

Preparing Inheritors

By: Ruth Steverlynck, Principal and co-founder of Your Family Enterprise Advisors Inc.*

When should I tell my/our children how much we are worth?

How much should I/we leave our kids?

At what age should my/our children receive wealth?

How do I/we help to ensure our children's lives are not derailed by the inheritance I/we plan to give?

These are the questions commonly asked by individuals who have amassed significant amounts of financial assets. And yet, are they the right questions?

Perhaps the right question is: **How do I prepare my children to receive an inheritance?**

For some, perhaps many, amassing wealth is actually a more comfortable undertaking than the planning and process involved in transitioning the wealth well.

Planning that embraces both the quantitative aspects (legal, tax, insurance, financial) as well as the qualitative aspects (human, relational, development) is optimum. And yet the latter is often overlooked because of factors that are usually driven by fear: fear of erosion of privacy; fear that, if wealth is talked about, somehow the children's lives will be destroyed; fear of loss of control. Often the fear sits alongside an acute desire to do what is best for the children.

The reality is that:

1. Most children already know about family wealth.
2. Not talking about the wealth impedes the preparation of children to receive it. Without discussion, there will be no education, development, capacity building, or awareness of demands and pressures that can flow from 'being wealthy'.
3. Doing what is best for your children when transitioning great wealth is complex work. Creating an elaborate plan doesn't guarantee success.

So what can be done to assure success?

The simple answer is that there is no simple answer. There is no "one size fits all" – transitioning wealth well is a highly individual activity that needs to factor in the uniqueness of each family. A colleague of mine once referred to families as being like snowflakes: 'They all look the same until you look closely and see the intricate design unique to each snowflake'. Every human being is different and will have varying needs dependent upon stage of life, maturity

level, mental wellness, etc.

It is not hard to appreciate why many are paralyzed by the complexity. Part of the reason why plans fail to achieve the goals of the wealth creators is that:

- No planning is actually done.
- Those that do plan, tend to take a narrow exclusive approach focused on preserving and protecting wealth, which does not achieve what is in their heart and certainly does not avoid what they are most worried about.

If the goals for transitioning wealth include **having the financial wealth of the family transition at the appropriate time to individuals who have the best possible chance of receiving it in the way that was truly intended** i.e. "preparing inheritors to achieve the highest and best purposes of their inheritances" (Dennis Jaffe), then there are some key check points that could be considered. We are going to call this an Inheritor Readiness Checklist.

However, before we share the list, there are some necessary components that underlie any work with inheritors:

1. The first and most important component is **INTENTION**: without the desire and intention to do it well, it will never happen. Preparing inheritors takes time, effort and thought.
2. The second most important piece is **RESOURCES**: investing in the intention by investing in resources – both time and money.
3. The third key component is an **ALIGNED APPROACH**: quantitative aspects are aligned with the qualitative and all advisors are working together to support the approach.
4. And finally... **JUST START**. It is never too late to start.

Our Inheritor Readiness Checklist IS NOT intended as an exhaustive list. Rather, it is intended as a starting point – we have included questions and action items and possible resources where appropriate.

Inheritor Readiness Checklist

1. Developing character

A Life Path That Is Enhanced By Wealth And Not Subsumed By It:

Like great beauty, inherited wealth can automatically make someone “special” without ever having done anything to earn it.

- One of the ways to counter feeling unworthy or not being taken seriously or being envied by others who see the inheritor as having a “soft landing” is for the inheritor to have a strong sense of self and purpose in life – a strong character.
- The essence and definition of purpose is “setting personal goals and achieving them”.
- When family wealth is utilized to support and enhance the goals of the individual, they are best able to develop a true sense of what matters to them and stand true to who they are in the face of some of the “darker” sides of inheriting wealth.

Character is built by what one does and who one is, rather than what one has.

ACTION:

Ask the questions:

- Does the inheritor have personal goals that they are actively pursuing and progressing towards?
- Do they have a history of following through with goals that they have set for themselves?
- If not, how can they be supported in defining those and working towards them? Consider a Life Coach or Success Coach.
- Are they clear about their personal values? See The Values Edge at www.dennisjaffe.com

2. Deep understanding of the power and limitations of money

Money can provide endless opportunities and choices. If utilized well, it can provide resources for a springboard to achieve greatness in life. However, money cannot:

- provide great relationships
- provide high self-esteem
- remove anxiety

In fact, when wealth transitions to inheritors who are not prepared, it can actually have the opposite effect:

•

- Decision paralysis – too many choices so cannot make one.
- Relationships become complicated by the money – How do I trust the motives of others? How do I know if they like me or my family wealth?
- Self-esteem can be eroded when money is inherited rather than earned; inheritors may feel unworthy or undeserving or even ashamed.
- Significant wealth may add to anxiety by these feelings of unworthiness or shame around having not earned what has been given.

ACTION:

To counterbalance the risks posed by receiving wealth, it is important to:

- Start family dialogue early about money. Family meetings can provide a great structure to bring everyone together to start talking about the family wealth and what it means.
- Create opportunities for facilitated constructive and open dialogue with others of similar backgrounds, family situations, and stage of life... to share openly the challenges and brainstorm ways to manage the challenges.
- Developing healthy self-esteem may need some deeper counselling from practitioners with expertise in the arena of wealth focused on functional identity and self-esteem.

Money Maturity

A progression from innocence to basic understanding of financial principles, evolving to a competent knowledge of financial matters to a visionary understanding of money’s power and limitations.

3. Money competence

Inheritors that are ready to receive wealth benefit from developing financial literacy and competencies associated with having more money than needed. Lack of competence around money can lead heirs to feel inadequate or confused or dependent on advisors.

