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Intentional Inheritance Planning

Five 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. If you struggle with how to talk to your own family about your wealth, 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 survey Wilmington Trust conducted in partnership with the Institute for Private Investors and Campden Research.* What is the most common reason for not sharing inheritance details? Among survey respondents 30% were concerned that the anticipation of inherited wealth will demotivate or disempower family members. Twenty percent said it is because they have yet to decide what they are going to transfer and how. Finally, 15% stated that they are waiting for heirs to grow a bit older.

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.

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 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 strengthen the bonds among members. Establishing a deliberate time, forum, and method for family discussions and decision making is key to long-term success. Families should consider utilizing a communications assessment to understand each family member's preferred methods 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 a 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 and 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. Studies have shown that families who focus on this larger picture are more likely to see their wealth preserved over generations. 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 should consider creating a family mission or purpose statement. Similar to building effective communication, families should consider utilizing 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.

* The study consisted of 57 respondents who were members of families with a net worth of at least $20 million.

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

Senior generations want to ensure 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. Studies have shown that financial literacy is 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. Not surprisingly, the study revealed that many individuals among the senior generation and inheritors not only want to learn about financial topics, but a staggering 85% said they are interested in learning more about 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 important 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 up your heirs 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.

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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 enables them to preserve and grow their wealth for today's generation and those to come.

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As part of the Wilmington Trust Emerald Family Office & Advisory team, Marguerite is responsible for the development and delivery of strategic advice offerings. She provides personal wealth planning to high net worth individuals and their families through the design and implementation of their estate, business succession, and family legacy plans. Marguerite holds a JD and master of laws in taxation from Villanova University School of Law, and earned her undergraduate degree from the University of Maryland.

Marguerite has been recognized by the American Bankers Association as a member of the 40 Under 40 in Wealth Management, Class of 2021. She has been teaching estate planning at Philadelphia-area law schools and is currently an adjunct professor at Drexel University's Klein School of Law. She is a past member of the Philadelphia Bar Association's Probate and Trust Section's Executive Committee and has co-chaired the section's tax committee. Marguerite previously served as vice chair of the board of directors for WOMEN'S WAY.