Wealth Strategies
Family Wealth Transitions
Part 10 of 12
What are you missing in your estate plan?
An estate plan may have been created, but many plans are still missing crucial elements that can make or break the plan.

For years, financial planning professionals and estate planning experts have worked with their clients on creating a sound estate plan. Countless hours have been spent by these advisors, improving themselves and their profession, studying the most effective strategies. As laws change, so do the estate planning strategies, and all professionals must keep informed. With cumulative knowledge, the professionals help those in need by crafting an effective estate plan that is tailored to the client’s specific needs.

For most people, the estate plan includes items such as a basic will, a trust, durable power of attorney documents, and medical or healthcare directives. All of these documents are packaged together for the client with instructions for designating property correctly along with safekeeping of the documents. The hope is that the client goes home happy, knowing their advisor understands their needs and will pull together the bulletproof plan. Likewise, the advisor goes home happy knowing their client now has the appropriate documents in place if anything were to happen to the client. Without all of those hours of education and practice, none of this would be possible. At first glance, everything seems to be in place. However, at this point, the client and advisor should be asking some additional questions that are pertinent to the plan’s success:

1. How do we communicate the strategy to those that are responsible for carrying out the wishes of the client?
2. How do we prepare those beneficiaries and responsible individuals for implementing the plan?
3. When is the appropriate time to communicate this strategy to the beneficiaries?

Metaphorically, it would be similar to an architect and engineer drawing up the perfect plans for a new downtown high rise, but never actually communicating the most important aspects of the building designs with the party that was carrying out the plan of building it.

All too often, the specific details of the estate plan are revealed after death. This alone can create some potential problems. Hollywood movies usually portray the tense moments as the family gathers around for the reading of the will, most famously in The Grand Budapest Hotel. Chaos reigns when the family attorney reveals the will. We see it on commercials as well, most notably DirecTV involving the son receiving a subscription to DirecTV, which he celebrated as if it were the prize inheritance.

If we were to follow the Hollywood script, the client would be satisfied, knowing the appropriate estate planning documents were created and assuming no more work was necessary until the family takes over at death. It’s assumed the plan would be carried out in those final moments with the reading of the will, just like the movies. Unfortunately, in real life, just like Hollywood, real drama does take place because family members were uninformed and the details of the estate plan were never communicated.
There can be a number of reasons an estate plan goes awry. Some family members feel they are being treated unfairly. A successor trustee may be overwhelmed by the responsibility bestowed upon them. A beneficiary may not know how to manage the inheritance that has been suddenly thrown in their lap. All of these things can happen even with an estate plan in place. But this is the exact opposite of what an estate plan should provide. Most family members or beneficiaries involved try to avoid a surprise outcome. If we were writing the perfect Hollywood screenplay, family members wouldn’t show up to the reading of the will, because there would be no need; every family member would already know their role. Each family member would know what to expect from the estate plan, as the specific plan had been communicated to them months or even years in advance when the plan was developed.

What does it mean to be unprepared?

For starters, if you have no will and no estate plan in place, you are most likely unprepared. At a minimum, a will allows you to express your wishes as to what will happen with your personal property at death. An estate plan can become more complex than having just a basic will. Having a will typically means the estate will still pass through the court process called ‘probate’. Some take the next step and create a personal trust to avoid the probate process. In addition to the will and trust, those with children that are still minors may create guardianship provisions covering who would care for their children. Durable powers of attorney designations name another individual to make financial decisions at incapacitation. (For a more in depth look at estate planning, see our first Wealth Strategies Series article: Essential Estate Planning.)

