Ensuring Success in Wealth Transfers

Involving and Preparing the Beneficiary

By Kathleen Burns Kingsbury, LMHC, CPCC, and James Grubman, PhD

A football quarterback prepares to throw a long pass downfield in the hope of winning the game for his team. He has but one chance to make this happen. He has been coached by the best, he has carefully studied pass-throwing techniques, and he has planned exactly where he will aim the ball. In addition, he and his coaches have selected and prepared the sleekest, best-weighted, best-spinning pigskin on the market. No detail has been overlooked. The player tries to anticipate the weather and all possible interference by the other team. Finally, the ball is launched, sailing perfectly in a long arc toward the receiver . . . who fumbles the catch.

Why? No one bothered to train the receiver. Everyone was focused on the quarterback and the ball. They failed to prepare the receiver for catching and carrying the ball to victory. The game is lost.

This discouraging scenario plays out time and time again in inheritance and wealth transfers. Of the three main elements in wealth transfer—the trust creator (the settlor), the wealth, and the beneficiary—wealth transfer strategies overwhelming are targeted toward the first two. The vast trusts-and-estates business is focused on minutely defining the settlor's wishes in controlling the transfer, timing, direction, and eventual handling of the wealth. The wealth management industry is charged with ensuring the money is of a defined size and configuration, that it is able to withstand buffeting by the winds of the market during its journey, and that it arcs toward its destination without being grabbed by the many opposing players who wish to get their hands on it—the Internal Revenue Service (IRS), other jealous beneficiaries, and potentially grasping ex-spouses.

Yet minimal attention, if any, is given to properly preparing the recipient of the wealth—the beneficiary—for his or her role in the transfer. The main reasons are the preconceptions, anxieties, and skepticism that exist about talking to those who are to receive wealth and ultimately carry its precious responsibility. Compare this to football where the quarterback and the receiver plan and practice their roles together until they are satisfied that each knows what the other can and will do, with confidence.

Effective wealth transfers occur when shared communication about the transfer and preparation of the beneficiary are integrated into the planning. Assisting in these crucial elements may be one of the most rewarding aspects of your work with clients. It also may ensure your clients are both happy and proud of the result.

The Importance of Wealth Transfer Conversations

Wealth management experts emphasize the benefits of collaborative estate planning in order to achieve wealth transfer success (Bokman 2009). Williams and Preisser (2003) found that 70 percent of the families studied failed to sustain wealth across generations. Only 3 percent of the wealth transfers miscarried due to errors in technical problems with financial planning, taxes, or legal issues. The main reasons for lack of success were lack of family communication and heir preparation.

Most families don't have a roadmap for engaging in productive conversations about wealth. The cultural taboo that shrouds talking about money runs deep in our society, especially in affluent households. Elders struggle with how to make estate-planning decisions that are equitable, because their children's situations may have important disparities that require rethinking the "fair is equal" rule of good parenting. Adult children stay silent despite their natural interest, assuming that if their parents wanted to discuss the family's wealth, they would take the initiative. The next generation doesn't want to appear greedy, yet they may have very realistic needs that require effectively planning for certain decisions. Clients struggle with how to start the dialogue, how to handle the real or anticipated discomfort of talking about money, and how to work through conflicts that may arise when family members share different perspectives.

Clients need some guidance and support to get the dialogue started. Because they see you as likely to be experienced in financial issues for families, they may be more interested in having you facilitate these conversations than you may realize.[1] What clients may not know is that you get a few butterflies yourself when thinking about getting drawn into family conversations about money. It's common for advisors to feel hesitant to engage a family in this type of conversation. You may feel you are no more capable of coaching anyone on these matters than the family is. So your hesitation to broach the subject conspires with your clients' anxieties to preserve the silence, just when talking may be most needed.

Although wealth transfer conversations can be uncomfortable for clients and advisors, the benefits outweigh any initial awkwardness. With proper opportunity and expertise, families soon discover that speaking openly about personal aspects of estate planning helps create innovative solutions to wealth transfer dilemmas.

