Center for Family Legacy

Freedom within a framework

Imagine… you build a successful business enterprise through years of hard work. You decide to retire and place the enterprise in the hands of new management. However, the new managers have no understanding of the company's products, goals, history, values or mission. They have no experience in the field, let alone a basic knowledge of day-to-day business functions.

There is great likelihood a company will not succeed under these conditions, and realistically, you would never trust these individuals with even one dollar of your hard-earned wealth. Unfortunately, this is exactly what you are doing with your estate if you do not take the necessary steps to prepare your heirs for the responsibilities that lie ahead.

But… like other parents you are naturally worried about the impact that telling your kids about your wealth will have on them.

- Will they be treated differently by society? Will others take advantage of them?
- Will having access to money lessen their motivation and their desire to work?
- Will they consume the wealth in wasteful ways or make poor investment decisions?
- Will they have nothing left to pass on for their own children and grandchildren?

Unfortunately, the answer to these questions is most often "yes." This is the scenario for most families of wealth as 70% of families fail to successfully pass their wealth on to the next generation. Successful transition is defined as "wealth remaining under control of the beneficiaries". If the asset ownership changes form (for example, the business is sold) or the wealth is redistributed voluntarily through a philanthropic decision, it is not measured as a failure.[1] How is this possible? Studies show that the primary causes relate to reasons other than investment performance or poor estate planning; 60% of the time it is because of a lack of communication and trust within a family, and 25% of the time, it is due to ill-prepared heirs.[2] However, you have the power to change that outcome!

You have the capability and resources to equip your family to increase the probability that the wealth sustains, grows and benefits many future generations. And it all begins with two core principles: communication and education.[3]

TRUIST

Wealth

The path of good intentions

Most parents want to give their children a better life than they had, and wealthy parents are often in the position to do so. While the intention is good and sincere, the end result often causes more harm than benefit to the children.

Some parents take the approach of exposing the children to any and all opportunities without limitation. The result may be children who feel entitled, or do not understand and appreciate the value of a dollar. They have no sense of boundaries and do not understand why others react with jealousy or negativity to their sense of entitlement. Recently a parent was struggling over the choice of encouraging their college age child to get an internship over the summer or to spend the summer traveling around Europe (for the third summer in a row) on a family vacation. Despite the good intention of providing unique experiences to a child, the parent could inadvertently detract from their future professional opportunities and life experiences by encouraging the vacation.

Other parents take the opposite approach, and provide only necessities. They communicate a "scarcity" mentality and do not discuss the family wealth in an attempt to shelter the children from the realities of the "golden ghetto."[4] Again, the intention is honorable, but this results in children who are unprepared for a future with wealth, who lack knowledge of managing the family business or family wealth. In addition, children may not take advantage of opportunities such as starting a business, pursuing a career that is most satisfying to them regardless of salary, or making an impact on society through charitable giving because of this lack of knowledge. A client who did not know of a large inheritance until he received it in his late 40's shared, "I always dreamed of being a teacher but knew I could not afford to live on the salary and take care of my family. I have been miserable at my job for the last 20 years for no reason."

The ideal, of course, is to find balance somewhere in the middle. It is possible to provide a comfortable lifestyle and expose children to value-added experiences while at the same time set appropriate boundaries. It is also possible to communicate openly and honestly with children about wealth and the business or circumstances that created the wealth. We strongly recommend families educate the next generation to be productive, contributing owners and successors of wealth. With that said, we believe it is also important to recognize that it is never too late to create a positive shift in behavior and mindset.

Key principles in preparing the next generation for life with wealth

Truist Wealth Center for Family Legacy's long-term education plan is based on five key principles:

1. Values guide actions
2. Money must mave meaning
3. Family comes first
4. Involvement equals commitment
5. Freedom within a framework

Values guide actions

The process begins and ends with values. Values must inform and guide all actions and family wealth decisions. Heirs will share and support their family's priorities and mission only to the extent that they see their values reflected in those of the family.

Talking to children about how they should behave and the values you want to instill is important. But as we have experienced, often actions speak louder than words and kids can struggle with the implicit message "do as I say not as I do". It is for this reason that we recommend the education process focus on instilling values in the next generation both through formal and informal education as well as through role modeling the behavior you want to see. For example, if you want to instill the importance of giving back, have the family spend a portion of your vacation time volunteering at a local organization. Collaborate with your children on where to give of your time and money and what type of impact you can make. If you want your children to have a strong work ethic start to instill responsibility at a young age through household chores and entrepreneurial ventures like a lemonade stand. Author Joline Godfrey says that, "Exploring entrepreneurship is an excellent means of introducing the language and concepts of money into 'real life'. Balance sheets, profit and loss, budgeting—all these concepts may be understood more readily in the exciting realm of 'having my own business'."[5] Talk to your children about the benefits of working and what you have done throughout your life whether it be managing a business, participating on boards, volunteering or raising a family.

