Teaching Fiscal Responsibility Prior to an Inheritance is Important

by Bryson J. Roof

Many parents strive to leave an inheritance to their children — deemed the ultimate financial success.

Most affluent individuals are self-made, achieving success as an entrepreneur or self-funding advanced degrees to become a high-paid professional (i.e., corporate executive, lawyer, doctor, etc.). Others attain prosperity as budgeting mavericks, living significantly below their means and aggressively saving. No matter the approach, most individuals have worked hard for their wealth and want to make certain it is utilized per their aspirations.

Without careful planning, wealth transfer may cause unintended consequences such as financial entitlement, irresponsible financial behaviors or inadvertent asset transfer.

Avoiding Unintended Consequences

A common theme among self-made individuals is the desire to see their children make it on their own. In an attempt to avoid financial entitlement and to maintain privacy, many families do not hold detailed conversations about personal finances.

Unfortunately, entitlement often results from a lack of financial education. Albeit unspoken, most adult children have a general sense of their parent's wealth based on occupation, lifestyle and spending patterns, but heirs typically are not privy to saving rates and charitable donations.

Using a specialized estate planning attorney to draft a will and implement the appropriate trusts is a productive first step in retaining control of assets upon your demise; however, it does not address financial responsibility or entitlement.

A frank conversation with your children is an integral part of successfully transferring wealth. Outline your intent for the inheritance — for example, for educating grandchildren or sustained charitable gifting. Withhold account values if you find the conversation too revealing. The goal is to set the expectation for the inheritance before settling your estate, not to make your children an expert on your personal financial situation. General concepts and percentages will suffice.

Establish a Team of Advisers

Prudently investing a sizable inheritance to achieve the mandates of the deceased can be a daunting task, especially when dealing with the loss of a loved one. Settling the estate of a loved one can be an extremely stressful endeavor as well. Therefore, by proactively creating the appropriate advisory team prior to your demise will help alleviate some of the stress for your heirs. An investment adviser can coordinate with the estate planning attorney to smoothly transition investment accounts.

Generally, people relate to peers in the same age demographic. Seek an experienced investment adviser employing a youthful, tech-savvy support adviser and encourage your children to foster a relationship with the younger adviser.
Exposing your heirs to your investment advisory firm has many educational benefits, ranging from personal participation through investing their own

dollars to a thorough understanding of the investment philosophy utilized by the firm. Most notably, developing an investment advisory relationship across multiple generations allows for seamless account transition without interrupting investment management.

Leaving a Legacy

There is a drastic difference between providing an inheritance and bestowing a financial legacy. Inheritances frequently fund a dream purchase such as a kitchen remodel or that '68 Corvette Stingray two blocks down; whereas a financial legacy is a much more complex mindset based on philanthropic giving, educating grandchildren and capital preservation for future generations.

Financial education and setting expectations are vital to the success of a financial legacy, and full family involvement is paramount. If only one spouse understands the objectives and dies first, the odds of the financial legacy coming to fruition are drastically reduced.

As with any planning, it is important to revisit the plan as circumstances change. Unfortunately, it is not uncommon to see outdated wills that were drafted prior to children marrying and having their own children. The fees to update an estate plan are relatively inexpensive compared to an ex-son-in-law remaining a contingent trustee. Routinely check beneficiary designations on qualified retirement plans to make certain wealth transfers to the intended recipient — for example, not an ex-spouse.

Leaving a financial legacy can be a gratifying experience for parents; the key is to have your wishes fulfilled. Trusts provide control of your dollars upon your demise, while educating successors produces a solid financial foundation to help avoid poor financial behaviors and entitlement.

Financial planning and estate planning are distinctly different. Always consult legal counsel for estate planning. Be mindful of financial planners claiming expertise in estate planning; instead, charge your investment adviser to coordinate with your estate planning attorney to implement your estate plan.

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