



Inheritances: Oh, What to Do?

Of all the areas of our planning with affluent parents, the issue of inheritances consumes the greatest amount of time and emotional energy – and for good reason. There is no area of the planning that could be more devastating to a family than an ill-thought out or ill-timed inheritance. Over the many decades of my practice, I have reviewed hundreds of “estate” plans. In all those years I have yet to see a current inheritance plan that parents were entirely happy with when the outcomes were explained to them.

In one case, the parents said they only wanted their children to get a lifetime income stream because they were opposed to giving lump sum inheritances. Their attorney drafted the documents so the children received an income stream for life. Since no directive was discussed for what to do with these income producing trusts after the children died, the attorney designed the trusts so the grandchildren (some of whom were not even born yet) would get an outright distribution of the trust assets when the children died. The grandchildren were going to become lump sum multimillionaires. The parents were mortified when they actually saw their current plan mapped out.

With a couple of other families, when the parents saw exactly what their children were going to inherit they were so shocked and concerned they immediately called their attorney and changed their wills before leaving on extended vacations.

When another couple saw the excessive amount that their current plan was going to provide for their children, the emotional father jumped up from his

chair, ran to the screen and pointed to the box on the flowchart showing the amount going to the children and cried out, “Look at what they are going to get! I can’t believe it. Look at that! We’ve got to do something about that.”

How does this kind of thing happen? I would suggest that all of our families have very good legal and accounting professionals who attempt to serve them well. However, if clear directives from the parents are not provided, legal documents typically end up with standard, boilerplate, inheritance language that is anything but carefully and strategically thought out for the family’s unique situation.

Here are just a few of the many complex issues that make inheritance planning such a challenging conundrum for families.

Conundrum #1

All our children are not the same in their readiness to handle a sizeable inheritance. However, we feel obligated to treat them all the

same because we love them all the same and do not want to be perceived as showing favoritism.

Conundrum #2

Some of our children are involved in our family business and others are not, yet the vast majority of our wealth is tied up in the company. How do we treat them all fairly?

Conundrum #3

We'd like to leave our grandchildren an inheritance, but we do not want to take the influence of their parents away from them by giving an inheritance directly to the grandchildren.

Conundrum #4

We have one child that is not living a lifestyle that we approve of. We don't know how to address these inheritance issues with our "black sheep" and it also significantly affects how we are able to plan for our "good" children.

Conundrum #5

Our children are all extremely different and really don't get along that well and if we simply divide all our stuff up equally among them, family conflict will be inevitable.

As you can see these are exceptionally complex issues and there are no quick fixes or boilerplate solutions to these conundrums. It will take lots of time, lots of prayer and lots of conversations to create a strategic inheritance plan that will actually bless and not damage your heirs.

I remember a number of years ago working with a very wealthy Christian couple and asking them the question during our Discovery Retreat, "How much is enough for your children?" The husband responded quite quickly and said, "I want each of our five children to get \$10 million dollars." This

total inheritance was only a small portion of his total wealth.

I asked him how he arrived at this amount and he reached his hand to the sky and grabbed a handful of air, pulled it down, opened his hand before me and said, "I kind of came up with it out of thin air. It just seemed like a nice round number."

I said, "Well let's think about that amount for a minute." If they each got \$10 million and put it in a relatively conservative investment yielding 5% a year that would give them an annual income of about \$500,000 or over \$10,000 a week. This amount of income should enable them to sit on their couch and watch TV everyday for the rest of their lives never doing anything productive or meaningful. The wife gasped and said, "Honey, I'm not sure that is the right amount."

I asked him, "Do you want to fund opportunity or lifestyle for your children?" He answered, "Opportunity." Then I said, "There is a huge difference between funding opportunity as opposed to funding lifestyle." I asked him, "Exactly what do you want your inheritance to do for your children?" This one question led to two more hours of inheritance discussion.

Most families spend far more time preparing the legal documents for their children's inheritance than they do actually preparing their children for their inheritance. If you want a successful inheritance plan, what you do around the kitchen table with your family it is far more important than what you do around the conference table at your attorney's office.

Ecclesiastes 7:11-12a says, "Wisdom along with an inheritance is good and an advantage to those who see the sun. For wisdom is protection just as money is protection." What are you doing to give your heirs the wisdom they need to handle the wealth you intend to give them?

We have adapted the fine work done by Mitchell Baris, Carla Garrity and Carol and John Warnick into our four Maturity Markers to help parents more objectively assess the preparedness of heirs to successfully handle their desired inheritance.

Unfortunately, parents typically address their inheritance dilemmas by executing legal documents that attempt to protect their ill-prepared heirs from harming themselves with their coming inheritance. However, with the use of these four Maturity Markers parents are able to address and work to correct the problem areas in their heir's lives.

A primary inheritance objective in working with families is to "stop the bleeding" and heal the "wound," not simply put a "legal bandage" on a currently infected "wound" hoping that somehow the "patient" will at least not get any worse in the future.

Spiritual Maturity Marker #1

(An heir's relationship with God)

Signs for this Spiritual Maturity Marker would include an heir who (1) is growing as a personal follower of Jesus; (2) is developing in godly character; and (3) is active in service and ministry to God.

Emotional Maturity Marker #2

(An heir's relationship with himself)

Signs for this Emotional Maturity Marker would include an heir who (1) is taking responsibility for his/her actions and proactively seeks to correct his/her mistakes and sins; (2) is controlling his/her anger, frustration, disappointment and stress appropriately; and (3) is regularly avoiding chronic problematic and self-destructive behavior.

Relational Maturity Marker #3

(An heir's relationship with others)

Signs for this Relational Maturity Marker would include an heir who (1) is developing and maintaining healthy and meaningful long-term relationships with friends and family; (2) is treating other people with respect and dignity; and (3) is making personal sacrifices for the benefit of others.

Financial Maturity Marker #4

(An heir's relationship with money)

Signs for this Financial Maturity Marker would include an heir who (1) is living financially independent of parents; (2) is exercising consumptive self-control in spending; and (3) is engaged in joyful generosity in giving.

These maturity markers can enable you to have real, meaningful dialog with your children and work with them to establish measurable and attainable standards by which you can make more objective and rational inheritance decisions instead of having those decisions driven primarily by emotion and guilt.

As you can see, coming up with a thoughtful, loving and effective inheritance plan for your family is neither simple nor easy. But, without a doubt, it will be time very well spent for you and for all your family. I encourage you to take the time and make the effort.



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