Working with Trust Creators to Encourage Family Conversations

The focus of work with trust creators is commonly on technical aspects of estate planning. Yet preparing for a transfer of assets means that clients who are planning trusts are preparing for the next developmental stage in their own work and life. Issues of mortality, legacy, and personal identity naturally come into play.

For many clients, facing and articulating these feelings is difficult. You will see men and women trying to come to terms with the meaning of their lives, the legacies they want to (or fear they will) leave their children, and regrets about what they had to give up to achieve financial success. By asking your clients about some of these possibilities, your clients may be able to open up in a safe (yet financially focused) environment about this next phase of their lives and legacies. Clients then may be better equipped to share thoughts and feelings with those who will be on the receiving end of their success.

The following are common client concerns and misconceptions and suggestions for how you as an advisor can help:

Talking about money is unnecessary. The assumption is that, if the technical aspects of the wealth transfer are in order, the plan will be executed properly after death. But statistics don't support this belief. It is important to share with clients the failure rates associated with lack of family communication and encourage them to reconsider any decision to remain silent on the topic.

Talking about legacy and estate planning brings up uncomfortable feelings. Talking about wealth transfers can mean venturing into territory that is either 1) unknown and scary or 2) known and scary. Anticipation anxiety for all the "what-ifs" can be bad enough. When real-world stresses have to be faced, the "what-ifs" turn into "sure-things." Clients may fear what they will feel or express in a family meeting, or what they may have to hear about their parenting skills, their value within the family, or their ability to be a role model in an area outside their business expertise. They may believe they will face longstanding family stresses that aren't even money-related or painful issues of mortality.

Assure clients that these feelings are natural and that they should look beyond the short-term strains to the long-term benefits. In many cases, families are much more supportive and less resentful than clients anticipate. We've seen many family conversations where adult children reassured their parents that love, caring, and support were already the family legacy. Yes, old hurts can be brought up. But once spoken, these fade in the face of the present and future circumstances that are more important. Although silence about feelings may have been the family tradition, clients can now break that tradition in service of more openness and cohesion.

I will lose control over decisions if everything is revealed to my kids. Clients often worry about losing control of the process by having children become aware of the estate planning. One response is to reinforce that discussing things does not mean delegating decision-making. The trust settlor always retains final say in the decisions about the estate. This should be emphasized to everyone early in any family conversations. Discussion is in service of explaining things, seeking input from potential beneficiaries about areas of uncertainty that may impact them or others, and enlightening heirs about their future responsibilities and benefits. It simply opens a dialogue for legacy planning and financial education. Anything beyond that is at the option of those who own the assets.

If they know it's coming, they'll lose all motivation now. Yes, this sometimes does happen. But this fear exists more as a belief than a reality in many families. Most people don't realize that our money personalities are largely in place by age 14 and solidly entrenched by our 30s. If the next generation is going to be spendthrift, it's in the cards well before news of any inheritance is disclosed in their 40s. If adult children are basically responsible about work and money, they are likely to handle a wealth transfer well, especially if they have you to guide them through the transition. Moreover, knowing about future security may help the next generation do better planning now in their own affairs, with full knowledge. Most importantly, if extra financial skills are going to be needed to handle an inheritance, the next generation can start working on developing these skills with proper advance notice. Remember, train the receiver before he has to catch the ball, not the moment it hits his hands.

I just want to do it my way—they don't deserve any consideration. The belief that "they can fight it out once I am gone" is usually borne of anger and only leads to hurt feelings, mismanagement of family wealth, expensive litigation, and ultimately, the settlor's wishes not being followed after death. The saddest situation is when a client wants to use wealth transfers to express resentment for a family member or maintain control from the grave. This virtually guarantees the money will be toxic or ultimately wasted. You may fear standing in the way of this train wreck—it can jeopardize your relationship with the client—but it's worth taking at least part of one client-meeting to ask about the background of the problems. A sometimes-successful strategy is to simply reflect how angry and disappointed the client sounds. We've seen situations where, after one good opportunity to vent longstanding frustration and talk about the issues, the client comes back to the advisor and says, "Maybe we should take another look at a family meeting."

