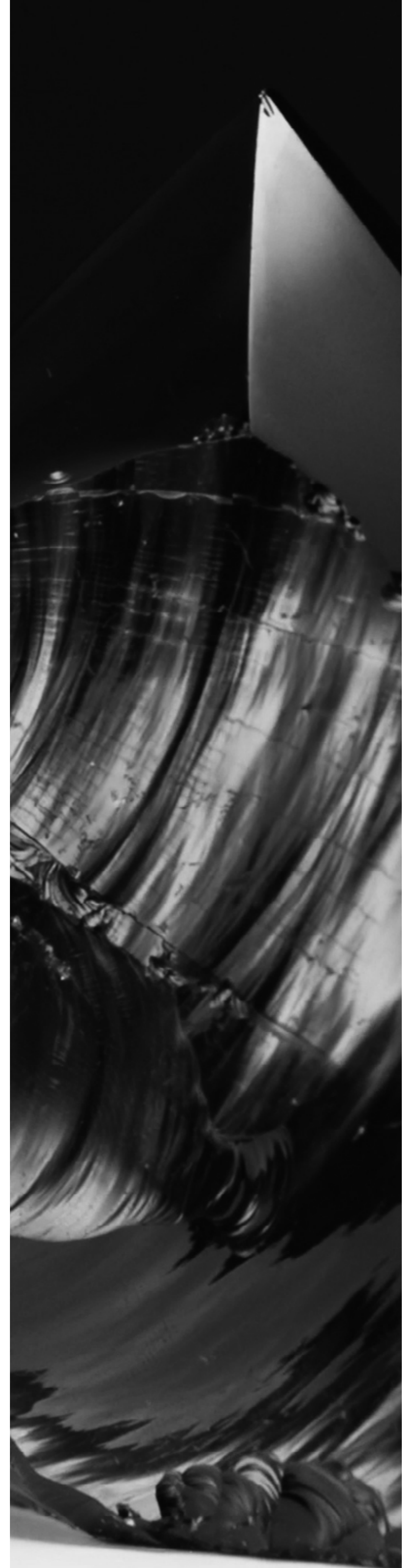
Bringing an advisor into the conversation adds significant value and can extend important conversations further.

Strategies for ensuring that your legacy continues

It is not easy to face your own mortality and prepare your family. But once boundaries are set and difficult conversations have been tackled properly, family wealth can go on for generations.

There are three main reasons why so many families lose their wealth by the second and third generations. These include:

- Poor financial management: Common missteps may cost you. For example, failing to properly tax plan could deplete your family assets when they could have been preserved.
- Poor long-term entity and estate planning: To avoid this issue, hire a good attorney. Ensure you are sitting down with an advisor, going through the estate planning processes, and that all parties involved are on the same page. Your advisors should be speaking to one another, so decisions are made with all necessary information.



- Divorce settlements: Spouses are a key element in estate planning. They are the next generation's parents, so it is crucial to include them in all family meetings and discussions. However, around 50% of marriages will end in divorce, so you may want to consider protections such as prenuptial agreements to preserve the family wealth. Simple education on aspects like community property versus separate property and why we put trusts in place can also help inform the next generation.

Thinking through each of these obstacles and working through how to address them will ensure that each generation is prepared.

Planning through conscious and unconscious inequity

Often when it comes to dividing assets among children, being equal isn't always fair. This dilemma is most common when there is a family business — one child might be involved in running the family business and interested in continuing to do so, while the other may want nothing to do with it. In this instance, there is no way to split the business equally while still being fair to how each child desires to live their life. Another example when being equal isn't always fair might be when you have two children who have varying levels of wealth; one might be a hedge fund manager and the other might be a teacher. You might be more inclined to provide for one over the other; this is called conscious inequity, and it is crucial that you communicate to your children why you may have made that decision.

There are estate planning decisions you can make and tips you can practice ahead of time to prepare for these situations. Planning ahead and being open and honest about the "why" behind each decision you make will ensure that all of your children feel valued and understood.

On the other hand, unconscious inequity exists in estate planning as well. An example is when a client creates a pot trust that all descendants can pull from, but only for a specific purpose — like attending college or starting a business. While any of the descendants could potentially benefit from such as trust, if only one child wants to start a new business venture, but the other does not, this becomes an example where you may make a decision thinking you are doing the right thing, but it later creates unconscious inequity. Talking through these plans with an advisor can help bring unconscious inequities to light.

The Invaluables

In the end, the relationship between your children and their wealth comes down to their relationship with you and family values. If you instill a strong work ethic and teach them that their value does not lie in the money they have, but in themselves as a person, then they will have a healthy relationship with the family wealth.

As parents, being on the same page is essential to success. Oftentimes, one parent will overindulge their children and another will frequently say no. Not properly communicating with each other will make it difficult to send the right message to your children. Working with your advisor to create a roadmap, such as a family constitution, which states how everyone will work together towards the family goals can help you and the following generations achieve success and carry out the family legacy for generations to come.

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