Money must have meaning

We believe families must be bound together by more than financial and legal ties. If family wealth has only economic meaning, it will be spent. In preparing the next generation to inherit wealth, it is important that the process includes not only teaching about wealth itself, but teaching about the family's history and values through sharing stories and traditions over generations. This enables inheritors to feel proud of the family's achievements, connected to the family's wealth and motivated to continue the legacy. This is what makes money have meaning.

Through celebrating your family's past, the next generation will likely feel connected to the source of the money and the hard work, dedication and perseverance of the wealth creators and subsequent generations. Memories and photographs fade so it is important to pass down stories over generations through repetition. Families write stories about their history, create photo albums and build family websites as a way to capture the memories. Preserving family memories is highly recommended but detailing your family's history in a book that sits dusty on the shelf falls short of accomplishing the goal. Set aside time to pull out the albums and reminisce about stories from the past and share experiences that are taking place today. A client once said that they know more about their work colleagues and associates' accomplishments than they know about their own family's. Many of us can likely relate to this in today's society. It is the stories we pass from generation to generation that make up our lives and remind a family of the values and meaning behind the money.

Family comes first

It is our experience that the most successful families put family relationships as a priority over money. The money is best when it is in service to the family, not vice versa. This, of course, does not mean making poor financial decisions. The key is to keep the family in mind when making these decisions and not sacrifice one for the other.

It is important that family leaders be open to making decisions that will be best for the whole family rather than the individual. It is helpful for leaders to learn to communicate effectively and manage conflict without the emotional involvement that is inherent with family members.

We encourage families to have a formal governance structure in place that makes explicit the family's shared values and family mission statement that sets the long-term direction for the family as a whole. We recommend families discuss the importance of education and consider requiring that the next generation engages in formal education that prepares them for their future roles and responsibilities as wealth owners. This can be done through creating an Education Policy that outlines the agreed upon expectations and parameters. We have seen a number of families set up an education fund that family members can apply to for money to fund additional education and then require the individual to report back to the family regularly about their experience and progress. In addition, it is recommended for a family to document how decisions are made, create governing bodies to foster communication, and to solidify and communicate agreed upon roles and responsibilities of family leaders. Family wealth expert James Hughes states, "To successfully preserve its wealth, a family must form a social compact among its members reflecting its shared values, and each successive generation must reaffirm and readopt that social compact."[6]

Involvement equals commitment

This principle rings true in all areas of our lives. As Thomas Jefferson said, “That government is the strongest of which every man feels himself a part.”[7] When we are engaged and involved in decision making we are often more willing to take on additional responsibility and feel committed to the end result. Family members should be given involvement and representation before being expected to be (and remain) committed.

Open, honest, and healthy communication between family members creates trust, and trust can help prevent family conflict. Develop a plan as to how to incorporate the next generation into your family enterprise. Start having portions of your family meetings be inclusive where the next generation is encouraged to ask questions and speak their mind. Seek feedback from kids on what most interests them about the family enterprise and where they would like to be more engaged.

We have found that involvement in family decisions helps with the development of personal and professional competencies. Heirs will begin to take ownership of their life, defining success by their own terms and identifying individual passions that can help grow wealth.

Freedom within a framework

Wealth provides opportunities but comes with responsibilities. Heirs are much better prepared for their inheritance if they become educated about both the opportunities and the challenges of living with wealth and develop the ability to recognize attitudes and emotions related to wealth.

Heirs need to build competencies around managing their personal finances. Eighty percent of parents believe that their children learn everything they need to know about money in school while 90% of students say whatever they know about money they learned from their parents.[8] It is for this reason that it is important parents teach about saving, investing, and budgeting and help children at a young age get into the habit of responsible money management. It is beneficial for heirs to learn to identify how they can positively impact their communities and society.

Think of this journey as a highway. The goal when raising children is to give them the entire road to drive on but ensure they stay between the lines. Kids need the leeway to make their own mistakes and boundaries to keep them safe and on the right course. We believe these five key principles should be introduced and implemented to provide the guardrails. Once these boundaries are solidified then all that is left is letting go and allowing children to have their own experiences and learn from their successes and mistakes. This is what we mean by “freedom within a framework”.