There are many elements to address in an overall estate plan, but there tends to be a common theme among all of these documents and plans. You are naming another individual to be a part of the plan. For most, it’s a family member, possibly a spouse or child. This individual will be a potential beneficiary to your investments or property, a successor trustee to govern the affairs of your trust, or the person who will care for your children. Each position described is one that carries at least a minimum amount of responsibility. At the very basic levels, there are important questions to address:

1. Have they been informed of the need to step into any of those roles?

2. Will they be prepared when the need arises?

Being unprepared means a number of things can potentially go wrong. The problems can range from simple to complex. A lot of the problem scenarios can be avoided with basic communication. It sounds very simple on the surface, but family dynamics usually play a role in making communication much harder than it should be. Why is it so hard to communicate about these types of issues? Communication hurdles exist for a number of reasons. Some may not want to communicate specifics to the next generation due to the fear of the beneficiary’s reaction. Parents may fear that their children with new found wealth may spend beyond their means or become demotivated because of an impending
inheritance. Parents may fear their children won’t be able to manage the money effectively or fear they might even sacrifice family values due to new found wealth. In some cases, the children may not want to engage on the topic because they don’t want to consider their parent’s eventual demise.

Looking at this from a different angle, having no communication at all can be just as bad or worse than the fears described since the potential beneficiaries are left in the dark. Consider the ‘dreamer’ beneficiary who anticipated family wealth was a much greater number and assumed the inheritance would be more than what they will actually receive. If those dreams caused them to save less over their own lifetime, the ‘dreamer’ may find themselves with less money than expected and unable to retire.

Or consider the beneficiary that had no idea the family business had accumulated so much wealth that by the time the business was dumped into their lap, they had no clue how to operate the business and were completely overwhelmed with the amount of money they were expected to manage. Each situation presents a unique set of problems. Without the proper communication, each beneficiary was unable to prepare appropriately for their own life plan.

Whether it is children that may inherit money or individuals named as successor trustees, it’s important to communicate the estate plan to each party involved. Research suggests the biggest cause of an estate plan failing ultimately rests on communication problems. Some families may see it as a private matter and refuse to talk about money. Other families may feel like the children just weren’t ready to hear about what inheritance might be passed down. Whatever the reason, the lack of communication often makes things worse than if the intentions were outright communicated.

**What does it take to be prepared?**

The first step of course is to put the estate plan in place. How the plan is developed can differ from one person to the next. In some cases, you may want to involve the beneficiaries and/or successor trustees in the process. For example, if parents involved the children, they could always make it clear that the parents had the final say, it could be a vital step in the process by offering inclusion from the beginning. When decisions such as who should be designated as the sole successor trustee, you might receive feedback from family members who don’t want the responsibility of being the sole trustee.

If you prefer to go about the process alone in drawing up the plan, you will need to ultimately include the children or beneficiaries once the plan is in place. Ongoing communication will only strengthen the plan and should provide you the confidence that the plan will ultimately be carried out as you wish.

There are varying degrees of informing chosen individuals. For the most part, you want to notify the beneficiaries of their role. For instance, you
would notify the successor trustee under what circumstances they will take over as trustee and how the trust governs distributions to the grantors while living. You would also notify the beneficiaries at death of the grantors. For kids that are beneficiaries, you could take it a step further and provide them with guidance on your own financial plan. If your financial flexibility allows it, there could be circumstances where gifting during your lifetime makes more sense than waiting until death to pass along the inheritance. Every situation is unique, so it’s something you will need to review with your professional advisors.

For children that are potential beneficiaries, there are many ways to engage them on the topic of money and preparing them to inherit family wealth. This can range from teaching young kids about the value of a dollar to discussing family values that are important with the older children. You can help young children by setting up custodial accounts to help them start saving and educate them on investing the money. Teaching college students how to budget when they are on their own can be a lifelong skill. For young adults entering the workforce, encourage them to take advantage of their employer’s 401(k) savings plans that offer matching contributions. Help those with earned income set up their own Roth IRA.

Inheriting family wealth can be about much more than just dollars and cents. By passing down stories of how the family created wealth or topics that impart the family’s core values are ways of extending the family’s true wealth to the next generation. Those values can be passed from one generation to the next along with dollars and cents.

These are some basic initial steps to help engage children in the process. If you’re able to communicate about financial matters and family values, it should help pave the way for successful wealth transitions. If these conversations are challenging for your family, consider having your advisor(s) facilitate a family meeting to discuss these issues.

How do I know if my family is prepared?

