ARTICLE:

Preparing Heirs: The difference between giving and empowering

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Many successful families worry about the impact wealth will have on their adult children. Some worry the children will lose their motivation in life. Others fear discord among siblings inside or outside a family business. Historically, estate planning used legal structures and specific language embedded in trusts to put controls in place. One theory has been that if the children don't receive the wealth until they're old enough to handle it, things will work out alright. Often we have seen this theory and plans for family businesses not work well, sometimes actually creating problems.

Why are trust distributions based on attained age often problematic? First, people mature at different ages and follow varying paths in life. Distributing large sums of money at attainment of predetermined ages doesn't account for the individual needs and abilities of the recipients. Second, age and maturity are not necessarily effective measures of one's ability to meet the responsibilities of stewardship for the family's wealth.

DEVELOPING A FAMILY MISSION STATEMENT

Parents can work with an advisor to document their vision for the use of the family wealth during their lifetimes and after their passing. Family meetings can be used to communicate and/or revise the vision. The older generation initially does not have to disclose all financial details, or give up control of assets to start educating their children and grandchildren about wealth.

Many families believe each family member should be encouraged to develop and live out their own life path, and shouldn't be overly pressured to continue in the footsteps of the patriarch or matriarch. When adult children are empowered to develop their own dreams and discover their own strengths and motivations, money can become a powerful enhancement as opposed to a potentially harmful and disempowering element in their lives.

MANAGEMENT VS. OWNERSHIP

A sound strategy is to prepare heirs in advance of receiving an inheritance. By providing mentorship and experiences with limited assets at stake, heirs can build necessary capabilities and parents can observe the progress.

Self-made people know that while a manager runs a system, an owner drives vision. A knowledgeable and experienced heir will be more able to understand the opportunities and responsibilities that come with wealth ownership. This can help prevent the harmful effects which can come from people believing they are entitled to a large inheritance, and also any negative views of wealth and corresponding irresponsible behaviors. This process can empower heirs with a desire to influence the positive use of the family's wealth.

Mentorship can begin with sample projects, like operating a Family Bank. Adult children can work with professional advisors developing strategies for an entity to hold the assets, and work as a team to ensure money is used in accordance with the family vision. The children keep the parents apprised of their progress. Other projects can be executed around philanthropy.

Parents can observe growth in their children's skill and self-confidence for being future wealth owners. Children may become more engaged in conversation around the opportunities and responsibilities of wealth. Parents will likely observe different strengths in different children, helping identify distinct and important roles each can play in the preservation of the family's wealth.

Successful people know that proactivity increases confidence and control over the results. Consider the incredible influence you can have over the future of your family and your family's assets by modeling this kind of proactivity and preparedness for your heirs.

As always, please feel free to call us at 216-765-0121 regarding this or any planning related questions.