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ESTATE PLANNING

What to Tell the Children About Their Inheritance and When

Wealth Matters

By PAUL SULLIVAN JULY 20, 2012

JESSIE SPECTOR was determined to give away her inheritance as soon as she received it. She said her parents intervened and advised that, at 23, she should take time to think about it. What if she wanted to buy a house one day?

When Naomi Sobel learned at 20 that she would receive a large inheritance, she said she knew it was a lot of money, and for her, too, it raised questions about a house: would it be enough to buy one? She laughs at this today, since it would have paid for many, many homes.

“I have enough money that I don’t ever have to work,” said Ms. Sobel, now 28.

Inheriting money would seem like one of life’s unabashed blessings: someone gives you a lump sum just for being you. For the rest of us, inheritors seem like a democracy’s version of royalty: born into a world of privilege we would love to know. Yet the inheritors I spoke to said they were ill equipped to handle the windfall and found that it quickly made them feel separate from their peers.

I have written recently about very wealthy people taking advantage of the $5.12 million gift tax exemption to give their heirs money now and save on estate taxes later. But what makes the issue of inheritance broader is the amount of money that is expected to change hands at different levels of wealth.

Accenture reported in June that baby boomers will leave $30 trillion to their children in the next 30 to 40 years. (This is on top of the nearly $12 trillion that MetLife predicted in 2010 that boomers would receive from *their* parents.)

Regardless of the amount, the decisions surrounding bequests are routinely made to maximize tax benefits but often without any input from the people who will inherit the money. “I ask any dad, ‘Do the kids know how much money you have?’ ” said Roy Williams, president of the Williams Group, which consults with families on transferring wealth. “Dad turns white and says, ‘Are you kidding?’ ”

Mr. Williams has outlined a plan to transfer wealth in the book he wrote with Vic Preisser, “Preparing Heirs: Five Steps to a Successful Transition of Family Wealth and Values” (Robert Reed Publishers, 2003). But he said it boiled down to parents’ talking openly about the money.

“When you’re looking at it from a broader, more holistic perspective, you can say what are we trying to accomplish,” he said. “If you don’t define it as money and things but as our values, that’s a huge, huge opportunity.”

Ms. Sobel, who works for the nonprofit Astraea Lesbian Foundation for Justice, said she wished she had had a better sense of the size of her wealth earlier in her life. She found out all at once when her grandfather died and her mother was put in charge of the family affairs. She was a junior in college, and her mother flew out from New York to discuss the inheritance.

“She took me to meet with the trustee of my trust,” Ms. Sobel said. “He handed me a totally incomprehensible stack of documents, which I never referred to. A couple of months later we hired a financial adviser.”

At least her mother talked to her in person. Jason Franklin, now 32, said he received a call from his grandfather’s secretary asking if he wanted to serve on the board of the family foundation. He was 21 at the time, and up until that point, he said he thought his parents were just affluent professionals like his friends’ parents. The invitation prompted questions.

“If your family has enough money to create a family foundation, that means you have to ask about issues of wealth,” said Mr. Franklin, who works for a philanthropic consultancy. “It caused me to really pause. The reaction I was getting from my friends — it was isolating and confusing."

This reaction is pretty common. Coventry Edwards-Pitt, chief wealth advisory officer at Ballentine Partners, said many of her clients did not talk about money with their children for fear that it would rob them of motivation, but silence about something so obvious leaves them trying to figure it out on their own.

She said parents did not necessarily need to talk about numbers but should ask their children for their thoughts about the family's money.

"Parents often think, oh, we're going to be embarking on this sophisticated wealth transfer strategy so maybe we should talk to them about investments and assets," she said. "When you ask the kids what they want to talk about, they say, 'Does this affect me now, or is this money I'm going to inherit when I'm 50?' "

This was similar to how Ms. Sobel felt. "I didn't want to meet with people who were talking about investments," she said. "I was a gender studies major. I had a new girlfriend. I was doing activist work. This was something that had never been in my day to day, and I wanted to know why I had to prioritize it."

What she wished was that her parents had talked to her more openly about how different their life was from everyone else's — something that became apparent when she left Manhattan and landed at the University of Chicago.

"My mom didn't feel comfortable talking about money," she said. That fell to her father, who was a public-school teacher. "He tried to teach me how to fit into the world."

What heirs should know and when is the question every parent wants answered, Mr. Williams said. "The biblical story about the prodigal son was really about a son who wasn't prepared," he said. "It's the same problem today."

The better question parents should ask themselves, he said, is what they want to accomplish with the money. Waiting may result in a higher tax bill but could avoid generations of family discord.

Jeff Ladouceur, director of solution development at SEI Private Wealth, said he sometimes suggested that parents give their children a small amount of money at an early age and see what happens. Beyond that, though, his best advice is to take their time.

“People often talk about the values around money, that they want their kids to think about other people and they want them to be entrepreneurial,” Mr. Ladouceur said. “That’s a lot of talk. The more I talk, the more my kids zone me out. But if I exemplify the action, they seem to get it quicker.”

Ms. Spector, who is now 25 and works as the program director at Resource Generation, a group of socially minded young inheritors, said her parents had always been generous in helping out friends in need and being involved in their community. But her family had never talked about how much money was in the trust funds she and her cousins would receive.

“For lots of us, we’ve not been given the tools to talk about money because it’s not polite,” she said. Yet she had the advantage of coming from a family that had been wealthy for generations and was able to advise her.

This is where taking time to figure things out matters. Doug Ideker, 58, has spent the last nine years, since he sold his building supply company, Gypsum Products, working with his wife, Terrie, and their two sons to make sure their money is put to good use.

“I felt a greater responsibility to make sure my kids knew what the expectations were and to make those expectations realistic,” he said.

Mr. Ideker said he was fortunate that his sons, 29 and 33, had seen him go to work every day and knew the sacrifices he had made in building his business.

“But all of a sudden that stopped and there was this pool of money sitting there and they saw me throttle back,” he said. “It would have been easy for them to think, ‘Hey, this is pretty good.’ To their credit, I don’t think they ever thought that way.”

He added, “Terrie and I were very open and honest with them: they needed to be responsible citizens, they needed to create jobs, and they also knew that we had expectations that they would give back.”

That’s a lesson that anyone can apply.

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