

# Successful Wealth Transitions: Inform, Involve, Entrust

Christopher F. Poch, Private Wealth Advisor

Families who use a thoughtful process can prepare their next generation for their roles as stewards and, in the process, bring the family closer together.

## Prepare Children for Stewardship

Parents of all eras have struggled with the decision when to let “the kids” know about the family finances. There is no simple answer, but at some point the next generation needs to know, and it is better for mom and dad to plan when and how to bring the children into the loop rather than having them learn about family finances from the internet, or worse, in the midst of a crisis.

### Thoughtful communication

At the heart of successful wealth transition is a thoughtful communication plan. Helping the next generation become effective stewards is a process and one that requires time and commitment from all parties. Understanding the importance of keeping family matters private, as well as setting expectations about the role of financial assets in their future, are two factors. So how does one begin the journey? One step at a time.

### Stages of Wealth Transitions

- 1. Inform** - at what age does one begin to share some of the family's financial picture so that the children get a sense of future responsibilities? How does one prepare another for stewardship?
- 2. Involve** - when should children be part of the conversation so they can begin to understand the legal, tax and investment issues, as well as the needs and viewpoints of other family stakeholders?
- 3. Entrust** - when should responsibilities and control be transferred? In what proportions? To whom?

A comprehensive and well-executed communication and education process will take time. Some families begin early and spread it out

over a decade or more. Others start much later and accelerate the stages. Each family is unique and the right plan will depend on the complexity of the family and the disposition and capabilities of the next generation.

## Each Family is Unique

- 1. Families with private operating businesses** face additional issues such as company management and succession, voting control, budget allocations, bonus implications, equity ownership, distribution preferences and liquidity. There is too much here to cover in this context. Let's just agree it's complicated.



- 2. Capable and interested.** Families with children who are not interested, not capable or not yet responsible enough may need to consider fiscal oversight and, importantly, communicate the reasons and rationale in advance. In the latter two situations, it can be a tough conversation.
- 3. Avoid sibling no-win situations.** Making one sibling the trustee for another is almost always a bad idea.
- 4. Blended families** and challenged spousal relationships have their own set of circumstances that require special planning and communication.

### Guidepost I: Inform

- 1. They already know.** Children have a pretty good understanding of the family's affluence at an early age. When parents tell them that they will be included in discussions regarding private family matters, they will probably feel good about the

vote of confidence. It takes a long time to learn the vocabulary and even longer to learn how to apply the concepts. Reinforcing that the education will occur over several years and the purpose is to help prepare them should alleviate anxiety.

- 2. Prepare for independent living.** The process should help prepare children for the normal responsibilities: getting a job, budgeting, saving for retirement, marriage and children. The process can begin as early as the mid-teens. If delayed some benefits may be missed. There have been instances when the children thought there was a large family fortune they would inherit. When the disappointing facts were revealed, resentment ensued.

### Eye Dropper, Teaspoon, Glass

- 1. It is probably best to go slowly.** Families often have children attend a family meeting where some aspects of the finances are revealed. It helps to have advisors review legal, tax or investment issues. This puts the family members on the same side of the table learning together and avoids the teacher pupil dynamic. If a parent is doing all of the talking it can cause tension in some families.
- 2. Formal seminars.** Others have children attend sponsored programs with other "Next-Gen" attendees. Both methods begin the exposure to issues and the awareness of the need for further education.

### Guidepost II: Involve

- 1. Time for input.** Once the Next-Gen has been "in the know" and you have confidence about their conduct, it is time to encourage input. It is a good idea to establish at the outset how their input will be received and acted upon. Parents who miss this step risk having young adults expecting to have an equal say in the family's finances far before Mom and Dad are ready.
- 2. Family philanthropy as a proving ground.**

Often families use philanthropy as the "test" vehicle. Empowering the Next-Gen to engage in the disposition of funds as well as participating in the investment decisions enables the parents to see the progression of each child. Letting the younger generation know that mistakes are inevitable and learning from those mistakes is one of the goals. This is covered extensively in a separate article.

### **Guidepost III: Entrust**

**1. Your goal for your children** is for them to become responsible, ethical, educated and independent. Once a member of the next generation has exhibited these traits, and if the family's financial situation allows, management of funds, if not outright ownership, should be considered.

**2. Your goal: Chairperson, not CEO.** The grooming process of preparing children to assume responsibility takes time but it fosters understanding among siblings (and spouses), minimizes surprises and is worth the effort. Allowing adult children to assume control of some of the family's finances knowing they are armed with a decade or two of experience and not having to worry about every decision is a wonderful position to be in.

### **Start Planning Now**

However you decide inform and involve your heirs, it will go more smoothly if you have a plan. When done well, you will strengthen and improve relationships among the family along the way.

[christopher.f.poch@morganstanleypwm.com](mailto:christopher.f.poch@morganstanleypwm.com)

1747 Pennsylvania Ave. NW Suite 700

Washington, DC 20006

w. 202-292-5495 | m. 202-557-8801

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