Once your client understands how talking openly with beneficiaries can enrich the process, aid in the selection of vehicles to transfer the funds, and increase the likelihood of a successful transfer, he or she is ready to approach the process of family communication.

Having the Conversation

Family conversations about wealth transfer allow trust settlors and their beneficiaries to begin the kind of teamwork that creates success between quarterback and receiver. How can you begin this awkward yet crucial process with your clients?

Start with staying alert to the openings available every day in the work you do for your client. Events such as births, weddings, and reaching financial milestones (e.g., the first $1 million) provide openings for you to ask whether your client has ever shared personal values with family members. What does your successful entrepreneur want a grandson entering high school to know about the family business? What does your high-earning executive want to tell a grown daughter about prudent spending in a marriage? Encouraging intergenerational communication means letting your client know you are interested in discussing personal values, family legacy, and the human side of finance.

Next, invite your client to share thoughts, beliefs, and intentions with a spouse or partner either at home or, if desired, at your office. Once the client becomes comfortable talking with a spouse, invite the client to bring other close family members into the conversation. Offer to hold a practice meeting before the actual meeting, helping to identify what is important for your client to share with others and how best to communicate it. Work with clients on language, tone, and any reactions they may experience. Practicing what the meeting may look and feel like will go a long way in helping the client, and you, too.

Family meetings facilitate teamwork in many ways. When trust settlors share stories about successes, failures, and lessons learned about managing wealth, beneficiaries increase their understanding of their role in the family's legacy. This gives them context in which to see themselves as part of a whole and to absorb important lessons for handling money responsibly. These meetings provide a forum for beneficiaries to ask questions and express any concerns about the inheritance long before the actual event. With the support of the elder generation, beneficiaries can get ready to receive the wealth, talk over potential emotional challenges, and put supports in place that will be helpful in the future.

For clients who want or need more guidance than you can provide, consider working with a financial therapist. These professionals are trained to facilitate family wealth conversations, provide support when the discussions get emotional, and allow you as the advisor to get assistance in managing your complex client relationships. (See sidebar: Working with a Financial Therapist)

Working with a Financial Therapist

Financial therapists have the skills, training, and expertise to play a vital role in the wealth transfer planning process. Financial therapists have no official certification, though the newly formed Financial Therapy Association (www.financialtherapyassociation.org) may examine this. In the meantime, select the consultants you work with carefully. Some questions to ask follow:

Are you licensed or credentialed in your professional discipline? Psychologists, social workers, and counselors hold state licenses in their respective fields. "Money coaches" can get accredited from the International Coaching Federation based on experience level, but they may not have a mental health degree. Being credentialed demonstrates a commitment to be highly trained in the profession.

What experience do you have working with financial services professionals and their clients? Due to limited formal training available as yet in academic environments, most consultants learn about financial advisors and clients through self-study and on-the-job. Inquire about previous experience collaborating with wealth managers and working with clients around wealth issues.

Are you trained in family systems theory and family dynamics? Handling stickier conversations about money within families requires understanding intergenerational family dynamics, beyond just knowledge of individuals or couples. A consultant trained and experienced in working with families will be more adept at managing the complexities of wealth transfer issues.

What is your experience facilitating family meetings? Solid financial therapists will focus on helping families communicate more openly about money, wealth, and its purpose in their lives and will have skills in conflict resolution, negotiation, and problem-solving. They should be able to handle those complex or contentious family conversations that are beyond your skills.

Preparing the Beneficiary

Beneficiaries needs to be financially literate and emotionally prepared if they are to receive and manage wealth successfully. So much of what we attribute to money personality is really a function of having or lacking skills for understanding and handling wealth. Wealth creators often assume these skills should be in place naturally or should have been developed by osmosis in the family home during childhood.

Remind your clients that their own financial acumen was built and tested over years. Then compare that skill-building to whatever the heirs have actually had.

At its simplest, financial literacy means having basic financial knowledge and money management skills so that spending, saving, investment, debt management, and charity are reasonably in control. Financial literacy translates to financial preparedness, a key aspect when planning wealth transfer. Achieving an acceptable level of financial literacy for beneficiaries takes a commitment of time and energy by all parties involved, yet it is usually the most neglected aspect of wealth transfer. What can you do to assist?

