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Intentional Inheritance Planning

Five ways to help prepare your family for inheritance

Uncomfortable conversations about wealth occur within families on a regular basis. If you struggle with how to talk to your own family about your wealth, you're not alone. If there were ways to prepare one's family for the inheritance without mentioning financials, the exact details of the estate plan, and you could begin when the heirs are younger, then more families would probably be willing to have these conversations. This article illustrates five things you can be doing with your family to help better prepare them for inheritance without delving into the specifics.

Key takeaways

- For many families, discussing wealth transfer and inheritance issues can be challenging and overwhelming
- It can be difficult to know where to start and the fear of having to share more information than they are prepared to can cause wealth holders to withhold vital information or not do anything
- Developing strong communication among family members about your values, plans for your business, and charitable goals can go a long way in preparing them for future wealth

1. Communicate: Develop an intentional plan for how the family will communicate, share knowledge, and make decisions

Families use various methods to communicate and some work better than others. Irrespective of the method, the ultimate goal is always to establish effective communication, where the speaker and the listener understand each other's perspectives. Effective communication over the long term can help build trust and avoid stockpiling of family challenges and disagreements. This type of communication is not established overnight, but rather takes intentional practice and reinforcement.

Rather than parents having "one-off" conversations with children separately, many families can benefit from having organized, prioritized group discussions. Gathering everyone in the same room, perhaps at a family retreat with a trained third-party expert, can help strengthen the bonds among members. Establishing a deliberate time, forum, and method for family discussions and decision making is important to long-term success. Families may consider utilizing a communications assessment to understand each family member's preferred method of communicating. This would not only be an informative exercise, but done in the right setting, could add a little bit of fun to a family meeting.

2. Legacy: Establish your family's values and openly discuss the direction, goals, and aspirations of your family's legacy

When clients express concern for demotivating heirs, an underlying sentiment is that they are actually afraid their heirs will not share and exhibit their same values. Rather than focus on withholding information, it could prove more useful to concentrate on sharing, establishing, and reinforcing one's values. Legacy planning is about discussing a family's values and competencies that extend beyond financial wealth but rather include their intellectual, human, and spiritual capital as well. When a family broadens their definition of wealth to encompass their entire wealth spectrum, the emphasis on numbers diminishes.

A family's legacy can be viewed as the family's culture, much like a business's culture is synonymous with the business legacy. For business owners specifically, bringing together and synchronizing the family legacy and the business legacy gives the business a better chance at staying within the family and succeeding. To begin this intentional practice of establishing your family legacy, families might consider creating a family mission or purpose statement. Similar to building effective communication, families can utilize a value exercise to help define and illustrate which values are important to each individual family member. This type of assessment can be both productive and fun and families might be surprised to see just how much they have in common.

3. Build the toolbox: Arm your children and grandchildren with the knowledge necessary to become good stewards of money

Senior generations want to be sure that their heirs are prepared to be good stewards of their wealth, but they often do not take the appropriate measures to help the future generation be ready. Financial literacy can be a key driver to personal financial success. However, since this topic is often not taught in schools, families need to take additional steps to build their family members' knowledge toolboxes.

In addition to creating financial literacy building blocks, families should also think about wealth literacy in topics such as estates and trusts. All of these topics are complex and to build a competency takes time. One easy way that families can help heirs is to create an informal learning environment that encourages questions. Families aren't on their own to create a financial education for their heirs, they should look to their advisors to assist in these conversations or facilitate educational workshops.

4. Philanthropy: Use philanthropy as a way to transmit values and begin to make decisions as a group that promote a long-standing legacy

Shared values and culture create much stronger bonds than money alone, so it's critical that families use shared experiences, such as philanthropy, to strengthen them. Family philanthropy includes volunteerism, annual giving, private foundations, and everything in between. Designing a family philanthropic plan enables a family to make meaningful decisions together while building on the work the family has already done with effective communication, establishing family values, and utilizing their new knowledge toolbox.

Since a culture of giving within a family can form a lasting philanthropic legacy that can extend through multiple generations, the senior generation should encourage children to think about their own causes and leverage lifecycle events, like birthdays and year-end giving, to motivate the family. Families may want to volunteer together and consider using planned gifts, like a scholarship fund, to promote their heritage. More complex philanthropic structures, like private foundations and donor advised funds, can be appropriate, too, for reinforcing a legacy and teaching how to share decision making. An experienced giving specialist can help a family identify and implement the most appropriate charitable gifts for their particular situation.

5. The business of the family: Create structure and use mentorship to provide the framework and guidance that will set your heirs up for success

You wouldn't expect a business to last very long without structure, written agreements, and a plan for developing your management team and employees, so why would you expect your family to succeed without giving them similar guidance and help? By being intentional and explicit about mutual expectations, families are able to build a framework that promotes cohesion and clarity around how to make family decisions, who should be included in family decisions, and for business owners, how the family and the business intersect.

Families might want to consider writing a family charter to memorialize the "rules" and formalize decision making. They might think about utilizing a family council with committees (governance, philanthropic, investment, etc.) to more efficiently meet their objectives and assist in the development of the next generation through committee participation. For family business owners, crafting a family business advisory board could be the key to keeping the business in the family, particularly if there are family members both in and out of the business. An additional layer of heir preparation could be created through a family mentorship program, which would specifically target the development of the next generation. An important element here is that mentors share what they learned through their failures as well as their successes.

Final thoughts

For many families, discussing wealth transfer and inheritance issues can be challenging and overwhelming. It can be difficult to know where to start and the fear of having to share more information than they are prepared to can cause wealth holders to withhold vital information or not do anything. However, if a family can start with these fives things and bring in experienced advisors to help them, the rewards can prove significant. By taking an intentional, methodical approach, family members and their advisors can lay a foundation for lifelong learning that helps them to preserve and grow their wealth for today's generation and those to come.

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