- Can they live within a budget?
- Can they manage debt/credit skillfully?
- Can they maintain a savings or capital reserve of some sort?
- Do they understand investment strategies/
- Do they know how to select money managers?

ACTION:

- Determine a fair budget with the next generation member.
- Strictly enforce the budget – no safety net so the next generation learns through mistakes and learns to postpone gratification as well as the skill of budgeting.

- Start an Investment Club within your family to teach the next generation about investment strategies, making and losing money and how to choose money managers.
- Find a program for inheritors where financial literacy is taught (i.e. Rotman, Concordia, Wharton).
- Ask your BMO Relationship Manager about the BMO Financial Fluency Program.

4. Understanding legal documents and structures used to support wealth preservation

It is not unusual for families of wealth to be secretive about their wealth. While privacy and security are critical, too much secrecy can diminish important education needed to understand the structures within which wealth is held and the legal documentation that supports the preservation and protection of the wealth. Without knowledge and understanding, inheritors risk being infantilized where they are treated like young children or taken advantage of by those who know more. Generally, without good understanding, the risk is that heirs can feel inadequate and disconnected from the wealth.

ACTION:

- Engage in a robust internal education program for inheritors wherein the mechanisms and structures that the family wealth is held in are explained and fully understood; the purpose is clear and rights and responsibilities are delineated and meaningfully understood.
- Choose Trustees/Executors/Advisors who know and understand and care about the inheritor; who are accessible to the inheritor; who understand the family and the purpose of the wealth and can work with the inheritor in a way that brings the structures and mechanisms to life.
- Demystify the legal documents typically used to protect family wealth. Institutionalize them early in your family culture so that, rather than becoming objects of dread, they are a natural ritual in the family entered into by fully informed inheritors.

5. Social contribution

Families that have been successful in passing on their wealth from one generation to the next have learned that family

philanthropy is an excellent way to prepare the inheritors for the responsibilities and challenges that accompany inherited wealth. In fact, many have said that their philanthropy has benefitted the family as much, or even more, than the community.

Why? Some of the benefits that accrue to the family from family philanthropy are:

- Heirs see the application of family values to philanthropy.
- They can be brought closer to family members by working together on common issues.
- Heirs become familiar with financial issues and reporting.
- They experience accountability for decisions that are made concerning money.
- They learn about governance procedures and how to make decisions collectively.
- Heirs learn the importance of due diligence.
- They gain an appreciation of the importance of effective communication.

Essentially, inheritors are part of a process that integrates family learning and development.

ACTION:

Speak to your BMO Relationship Manager for an Introduction to Marvi Ricker VP Philanthropic Services, who has experience in helping families focus on social contribution and family-centred philanthropic endeavors.

6. Gratitude

In closing, a financial inheritance can be a gift of love that, if given well and received well, can enhance the life of the receiver and provide security and opportunity in an ever changing world. Taking time to sit back and be truly grateful for the gift and the possibility within, can be one of the richest exercises an inheritor can engage in.

***The views in this document are those of the author.**

Ruth Steverlynck is principal and co-founder of Your Family Enterprise Advisors Inc.

www.yourfamilyenterprise.com



Investment Products are: NOT A DEPOSIT - NOT FDIC INSURED - NO BANK GUARANTEE - MAY LOSE VALUE

BMO Wealth Management provides this publication for information purposes only and is not and should not be construed as professional advice to any individual. The information contained in this publication is based on material believed to be reliable at the time of publication, but BMO Wealth Management cannot guarantee the information is accurate or complete. Individuals should contact their BMO representative for professional advice regarding their personal circumstances and/or financial position. The comments included in this publication are not intended to be a definitive analysis of tax applicability or trust and estate law. The comments are general in nature and professional advice regarding an individual's particular tax position should be obtained in respect of any person's specific circumstances.

"BMO Wealth Management" is a brand name that refers to BMO Harris Bank, N.A., CTC myCFO, LLC, BMO Harris Financial Advisers, Inc., BMO Delaware Trust Company, and certain affiliates that provide certain investment, investment advisory, trust, banking, securities, insurance and brokerage products and services. "CTC | myCFO" is a brand name that refers to BMO Harris Bank, N.A., CTC myCFO, LLC, and BMO Delaware Trust Company. The CTC | myCFO brand provides family office, investment advisory, investment management, trust, banking, deposit and loan products and services. These entities are all affiliates and owned by BMO Financial Corp., a wholly-owned subsidiary of the Bank of Montreal. Capital Advisory Services are offered by a division of BMO Harris Bank, N.A. Member FDIC.

BMO Wealth Management is the brand name that refers to Bank of Montreal and certain of its affiliates in providing wealth management products and services. Not all products and services are offered by all legal entities within BMO Wealth Management. BMO Private Banking is part of BMO Wealth Management and is a brand name under which banking services are offered through Bank of Montreal, investment management services are offered through BMO Private Investment Counsel Inc., a wholly-owned indirect subsidiary of Bank of Montreal, and estate, trust, planning and custodial services are offered through BMO Trust Company, a wholly-owned subsidiary of Bank of Montreal.

BMO Nesbitt Burns Inc. provides comprehensive investment services and is a wholly owned subsidiary of Bank of Montreal. If you are already a client of BMO Nesbitt Burns Inc., please contact your Investment Advisor for more information. All insurance products and advice are offered through BMO Nesbitt Burns Financial Services Inc. by licensed life insurance agents, and, in Quebec, by financial security advisors.

*"BMO (M-bar Roundel symbol)" is a registered trade-mark of Bank of Montreal, used under licence. *"Nesbitt Burns" is a registered trade-mark of BMO Nesbitt Burns Inc. All rights are reserved. No part of this publication may be reproduced in any form, or referred to in any other publication, without the express written permission of BMO Wealth Management.