As wealth transfers are being designed, open a conversation with your clients about beneficiaries' skills, when and how those skills were built, and what training might be needed to handle money at a more skillful level. You will notice that elder parents or grandparents will talk of personalities ("he's a spender"; "she's a saver"; "he's always been careful with his money"; "she just thinks money grows on trees") instead of skills. They may even be skeptical about changing behaviors that seem entrenched. Your role can be to point out that experts in financial literacy education emphasize the role of skill-building and that this can happen with a motivated client at many points throughout adulthood.[2]

This is where the link between family conversations and financial education comes into play. Family meetings can go beyond disclosure of estate planning and values to focus on planning for heirs' having skills to receive future wealth transfers. This includes the psychological impact of inheriting wealth. Inheritance can be much more complicated emotionally than trust creators realize. Shame, isolation, and feelings of unworthiness can come with inherited wealth. The stress of receiving wealth transfers can lead to depression, unhealthy relationships, addictions, and victimization by con artists. Even under the best circumstances, the stress associated with a large influx of wealth can be difficult to manage if heirs are unprepared emotionally.

Some clients may worry that the money will be toxic. You can guide them to understand that money is powerful, not necessarily destructive. It is lack of preparation for handling the power of wealth that is dangerous. Preparing the beneficiary means empowering the beneficiary to harness the power of wealth.

Conclusion

By working with more than just the trust settlor in an estate plan, you prepare the family for the transition of wealth to the next generation and increase the likelihood the transfer will be handled well by the beneficiary. This approach can cement your role as a trusted advisor for the entire family. When all members of the team are coached properly so the receiver of wealth is ready to carry the ball financially, the likelihood of a successful wealth transfer is greatly increased. I&W

Kathleen Burns Kingsbury, LMHC, CPCC, is the principal of KBK Wealth Connection, a consulting company dedicated to educating financial services professionals and their clients about the importance of wealth psychology. She is an adjunct professor at the McCallum Graduate School of Business at Bentley University. She earned a BS in finance from Providence College and an MA in psychology from Lesley University. Contact her at kbk@kbkwealthconnection.com.

James Grubman, PhD, is the principal of FamilyWealth Consulting and a consultant to ultra-high-net-worth families, family businesses, and their advisors. He is on the faculty of IMCA's Certified Private Wealth Advisor (CPWA) program. He earned a BA in psychology from the University of Rochester, an MS in pharmacology from the University of Michigan, and a PhD in clinical psychology from the University of Vermont. Contact him at jim@jamesgrubman.com.

Endnotes

1 See "Eighty-Five Percent of Investors Want More Than Solid Returns From Advisors, According to MainStay Investments Survey" PRNewswire (December 4, 2006), available at http://www.prnewswire.com/news-releases/eighty-five-percent-of-investors-want-more-than-solid-returns-from-advisors-according-to-mainstay-investments-survey-55860962.html.

2 In addition to excellent resources at the National Endowment for Education (www.nefe.org), see resources for inheritors by wealth-counseling experts at The Inheritance Project (www.inheritance-project.com), The Williams Group (www.thewilliamsgroup.org), and Independent Means (www.independentmeans.com), as well as books by Myra Salzer (2005) and Thayer Willis (2005).

References

Bokman, David. 2009. Breaking the Silence: Helping Clients Discuss Estate Plans with their Families. GenSpring Family Offices. Available at http://www.genspring.com/documents/WP-Breaking-the-Silence-Helping-Clients-Discuss-Estate-Plans-with-their-Families.pdf.

Salzer, Myra. 2005. The Inheritor's Sherpa: *A Life-Summiting Guide for Inheritors*. Boulder, CO: The Wealth Conservancy.

Williams, Roy, and Vic Preisser. 2003. *Preparing Heirs: Five Steps to a Successful Transition of Family Wealth and Values*. San Francisco, CA: Robert Reed Publishers.

Willis, Thayer. 2005. *Navigating the Dark Side of Wealth: A Life Guide for Inheritors*. Portland, OR: New Concord Press.