Intentional Inheritance Planning

Three best practices to help families overcome fears of demotivation.

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Key Points

• Many wealth holders fear that sharing information about inheritance will demotivate family members.

• The idea of discussing wealth transfer and inheritance issues can be daunting, but the rewards can prove significant when family members work together to improve communication and strengthen trust.

• While every family is unique, there are some best practices among families who have decided that having an inheritance plan is better than no plan at all.
Uncomfortable conversations about wealth occur within families on a regular basis. What do you say when your children or grandchildren ask the simple question: Are we rich?

If you struggle with how to communicate about your wealth with your own family, you’re not alone. In fact, a large percentage of the senior generation does not share information about wealth transfer with their inheritors.

Less than half of wealth holders say they have provided full details of their wealth transfer plans to younger generations, according to a recent survey Wilmington Trust conducted in partnership with the Institute for Private Investors and Campden Research. The study included 57 respondents drawn from Wilmington Trust clients who agreed to participate, as well as Campden Research’s existing community of members in North America. Thirty were wealth holders who have either created their family wealth or have already received more than half of their expected inheritance, while 27 were inheritors who have not yet received 50% of their expected inheritance.

The survey also showed that only 29% of the senior generation has given their inheritors complete knowledge of when assets will be transferred, and just 10% have provided full specifics on how much heirs will receive.

What is the most common reason for not sharing inheritance details? It’s concern that the anticipation of inherited wealth will demotivate or disempower family members. Of the survey respondents, 30% cited this as a reason for withholding information. The second most common reason, at 20% of respondents, is because they have yet to decide what they are going to transfer and how. These decisions quite frequently get stalled while the senior generation tries to decide how much is too much to leave to future generations for fear of demotivating family members. Third among the reasons cited by 15% is that they are waiting for heirs to grow a bit older.

Are the concerns of the senior generation justified?

Perhaps. The survey found that 55% of inheritors will leave their current job after receiving their full inheritance, and 37% have no plans to continue working in their current position.

This data may suggest that many inheritors truly do plan to jump off the “fast track” when they receive their inheritance. On the other hand, they could be seeking different, more fulfilling jobs or pursuing their passions because they are financially able to do so. Inheritors in their 50s and 60s may simply be speeding up an already planned retirement.

It’s important to acknowledge that some inheritors are demotivated by the perception of an anticipated inheritance, before they even begin to learn about specific wealth transfer plans. They are aware of their family’s wealth by evidence of the family’s lifestyle, and they go through life assuming they will eventually receive a large legacy.

Despite wealth holders’ fears of disempowering heirs, not communicating can be the worst path to follow. While every family is unique, there are some best practices among families who have decided that preparing heirs is important.

1. Develop an intentional plan for how the family will communicate and share knowledge

Families use various methods to communicate their hopes and plans surrounding money, and some work better than others. What doesn’t work is lifelong lecturing forced upon younger family members.

The senior generation may decide to place written restrictions on when and how an inheritance can be used. Without context provided through meaningful discussions about the wealth holder’s desires and the inheritor’s future plans, these constraints can erode trust within a family and destroy an inheritor’s self-esteem.

Rather than parents having “one-off” conversations with children separately, many families are benefiting from having organized, prioritized group discussions around these topics. Often these discussions can begin as
educational sessions. Gathering everyone in the same room, perhaps at a family retreat with a trained third-party expert, can strengthen the bonds among members as they share the learning experience. The survey revealed that many individuals among the senior generation and inheritors alike want to learn about financial topics. Perhaps a good place to start would be with the basics of investing, such as why to invest, different asset classes, sustainable spending rates, and the investing process.

From there, topics can include estate planning and trusts, which the survey found to be critically important areas of interest. With 92% of the survey respondents being beneficiaries of trusts, it’s not surprising that 85% said they are interested in learning more about estates and trusts. They also indicated a desire for their advisors to play a part in teaching them about the estate planning process, as well as how wills, trusts, and powers of attorney work.

2. Use philanthropy as a way to transmit values and work together across different generations
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. This popular topic can be an important door-opener for discussing other monetary and familial issues.

Devising a giving plan enables a family to make meaningful decisions together that engage all family members in the process. The family takes into consideration its interests, current pool of assets, and philanthropic goals. According to the survey, 40% of wealth holders and 30% of inheritors want to learn more about philanthropy. An experienced giving specialist can help a family identify and implement the most appropriate charitable gifts for their particular situation.

Creating 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 a family’s 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.

3. Talk about the risks to the family associated with inheritance
While it’s human nature to avoid uncomfortable discussions, it’s important to discuss openly the risks a successful family faces. Here, too, a trusted advisor can help facilitate conversations by sharing examples or case studies of other families that have struggled to overcome communication challenges.

Families can collaborate to identify and mitigate risks to the family’s legacy. They can determine a proper risk management approach, based on the family’s priorities: growing wealth, preserving wealth, engaging in philanthropy, or a combination of factors. Ideally the family decision making process starts with decisions of lower consequence and work their way up over time.

They can also examine the risks of increasing their spending in anticipation of an inheritance and after receiving one. They should consider the sustainability of spending in different economic environments, as well as the desire to leave assets for future generations. “Sudden money” is not just a problem for lottery winners; unprepared heirs face the same challenges and outcomes.
Risks can also emerge if inheritors don’t feel they are being treated fairly. Families need to be on guard for any potential disconnects between anticipated inheritance and reality, as well as possible discord among multiple inheritors receiving unequal shares. With the help of an advisor, families may want to discuss how the senior generation determines inheritance allotments. Every family’s dynamics are different, which is why it’s important to customize the approach to your family.

It’s critical to get a head start in managing the risk of potential acrimony among inheritors early, rather than waiting until after the current generation is gone. Most successful families need guidance to keep the family unified in their approach, because if the family splinters, both wealth and legacy are likely to be lost.

Final thoughts
For many families, discussing wealth transfer and inheritance issues can be challenging. Fear of demotivating heirs can cause wealth holders to withhold vital information. But the rewards can prove significant when family members work together to overcome their fear by improving communications and strengthening trust. An experienced advisor can play an important role in helping a family move beyond questions such as “Are we rich?” to actually enriching the relationships within a family. By taking a considered, methodical approach, family members and their advisors can lay a foundation for lifelong learning that enables them to preserve and grow their wealth for today’s generation and those to come.