Inheriting family wealth: How to prepare

For many high-net-worth individuals with children, amassing wealth may be the easy part; successfully passing down that wealth to their children is where things can get difficult.

Often, those difficulties stem from poor planning. Individuals with significant wealth may be busy running businesses and managing community obligations, leaving them with little free time or energy to tend to the logistics and planning related to transitioning their wealth. Or perhaps they're simply overwhelmed by the idea of figuring out where to start and then having uncomfortable conversations with their heirs.

This can leave inheritors in limbo, not knowing what to expect or how to prepare. It's a common situation. According to New York Life's Wealth Watch Survey, less than half of adults who expect to receive an inheritance said they felt "very comfortable" handling the financial aspects of the inheritance.

If you're the parent, you want to prepare your kids for what's to come. If you're the one inheriting your parents' wealth, and if you feel overwhelmed, you're going to want to create your own game plan. Either way, transferring wealth from one generation to another is a good problem to have—but both generations, the one giving and receiving, need a well-thought-out plan, so that the wealth transfer goes smoothly.

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① Understand common inheritance-related challenges

Just as parents and children can have differing tastes in music or spend their time on different hobbies, they may also have different views on how to approach money. At BMO, our wealth management teams observe four main challenges for inheritors when working with high-net-worth families:

A sense of entitlement. Well-off parents may worry that wealth will undermine their children's ambition and financial responsibility. They want to ensure that inheritors will be good stewards of the wealth, and that the expectation of wealth will not get in the way of a child's ambition. As a result, they may want to parse out their inheritance only after children hit certain milestones, such as a college graduation or a certain income threshold which demonstrates ambition, values and purpose. The heirs, however, may feel that an inheritance should come with no strings attached.

An unrealistic expectation of equality. Parents generally hope to treat their children equally or fairly. However, within each family, there are bound to be differing capabilities and needs. This can lead parents to consider providing for inheritors differently. For example, a family might include a child with a chronic illness; or one child may have a lower salary because they chose a less financially profitable career. These differences may lead high-net-worth individuals to consider providing a bigger inheritance to that child to ensure lifetime support and a comparable level of comfort. Unless all inheritors understand the reasoning for these decisions, they may take offense to a smaller share.

A failure to take grandchildren into account. High-net-worth clients might struggle with how to divide their estate equitably when their children have different family sizes. Often, grandparents seek to treat all grandchildren equally, but this could mean one sibling's family receives a larger share if they have more children. Again, it is important for inheritors to understand the philosophy behind this choice to avoid strife.

Uncertainty over how much control to exercise. Leaving lump-sum payments to children who haven't achieved a certain level of maturity can be risky. For this reason, parents often consider trusts to protect children's inheritance and exercise a degree of control—however, from the children's point of view, it may feel insulting that their parents don't trust them to handle an influx of money without guardrails.

Your game plan

Write down some of the challenges of wealth transfer that concern you. This is essentially your to-do list. If you're transferring wealth, and you're just now starting to think about how to go about doing it responsibly, the best place to start is by organizing your thoughts.

If you're the adult child, wondering how you're going to handle your inheritance, or you feel as if you're in the dark on the details, you'll want to start thinking about what you want to ask your parents. With any luck, you've already talked about this, and you simply need to restart the conversation. But before you start any conversation, you need to know what you want to discuss.

② Initiate positive communication through storytelling

Often, the above contentions stem from a simple lack of communication. The solution? Lots of conversations between benefactors and heirs, early and often.

Many people love to talk about themselves—especially when they've lived exciting lives and built successful businesses and careers. While parents may be reluctant to share their estate plans with their children—including how much money they have and how much they intend to leave to each family member—chances are they will relish the chance to tell their story.

Storytelling sessions aren't about dollars and cents—that part comes later. Instead, they can serve as opportunities to learn about parents' unique journey so that children can appreciate the values, vision and mission that led to the creation of the wealth as well as where they fit in.

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During talks, children should keep these things in mind, if they want to both learn more about their incoming wealth and demonstrate that they appreciate this gift:

- Be empathetic and respectful.
- Inquire about how parents created their wealth.
- Ask about the challenges they encountered and how they overcame them.
- Find out about what they consider to be their greatest accomplishment (the answer may be surprising).
- Ask if they have any regrets.
- Prioritize listening over speaking.
- Consider common values, vision and mission that can help bridge any gaps in communications and understanding.

