ESTATE PLANNING

5 Strategies to Keep Your Heirs From Blowing Their Inheritance

Preserving the family money beyond a few generations isn't an easy task.

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From shirtsleeves to shirtsleeves in three generations, goes the early 20th-cer American proverb. Then there's the 19th-century British version: Clogs to clo three generations. And from Italy, date uncertain: From the stable to the stars back again. You'll find similar sentiments in almost every language, all expres the same thought: It's nearly impossible to pass on family wealth and have it beyond your grandkids.

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Statistics back up the folklore. Studies have found that 70% of the time, famil assets are lost from one generation to the next, and assets are gone 90% of th by the third generation.

That's because a crucial element of successful inheritances is often neglected. Traditionally, the focus has been on the givers of wealth, but it should rather the receivers. Investing assets wisely and crafting a good estate plan are cruci success, but so is preparing the heirs. "Estate planning is a process to transfe wealth, but it doesn't help the family develop an infrastructure to sustain it, c the family unified from one generation to the next," says Debbie Dalton, a Ba Village, Ohio, resident, whose family is learning how to successfully steward t wealth that her father, a chemical engineer, amassed as founder of cryogenic equipment maker Chart Industries.

Preparing the next generation has a lot to do with financial literacy. But it has as much (if not more) to do with passing down and putting into practice valu will sustain your family as well as your fortune. In other words, a successful inheritance is as much about parenting as it is about money management, an

goes as much for multimillionaires as for mom-and-pop investors with a six-
portfolio to pass along.

Inheritances gone wrong

It's counterintuitive to think about the downside of inherited wealth, and it m off-putting for families of modest means. But giving money to kids can be fra with danger, says Brad Klontz, a psychologist and certified financial planner. generation wealth creators, often coming from poverty or a middle-class background, have worked hard, made mistakes, picked themselves up and persevered. Along the way, they've become self-disciplined, resourceful and resilient.

"You assume that those values will trickle down automatically," says Klontz. your children are having a vastly different experience of the world than you h Parents who strive to give their kids what they themselves never had (which i many worked so hard for, after all) can wind up fostering financial dependenc raising kids who lack drive, creativity or passion, Klontz says.

In the book *Inherited Wealth,* John Levy lists a number of challenges that accompany a family windfall, observed over many years of consulting with fa on inheritance issues. According to Levy, inheritors can lack self-esteem if th suspect that their success stems from their wealth instead of their efforts. Or, feeling guilty, they find it hard to accept good fortune that they didn't earn. T emotional development can be delayed if they never face important life challe Boredom can be a problem, and because of the boredom, inheritors are at risk substance abuse or other self-destructive behaviors. Finally, heirs can be styn too many options or paralyzed by a fear of losing their wealth.

Little wonder that rich people from Warren Buffett to Sting have vowed to "sp their children from inheriting fortunes, choosing instead to give most of their away or spend it. Buffett has said the ideal inheritance for kids is "enough mo that they would feel they could do anything, but not so much that they could d nothing." Sting told Britain's *Daily Mail* last year, "I certainly don't want to le them trust funds that are albatrosses round their necks."

But that attitude is rare among wealthy parents, says Rod Zeeb, CEO of the He Institute, which trains advisers and works with families to prepare younger generations for their inheritances. "When it comes down to it, most parents d want to disinherit their kids," he says. What they'd prefer is a game plan that not only keep the family assets intact but also keep the kids grounded, healthy productive.

Richard Hansen had a plan from the get-go. The retired Navy man, who lives of the time in Virginia Beach, Va., has done very well as a military contractor f several government agencies, including the departments of State and Homela Security. "I come from a working-class family," he says. "I always intended t made something of myself, I'd give back and make sure my children and grandchildren did, too. They were not going to be that second- and third-generation family that didn't understand where they came from."

Hansen's four adult kids all have jobs, and they are not wealthy -- but they w when they inherit. In preparation for that day, they've taken an active role in family foundation, learning to invest money and to give it away wisely. Family members, including an 11-year-old granddaughter, support causes ranging fr ending homelessness to animal rights to the arts. Each of them knows what's involved in making the money to give away, how to pitch a project to a board directors and how to analyze costs, set priorities and evaluate outcomes. "Eac my children can stand on his or her own anywhere in the business world," say Hansen. "That's the greatest thing I've been able to do for them -- that, and making sure that they're not rotten, spoiled brats."

A five-point plan

A growing number of families are turning to advisers and specialized progran help prepare the next generation for the riches they will inherit, in a way that beyond the benchmarks of money managers and the legalese of estate lawyer: Here's some of what those advisers recommend.

Get over the money taboo. Family finances are often an unpopular topic of discussion, especially if parents are worried that family wealth might spoil th kids. "It becomes a big elephant in the room," says Daisy Medici, managing d of governance and education at GenSpring Family Offices, a unit of SunTrust "The kids are surrounded by wealth and the opportunities that it brings, but t family doesn't talk about it," she says. Young people with no preparation who suddenly come into a trust fund because they've turned 21 -- or, heaven forbi parents die in an accident -- can be completely derailed, the same way lottery winners often are.

The same goes for spouses. "My father retired and a couple of years later was diagnosed with lung cancer. He died within six weeks," says Dalton. The trage was compounded by the fact that Dalton's mother was unprepared to take the financial reins, having been shielded from much of that responsibility during marriage. "I was really angry at my dad for that. It was well intentioned, but mother was paralyzed," says Dalton. It didn't help that the transition took pla 2008, as the family's investments were being pummeled by a bear market. Th family assets survived the bear market, and Heritage Institute coaching has si helped Dalton's mom develop her own voice and leadership style. Coaching ha helped the family to coalesce around the Christian values they want to shape legacy, says Dalton.

