



Wealth Planning Report

Preparing Heirs for Their Inheritance

Inheriting money comes with plenty of benefits. From being less stressed about paying for life's necessities to enjoying more than a few luxuries of affluence, inheritors often find that many of life's stumbling blocks are no longer in their paths.

That said, an inheritance does not automatically mean an easy, worry-free life. Inheriting substantial wealth often create unique challenges and conflicts for your family. A large windfall can be the basis of significant problems for your heirs—and indirectly for you.

Consider some inheritance-related issues that often crop up among the Ultra-affluent—those with a net worth of \$100 million or more—and how those families tend to address them. Their strategies can potentially inform your action plan.

Transferring wealth

We find that many wealth creators and accumulators want to pass a substantial portion of their lifetime of their hard work to their children and those they care deeply about. Doing so successfully involves several considerations:

- 1. Financial matters.** An obvious aim is to be tax-efficient in transferring the wealth. For instance, there are a variety of different income and estate tax strategies that can be employed to mitigate intergenerational shrinkage of substantial family wealth.
- 2. Ensuring heirs will be smart about the money.** A major concern of Ultra-affluent wealth creators is that unprepared inheritors will misuse the wealth they are given. They are aware that being given control over a large amount of money and being able to make wise decisions to skillfully manage that wealth frequently do not align.

But it's not just wealth creators who are concerned about the ability of heirs to manage their inheritances—it's often the heirs themselves. Inheritors commonly turn large fortunes into small ones, and we find that many potential inheritors recognize that risk. That means willing heirs must be prepared ahead of time for the day their inheritances are finally received.

Money's impact on heirs today

A good starting point for understanding how inheriting wealth might affect heirs' lives is seeing how that future money is impacting them and the decisions they make *today*.

Heirs should consider their answers to hard questions such as:

- Is wealth a source of terrific possibilities, a source of horrific problems or some combination of the two?
- How is money (or any lack) affecting your life today?
- Is wealth causing serious relationship problems? If so, what and with whom?
- To what extent do you define yourself by your family money? What would happen to you if our money suddenly vanished?

In addition, parents themselves should assess the maturity of their children to manage an inheritance. If the children are not up to the job, what steps need to be taken to ensure they are capable of at least will not act in ways that waste or even squander their inheritances after the wealth is actually theirs?

INVESTOR EDUCATION IS A MUST

Chances are that heirs will range widely in terms of their natural ability to handle significant wealth intelligently and prudently. That means different heirs will likely need different approaches and methods of education in wealth to handle their inheritances prudently.

Not surprisingly, there are many different notions about how best to teach heirs to manage money. Some professionals strive to educate heirs by focusing purely on technicalities of wealth management. However, we find that most inheritors are not interested in intricate money details.

An effective approach we find that works well across all types of inheritors is to focus on learning how to be *responsible* for wealth. This often means finding a purpose in life as well as seeing the big picture. By prioritizing what they want to achieve personally as well as financially and becoming attuned to

what matters in their financial life in meaningful ways, they can make informed decisions that better align with a broader financial plan.

One important aspect of helping heirs become responsible for their wealth is educating them on how to effectively select and work with professionals such as lawyers, accountants, and wealth managers. Part of that means enabling heirs to know how to discern and avoid the “pretenders”—professionals who may want to do a good job but lack the requisite knowledge and skills. Well-intentioned pretenders can be highly detrimental to heirs’ financial future. They don’t know what they don’t know.

More problematic—especially if undiscerning heirs receive significant sums—is the possibility of being exploited by predators, grifters and the like. Significant wealth is a magnet for all manner of financial predators, so having the basic skills and trusted relationships to identify such people before they do substantial harm is a necessity for many if not most inheritors. Inexperience makes them especially vulnerable.

A common solution often recommended is to place substantial assets in a trust. But heirs are best served when time is taken to explain why a trust was arranged, how it was set up and what it is to help them accomplish. That way, heirs can better evaluate what is going on, and so ensure that what is *supposed* to be happening in their trust is what happens.

Increasingly, affluent families are making concerted efforts to teach their future inheritors how to plan, evaluate and oversee the work of professionals they will be relying on. That implies giving your

children a sound education from respected schools as an essential part of their “inheritance” even though it may be many years in advance of your actual demise.

Even so, where substantial wealth is inherited, issues involving self-esteem often occur. Sudden wealth can produce feelings of anxiety, guilt and even worthlessness among some inheritors. Good counseling helps separate an heir’s wealth from their sense of self-worth, and so foster a more constructive relationship between an inheritor and their inheritance.

Lessons for all of us

Of course, you don’t need to be ultra-affluent to benefit from getting your heirs ready to receive a substantial inheritance from you. Protecting smaller bequests is still important.

The key is for you to get going long before a lifetime of assets saved is ever transferred. Encourage heirs to think about and share their views, attitudes, and values toward money—and how their perspective of life might change if their bottom line had zeros added. Help them learn essential financial basics and understand informed ways to size up the professionals they encounter down the road. If you are not sure how to start, get help.

Armed with self-awareness and a fundamental foundation of knowledge, your heirs can benefit most from their inheritance to live their best lives and make a positive impact for both their families and their communities.

This is an executive summary of our wealth management ebook. For a complimentary copy of our complete report, please contact us.



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Paul founded Professional Financial Strategies, Inc. as one of the first fiduciary advisory firms in 1993 that now specializes in retirement and wealth planning for affluent and aspiring families. Paul is a personal chief financial officer who acts in the best interest of clients. He brings together a distinctive management process and a network of specialists for making informed decisions for scientifically-structured investing, secure income, mitigating taxes, protecting assets, and preserving wealth for family and causes that make an enduring impact.

Mr. Hill received a BA with distinction from the University of Rochester and later an MBA in finance from its Simon School of Business. He earned an MS in financial services from The American College along with his Chartered Financial Consultant and Retirement Income Certified Professional designations, and then received an MS in financial planning from the College for Financial Planning (now at the University of Phoenix). The College for Financial Planning appointed him as adjunct faculty, and he has taught at St. John Fisher College. Who’s Who presented Paul with the Albert Nelson Marquis Lifetime Achievement Award in 2018 and featured him with other recipients in *The Wall Street Journal*.

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