The key to engaging in family storytelling is that within the family story, are the values and strategy that were deployed to garner the family wealth.

Your game plan

Consider bringing in a third party to mediate a discussion. Parents and heirs both have stories to tell and viewpoints. But sometimes a parent can come off as lecturing instead of storytelling. Meanwhile, the adult children may have excellent points why, for instance they should receive money sooner rather than later, or more money rather than less, but come off as spoiled.

Parents may want to invite someone from the outside, such as a BMO wealth advisor or estate and trust planner, to run the family meeting, and children should welcome that—or suggest it if your parents weren't planning to do that. A neutral third party can help mediate and lead the conversation, rather than it falling mostly on the parents or children to get their point of view across.

③ Build a family blueprint

After understanding the family story, move to the next phase: Work with family members to help them more clearly articulate and document their vision, mission and values for the family as part of a "family blueprint."

A family blueprint can include a family tree, mission statement (family goals and objectives), family balance sheet, income tax projections, cash-flow projections and an outline of the estate disposition. It can be a guiding document not only for the values that the family holds dear—but also how the assets, cash flow and estate disposition serve that purpose. It can also help heirs to see their roles and responsibilities within this family construct.

For example, if running a successful business is central to a family's values, the family blueprint helps to lay out the roles that each family member can play.

Likewise, if a major philanthropic value is education funding, the family blueprint can help to instill the sense of generosity and gratitude in younger family members and counter the sense of entitlement that parents may worry about. The family blueprint can articulate what form that philanthropic strategy will take. It allows the younger generation to learn about money management and due diligence in a supportive environment, under the watchful eye of a matriarch or patriarch.

Your game plan

A family blueprint should be an evolving document reflecting market conditions, changing family dynamics, life events and philanthropic focus. If you are stuck, trying to decide how your family blueprint should look, keep in mind that a professional, such as a wealth advisor or estate planner, can help households create your document. You can think of it as similar to a country's constitution. They're your family's rules, what everyone will look for when you need guidance in the future, but it doesn't mean it can't evolve over the years. Expect to revise it time and again as things change; however, it can consistently serve not only as a strategic guide to moving toward family goals and objectives, but also as a means to educate family members regarding the wealth breakdown.

④ Master the family meeting

After understanding the family story and turning it into a blueprint for the future, it may be time to delve deeper into conversations about wealth transfer. Use the structure of a family meeting to provide the space for that to occur. Family meetings can be an opportunity for information gathering and working together to resolve potential problems.

Some families have well-established, open lines of communication. Their family meetings can be as simple as a hike in the woods or a Sunday brunch—pretty much any time they gather together. Other families prefer a more formal approach. They might want to set aside several times throughout the year to discuss family business.

Regardless of how the family conducts its meetings, make sure there's an agenda, so nothing falls through the cracks. Assign action items for each member to tackle before the next meeting. If the family is finding it difficult to get started, as noted, consider using a third party to facilitate a family meeting.

Your game plan

As the family moves forward with the wealth transfer process, parents can start assigning roles to different members based on their interests and skill sets. For instance, if you have a family business, and you haven't discussed who, if anyone is taking over, this is the time. If you think one adult son or daughter should have power of attorney over your finances or healthcare, this is the time to start discussing that as well. Adult kids should express their interests and hopes as well. You may not want certain responsibilities, or you may be very interested in them. Your parents aren't mind readers.

Your mission, as the parent or child, may be to compromise, hopefully in a way that makes everyone happy. Usually, no side is 100% right. If you're coming from the parents' side, recognize that you probably did an excellent job raising your kids, who may have more financial insight than you realize and a fresh point of view worth considering.

The adult children should remember that your parents earned the wealth they want to transfer, and so they clearly have been doing something right and have a lot of financial wisdom. That's something adult children don't want to lose sight of.

Final thoughts

In a perfect world, all benefactors would have a well-thought-out plan for transferring their wealth. They'd explain their intentions and help their heirs learn their roles and responsibilities, and the generation receiving wealth would spend the money without any issues or mistakes.

But life doesn't always unfold in an orderly way or provide such a roadmap. It's also understandable if you've been busy living your life, rather than thinking deeply about transfering generational wealth. But by playing a more active role as outlined above, both the givers and inheritors can empower themselves to be educated, responsible and prepared.

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