Sometimes parents are silent because they're not sure their money will outlas health challenges of old age or mercurial financial markets. Whatever the reas the lack of communication, heirs who are ill-prepared are left to wonder why parents thought they were incapable of handling the information or couldn't l trusted with it. Better to be up front about the wealth you have and your plans And don't forget about how it came to be in the first place, especially if the we was created several generations ago.

Embark on a mission. Make sure your legacy is about more than money. Man families find a mission statement helpful. After meeting with a family, wealth transition coaches at the Williams Group, in San Clemente, Calif., will have fa members write on an easel the values they want to emphasize in their lives -- education, philanthropy or self-sufficiency. "It takes half a day, and the pape several feet long," says founder Roy Williams. "Most of them frame it and ha their family offices." In light of those core values, the family identifies the long-term purpose of their wealth in a mission statement.

Williams considers crafting the mission statement a crucial exercise. His stud 3,250 families found that a breakdown in trust and communication is behind of failed inheritances. Involving the whole family in determining common objectives and deciding how they'll be accomplished avoids the trap of Mom o dictating the future to their children. It can also smooth tensions between fan factions -- between those running the family business, for example, and thos involved.

Raise money smart kids. From an early age, children should be taught budget and delayed gratification, even if you can afford to give your kids everything t want and more. It doesn't matter if the monthly budget is $3,000 or $30,000, "there's no amount of money that can't be spent through," Medici reminds h clients. When kids are little, get them a piggy bank with three slots or three separate piggy banks -- one for spending, one for saving and one for giving. Remind grandparents who are fond of cash gifts to make them in multiples of

Let older kids budget an allowance to cover their expenses. Figure the monthl average spent on a teen's car insurance, cell phone and so on, and then give tl young adult an allowance to pay those bills. The tough part is letting the phor shut off or taking back the car if the bills are not paid. "It all goes back to the consequences," says Zeeb. "Without a budget, kids never learn to prioritize or decisions."

Provide financial training wheels. Don't make the mistake of delaying all acc the family fortune in order to preserve it. Brian Matter, a certified financial pl at Creative Capital Management, in San Diego, encourages clients to seed an investment account when children are in their late teens. Allow the child to m investment decisions, and agree to match a percentage of the returns earned (specific time period. The child can withdraw money from the account, but the parent can't add to the principal. This teaches the child about investing and spending, and it illustrates the power of compound growth as well as the opportunity cost of robbing a nest egg. "We had one client try this, and the ch decided to withdraw all the money within the first six months for a lavish trip Paris. The parents changed their estate plan as a result," says Matter.

The Dalton kids and their cousin share responsibility with their parents for th management of a family lake house in upstate New York, owned jointly and organized under the legal structure of a limited liability corporation. Debbie D says she expects that the kids will soon take an active role in directing some o family's charitable giving, as well. Such experiences boost the odds that when the next generation's turn to manage the family business or an investment portfolio, "they'll have the skills, knowledge and insight to be effective," says Ladouceur, a director at SEI Private Wealth Management.

Assemble a good team. In addition to a cadre of advisers that includes investr managers, tax preparers, estate planners and trust lawyers, bring in mentors next generation -- especially for teens and young adults, who might not alwa

Mom and Dad as the font of all wisdom. Enlist qualified associates, such as fin advisers, board directors you may know and other successful businesspeople. smartest thing I did was bring in outside expertise at the highest level," says Hansen, the contractor, of the board members he has enlisted for his foundati "Several of them have managed millions -- billions -- of dollars. The value th add is incredible."

A de facto advisory board comes in handy when your kids' friends and classm start to hit them up for contributions to investment schemes or business start -- the surest way, other than overspending, for young adults to fritter away a inheritance, says Zeeb. "They want to help their friends by nature, but the bes is to defer. If the committee says yes, the kid's a hero; if it says no, it's not his fault."

In the end, you'll have the best shot at preserving both your wealth and your f with a multigenerational effort that begins when your kids are born, not when die. Dalton, for one, is pleased with the path her family is now on, and she urg others to get started. "Unlike investing, where timing can be critical, there's n time to invest in your family's legacy. You should start now."

The power of a trust

As a parent, your vision of how your legacy is passed on to the next generation beyond probably doesn't linger on legal vehicles. But such structures are key t achieving your goals.

When it comes to distributing assets, many families turn to trusts. Trusts com more flavors than Baskin-Robbins ice cream. Depending on the arrangement, can minimize estate taxes, protect your estate from the mistakes of your heirs maintain privacy by avoiding probate. The cost to set one up typically ranges f $3,000 to $10,000; it can be more, however, depending on complexity, with additional costs for individual tweaks and maybe 1% of assets to administer it

A **revocable** or **living trust** lets you keep control of your assets while you're ali Although assets usually pass directly to your heirs, bypassing probate, a revoc trust won't spare you from estate taxes. If that's your main goal, then an **irrevocable trust**, which effectively removes trust assets from your estate, is t way to go. A **lifetime asset protection trust** might be in order if you have conc about the ability of your heirs to preserve your estate. Beneficiaries are protec against creditors, bankruptcy -- even future ex-spouses -- because assets be to the trust, not the beneficiary.

Whichever trust you choose, consider inserting a personal message to your he breathe life into an otherwise sterile document. You might include the stories behind family heirlooms, for instance. Or, instead of imposing edicts and tyin distributions to certain achievements, express why you value education or entrepreneurship. "This is the last message we get to leave," says John Warni the Purposeful Planning Institute. "When it comes in a positive and warm way has a tremendous impact."

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