Conclusion

Though the challenges to successful wealth transfer across generations may seem overwhelming, they can be overcome. Success requires a commitment of time and energy by the entire family, as well as input from friends, teachers and professional advisors.

The end result...

- You have improved the odds of sustaining and growing wealth across generations.
- Your child’s self esteem and sense of self worth is enhanced.
- Your children are better educated and positioned to be happier and more successful.
- Your family relationships are deepened.

What better legacy can you leave?

Author: Truist Wealth Center for Family Legacy

Getting started

We recommend formal education about responsible money management as early as age five. Pay your child a weekly allowance and have them divide it into three buckets: saving, spending and giving. Related to the **spending bucket** create a very basic budget and help your child record their “income” and “expenses” (which for a five year old may be candy and toys). Talk about the difference between needs and wants and how to make smart spending decisions by picking quality, sale and/or returnable items. Let your child spend this bucket on whatever they want—but if they run out do not replenish. The learning often takes place when one feels the pain of not being able to see a movie with friends because they chose to spend their money on clothes or a game instead.

When discussing the **saving bucket**, highlight the benefits of saving and how you can earn interest by saving in a bank account. Take the child to the bank once a month to deposit the saving portion of their allowance and show them the bank statement earning interest. Provide examples of what would happen if they left the money in the account for an extended time frame.

Finally, around the **giving bucket**, discuss the importance of giving back and help your child consider what organizations they most want to help. Take them to volunteer at various organizations if possible and have them ask questions of the staff regarding what the charity would do with their money.

As the child ages add an **investing bucket** and have your child start building a small portfolio they can track over time. Online simulations such as Investopedia or Stock-Trak will allow one to invest $100,000 of fake money and manage a portfolio over a period of time.

Being responsible with money is a habit and requires practice. It is much easier to begin with a young child than a teenager or college student no longer living under your roof. With the allowance you can set limits and monitor spending while providing your child the freedom to make their own decisions. Mistakes will be made but they will likely be less costly. Bouncing a check, missing a credit card payment or blowing one’s savings at age 19 is much less impactful than doing so at age 35 with a mortgage and three children to support.

Recommended resources for children

Books

- *Money Sense for Kids* by Hollis Page Harman
  This book introduces basic concepts related to money, from how to invest it and make it grow, to how to open a bank account, to how to write a check and keep track of your money, using fun and engaging learning methods.
- *Lemonade in Winter* by Emily Jenkins & G. Brian Karas
  This picture book tells a great story of the struggles and excitement of running a lemonade stand in the wintertime. It is a great resource to start discussions around entrepreneurship and money.
- *Amelia Bedelia Means Business* by Herman Parish
  This book follows the story of Amelia and her quest for a new bike. She determines that she will need to get a job in order to buy the bike she desires.
- *Blue Chip Kids* by David W. Bianchi
  This book is a great basic guide to money, investing and the stock market and why kids should be interested.
- *The Teen Money Manual* by Kara McGuire
  This book addresses the concepts of earning, saving, spending, investing and protecting money in a way that is interesting and applicable to teenagers and young adults.

Recommended resources for parents

Books

- *The Opposite of Spoiled* by Ron Lieber
  This book offers very practical advice on talking openly to children about money and how it can help in raising modest, patient, grounded young adults who are financially wise.
- *Raising Financially Fit Kids* by Joline Godfrey
  This book aims to help parents send their children into the world as financially savvy adults by identifying 10 specific skills that can be mastered by children ages 5 through 18. These include saving, keeping track of money, spending wisely, living on a budget, investing, handling credit responsibly, and using money to help others.
- *A Wealth of Possibilities* by Ellen Perry
  This book is a practical guide for families with advice on dealing with family tension, raising responsible children to do what is right and helping to ensure that future generations lead grounded, meaningful lives.
- *Kids, Wealth and Consequences* by Rich Morris and Jayne Pearl
  This book helps educate parents on how to provide their children with the monetary and psychological skills needed in today's world and to instill a strong work and philanthropic ethic.
- *Children of Paradise: Successful Parenting for Prosperous Children* by Lee Hausner, Ph.D.
  This book offers a clear nine-step program for affluent parents to improve their skills and inspire healthy financial values in their children.
- *Silver Spoon Kids: How Successful Parents Raise Responsible Children* by Eileen Gallo, Ph.D. and Jon Gallo, J.D.
  This book is geared toward affluent parents and discusses a multitude of issues surrounding how to ensure a financial well being.

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Know more. For more information, please call 866.506.1989
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