



# *Wealth Strategies*

## **Family Wealth Transitions**



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### **What's Missing in Your Estate Plan?**

All estate plans are not created equally, and many are still missing crucial elements that can make or break the plan when it's needed.

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

For most people, an 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. Without all 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 both be asking the following questions pertinent to the plan's success:**

- **How do we communicate the strategy to those responsible for carrying out the client's wishes?**
- **How do we prepare those beneficiaries and responsible individuals for implementing the plan?**
- **When is the appropriate time to communicate this strategy to the beneficiaries?**

Metaphorically, the process 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 high-rise's design with the party responsible for building it.

All too often, the specific details of an estate plan are revealed after death. This practice alone can create potential problems. Hollywood movies often portray this practice by showing the tense moments as a family gathers around for the reading of a loved

one's will. A notable example of this is in *The Grand Budapest Hotel*, where chaos reigns after the family attorney reveals the will's contents. Commercials often touch on this practice as well, most notably in a spot where the son receives a subscription to DIRECTV after his father's passing only to celebrate it 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 that 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 in the movies. Unfortunately, in real life—just like in Hollywood—real drama can take place due to family members being uninformed and the details of the estate plan failing to be communicated in advance.

There can be a number of reasons that cause an estate plan to go 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.

However, proper estate planning strives to avoid all of this by involving most family members or beneficiaries in order 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 at all, because there would be no need; every family member would already know their role and what to expect from the estate plan, as the specific plan had been communicated to them months—or even years—in advance (back when the plan was developed). ■



# What Does It Mean to Be Unprepared?

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. Having a will typically means the estate will pass through the court process called probate. Having an estate plan goes deeper. Some take the next step and create a personal trust in order to avoid the probate process. In addition to the will and trust, those with children who are still minors may create guardianship provisions covering who would care for their children. Others may choose to obtain durable powers of attorney designations, naming another individual to make financial decisions in the event of incapacitation. For a more in-depth look at estate planning, please refer to *Wealth Strategies: 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 most basic level, there are important questions to address:*

- **Have they been informed of the need to step into their roles?**
- **Will they be prepared when the need arises?**

Being unprepared means a number of things can potentially go wrong, and problems can range from the simple to the complex. Many 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 difficult 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 because they fear the beneficiary's reaction. For example, parents may fear their children could become demotivated because of an impending inheritance. Parents may also fear their children won't be able to manage inheritance money effectively or that they might even sacrifice family values due to newfound wealth. In some cases, the children may not want to engage on the topic because they don't want to consider their parents' eventual demise.

Looking at this from a different angle, having no communication at all and leaving potential beneficiaries in the dark can be just as bad or

worse. Consider the “dreamer” beneficiary who anticipated his family’s wealth was much greater and assumed his inheritance would be far more than he actually receives. If those dreams caused him to save less over his own lifetime, he may find himself unable to retire.

Or consider the beneficiary who had no idea the family business had accumulated so much wealth. By the time the business is dumped into her lap, she may have no clue how to operate it and be completely overwhelmed with the amount of money she is expected to manage.

Each situation presents a unique set of problems. Without proper communication, each beneficiary is

unable to prepare appropriately for his or her own life plan.

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

## What Does It Take to Be Prepared?

The first step is to put your estate plan in place.

How a 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 creation of the estate plan. Offering inclusion from the beginning can be invaluable to the process. For example, if parents wanted to involve their children, they could always make it clear that the children would not have the final say. When decisions such as who should be designated as the sole successor trustee arise, you might receive feedback from family members who don’t want the responsibility.

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



There are varying degrees of informing chosen individuals. For instance, you would notify the successor trustee under what circumstances he or she will take over as trustee and how the trust governs distributions to the grantors while living. You would also notify the beneficiaries upon death

of the grantors. For beneficiaries who are also your children, 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.

When your children are your potential beneficiaries, there are many ways to engage them on the topic of money in order to prepare them to inherit family wealth. If you are able to set up custodial accounts for your young children, this will help them to start saving and can be a great way to educate them on investing money. Teaching college students how to budget when they are on their own can be invaluable to their future financial wellbeing. 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 to set up their own Roth IRA.

Inheriting family wealth can be about much more than just dollars and cents. Passing down stories of how your family created wealth or that impart your family's core values are good ways to extend your family's true wealth to the next generation. These values can be passed from one generation to the next along with dollars and cents.

The above are some basic initial steps to help engage children in the wealth transition process. If you're able to communicate about financial matters and family values, it should help pave the way for a successful wealth transition. 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 your family is prepared. Careful preparation, good 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 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 the parties 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, etc.).

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If you checked off all six items on the list, it's most likely that your estate plan is in place and you have a high probability of a successful transition of wealth to the next generation. Any unchecked items will provide you with a starting point for improving your plan.

The checklist includes several of the topics we've already covered, such as the process of putting your estate plan in place and informing those individuals 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 we're talking about more than just a one-time communication of the plan. Over the years, there will likely be changes to the plan. A regular 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 of wealth 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 scheduled, more formal activity. Some of this depends on the family members involved and the preference of those holding the meetings. The key is to open up the lines of communication so that all parties feel they can be heard. Through these meetings, all family members can work through simple topics, hopefully building toward more complex issues like financial and estate planning.

If you're a client of Reilly Financial Advisors, family wealth transition planning and accompanying meetings are a service provided to you at no additional cost. But even if you're not a client of ours, there are still steps you can take on your own to accomplish your goal.

One option 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 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, such as estate planning, at a future date.

Another way of bringing the family together for a purposeful meeting is to set 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 family members to communicate with each other and bringing 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 who become very interested in philanthropy in general to others who may spend time volunteering for the chosen organization. And the best part is that this process can be done with children of all ages.

We hope that we have been able to provide actionable guidance on 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. Remember that once your estate plan is created, the process has only just begun. By establishing



an open line of communication with 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 creating a seamless transition of wealth to the next generation should have a much higher probability of success compared to plans with little to no communication involved.

Let's rewrite the Hollywood script and turn those drama-filled will reading scenes on their heads. Take this opportunity to reflect on how you can improve your communication with family members and complete the final pieces of your family wealth transition plan. ■



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- **Wealth Building**  
For those still accumulating their investment portfolios
- **Wealth Management**  
For those who have amassed savings and have specific needs associated with their wealth
- **Wealth Legacy**  
For those who have accumulated a significant amount of wealth and face unique wealth transition needs
- **Corporate Retirement Services**  
Providing tailored solutions for plan sponsors and participants

Reilly Financial Advisors, founded in 1999 and headquartered in San Diego, California, serves clients around the United States and in more than one dozen countries worldwide.

As an independent advisor, Reilly Financial Advisors is able to provide clients with the highest level of fiduciary services, making investment decisions based solely on their best interests.

At Reilly Financial Advisors, it is our goal to be clients' first point of contact for all their financial needs, serving as their trusted financial partner for life.

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