The following checklist provides a starting point for assessing whether or not your family is prepared. Careful preparation, communication, and clear goals will significantly enhance the success of your Family Wealth Transition:

**Preparedness Checklist**

- Our family has an estate plan in place and we have created the necessary legal documents to carry out the plan.
- Our estate planning documents are periodically reviewed and are up to date.
- Our financial plan has been completed and is up to date.
- We have communicated our estate plan to our family, the designated beneficiaries, and to the parties that are responsible for carrying out the wishes of our plan.
- Our family understands the basic goals we aim to accomplish with our financial and estate plans.
- Our family continues to have ongoing communications about topics of importance to the family. (financial plans, estate plans, family history, family values)
If you checked off all six items on the checklist, then most likely your estate plan is in place and you have a high probability of a successful transition to the next generation. Any unchecked items will provide you a starting point for improving your plan.

The checklist includes some of the topics we already covered in this article, such as the process of putting your estate plan in place and informing those individuals that are involved in the plan.

The final item on the checklist brings up the topic of family meetings. We previously stressed the reasons why family communication is crucial, but it’s important to note that it’s not just the one-time communication of the plan. Over the years there will likely be changes in the plan. A family meeting is one way to keep the lines of communication open. This ongoing communication is what will help solidify your estate plan and increase the probability of a successful transition to the next generation.

How do we start a family meeting?

Family meetings can be as simple as introducing a topic for the family to discuss at dinner. Or it could be a more formal scheduled activity. Some of this depends on the family members involved and the preference of those holding the meetings. The key is to open the lines of communication, so all parties feel like they can be heard. Through these meetings, all family members can work through some simple topics, hopefully building towards more complex issues like financial and estate planning.

One example would be to set an annual meeting around the holidays to discuss family matters. Topics could be as simple as discussing the importance of saving, or paying off student loan debt or credit card debt. Even non-financial topics like family history or family values can be a starting point. Any of those topics will likely help pave the way to bring up more complex topics like the estate plan.

Another way of bringing the family together for a purposeful meeting is by setting up a family financial decision around philanthropy. It could be as simple as the family deciding to volunteer their time or contribute to a charitable organization of their choosing. The family could discuss or vote on the organization to receive their annual donation. Anyone can set up this process, because it’s not about the dollar amount involved. It’s about encouraging the family members to communicate with each other and can even bring about positive interaction with a particular cause in the community. This type of family involvement will often bring a positive range of results, from family members that become very interested in philanthropy in general to others that may spend time volunteering for the chosen organization. And the best part is this process can be done with children of all ages.

This article and checklist provided will hopefully provide some guidance to overcoming some of the challenges faced in creating and implementing an estate plan that is not only designed properly, but also carried out in a successful manner. Once the
estate plan is created, the process is just beginning. By establishing the open line of communication to other family members, beneficiaries, and successor trustees, any ongoing changes to the plan should be fluid and easy to make. And the ultimate goal of having a seamless transition to the next generation should have a much higher probability of success compared to the plans with little to no communication involved. Let’s rewrite the Hollywood script and turn the drama filled ‘will reading scenes’ into non-existence. Take this opportunity to reflect on how you can improve your communication with your family members and complete the final pieces of your estate plan.

About RFA

Reilly Financial Advisors is a fee-only Registered Investment Advisor, aimed at helping our clients both define and achieve their individual financial goals through four unique service offerings:

1. Wealth Building – for those still accumulating their investment portfolios
2. Wealth Management – for those who have amassed their savings and have specific needs associated with their wealth
3. Wealth Legacy – for those who have accumulated a significant amount of wealth and face unique wealth transition needs
4. Corporate Retirement Services – tailored solutions for plan sponsors and participants

RFA, founded in 1999, services clients around the United States and in more than a dozen countries worldwide. As an independent advisor, we are able to provide our clients with the highest level of Fiduciary services which allows us to make investment decisions based solely in the best interest of our clients. Our goal is to be our client’s first point of contact for all of their financial needs, serving as a trusted financial partner for the long term.