

# THE KINGDOM BUILDER



## STEWARDSHIP MINISTRIES

### Conducting an Inheritance Fire Drill

Wealth is like a blazing fire; it can cook and warm or it can burn and destroy. And which it does to your heirs depends, to a great extent, on how you hand it off to them. This very real danger is commonly recognized by families with wealth which is why so much of heirs' inheritances are locked up in trusts doling out the funds in ways and at times that hopefully will do more good than harm – but who really knows. As one inheritor told me, “Trusts are really vehicles of distrust.” A rather profound observation, I think.

With this imagery of wealth being a blazing fire, it would be time well spent for parents, as they contemplate the amount and the timing of their heirs' inheritance, to conduct an inheritance fire drill to determine how prepared their heirs are to receive an inheritance and how well thought out the timing and the amount of their planned inheritance really is.

Before we get into the actual fire drill it would be good to get a biblical perspective and understanding of this topic of inheritances. Much of what the Bible says about inheritances is found in the book of Proverbs. Keep in mind that the idea of a proverb is not to be a command on what we should do, but merely an observation of what man does do and its outcome. So, the following verses will be instructive although not directive.

Proverbs 13:22 says, “*A good man leaves an inheritance to his children's children.*” We see two things here. One, inheritance leaving is done by good people, and two, their inheritance carries an impact even to their grandchildren (“affectionately” known in the legal world as the skip generation).

It is interesting to note that the word “inheritance” and its’ derivatives “heritage and heir” are all related to the Greek word for “bereaved.” In other words by the very meaning of the word, an inheritance is something received by survivors at the time of death of a parent. The challenge in planning is there is no certainty when a parent’s death might occur. Consequently, there is no certainty at all to when an inheritance might be received.

Proverbs 19:14 says, “*House and wealth are inherited from fathers, but a prudent wife is from the Lord.*” This verse is often used as a directive that fathers have a biblical obligation to leave wealth to their heirs, but if you read this verse carefully, you will see that Solomon is comparing what fathers give (wealth) to what God gives (a prudent wife) emphasizing that God’s gift is vastly greater than a father’s gift. So, this verse is really addressing a man’s wife and not his inheritance. Solomon only notes that affluent fathers do give inheritances to their heirs.

Proverbs 20:21 may be one of the most instructive verses for us. It observes, “*An inheritance gained hastily in the beginning will not*

*be blessed in the end.*” It is fascinating to read what commentators have to say about this verse, if they comment at all. Even though this verse seems somewhat unclear, it does note that the outcome of this “hasty” inheritance is not a good thing. But what is a “hasty” inheritance?

Allow me to paraphrase this verse to give us better clarity of what I think Solomon was observing, “An early inheritance received before an heir is prepared for it will prove to be a curse and not a blessing in the end.” This observation is further supported by Proverbs 19:10a, “*It is not fitting for a fool to live in luxury*” and Proverbs 17:16, “*Of what use is money in the hand of a fool, since he has no desire to get wisdom?*”

The solution to the “hasty” inheritance problem is found in Ecclesiastes 7:11, “*Wisdom along with an inheritance is good and an advantage to those who see the sun.*” If you are going to give your heirs an inheritance, make sure you give them the wisdom to know what to do with it. In other words, give them wisdom or don’t give them wealth.

Solomon reinforces this dilemma in his own personal, wealth transfer situation in Ecclesiastes 2:18-21. He confesses, “*Thus I hated all the fruit of my labor for which I had labored under the sun, for I must leave it to the man who will come after me. And who knows whether he will be a wise man or a fool? Yet he will have control over all the fruit of my labor for which I have labored by acting wisely under the sun. This too is vanity. Therefore I completely despaired of all the fruit of my labor for which I had labored under the sun. When there is a man who has labored with wisdom, knowledge and skill, then he gives his legacy to one who has not labored with them. This too is vanity and a great evil.*”

Give them wisdom, or don’t give them wealth. It is quite obvious which of these two inheritances is the most difficult to give. In truth, if you give them wisdom, you probably won’t need to give them your wealth. Sadly, most parents have concluded it is easier to set up trusts than it is to attempt to impart practical and biblical wisdom.

I have referred to the story of the “rich fool” (the farmer who decided to tear down his current barns and build bigger ones) on occasion in my writings, but I have never mentioned what it was that led Jesus to share this parable. It was precipitated by an appeal of a man who came to Jesus pleading, “*Teacher, tell my brother to divide the inheritance with me*” (Luke 12:13) – an inheritance conflict. The dad was dead and one brother was feeling slighted and wanted “justice.” Solomon was right. There is “nothing new under the sun.”

Now with this as a biblical background, let’s begin the inheritance fire drill. There are three steps to this exercise.

## **Step #1** **Discern Your View of an Inheritance**

This first step is critically important to the fire drill, but is almost never addressed by parents or the traditional estate planning approach. Let me pose this profoundly important question to you. Is an inheritance an *inherent right* or an *unearned privilege*? Because your children are your children and you are affluent do they have an inherent right to an inheritance by the simple fact that they happened to have “popped out of the right womb?” Or, if they receive anything they did not work for is it an unearned privilege – an unexpected “bonus?” Can you see why this question is so fundamentally important?

Let me ask it in another way. Is an inheritance a *required obligation* we owe our heirs or is it an *optional gift* we can feel free to bestow on them if and when we choose to?

Many parents feel that their children have a right to an inheritance and they feel obligated to pay them what they owe. I think this is the reason a certain bumper sticker has hit such a responsive chord in all of us. Have you seen it? It says, “I am spending my children’s inheritance.” Interesting idea, isn’t it? The implication is that the children already own their inheritance and mom and dad are spending the kid’s money on their lifestyle. What

bizarre thinking. However, this is the kind of thinking that is all too common among affluent parents.

Don't move on to step #2 until you have become clear on your *view* of an inheritance.

## **Step #2** **Determine the Purpose of an Inheritance**

If you believe that you have a required obligation to give your heirs an inheritance, the purpose for their inheritance may simply be to pay them the bill you owe them. But if you rather believe that an inheritance is an unearned privilege, a gift that is optional, you are free to decide on any amount and any purpose for an inheritance that you deem to be wise and helpful to them.

Here is the question for step #2. Do you want your children's inheritance to fund *lifestyle* or *opportunity*? This is a critically important question because the difference between wanting to provide them with the assets and income needed to maintain some desired lifestyle and providing them with the funding to give them greater opportunities in life is massive. Do you want to *assist* them along their way or do you want to *carry* them along their way?

The reason this question is so critical is because it addresses two vital issues, the *amount* and the *timing* of an inheritance. If you want to help them get a good start in life, by helping them with college, getting their first house, getting a business started, maybe helping send their kids to a private Christian school, etc., these needs come earlier in life, not when parents finally eternally relocate at 85 and the children are 60. What is an inheritance going to do for them at that point in their life, supplement their retirement income?

So, if parents are looking to fund opportunity, the idea of lifetime inheritance planning becomes essential and the children's inheritance will be given in planned amounts for specific reasons to help them along the way as the needs and opportunities arise while the parents are still here to

observe, monitor and coach their heirs. If parents are looking to fund lifestyle, you can be sure that their heirs will grow financially dependent on them and their wealth for the rest of their lives and beyond.

Let me ask you a question. Would your life be the same as it is today if you would have received a substantial inheritance at some point earlier in your life? Would your life now be better or worse because of it? Interesting questions, aren't they? I think it is safe to say that all of us would agree that our lives would not be the same as they are now. What we cannot say is whether they would be better or worse. Let me now ask you, what will happen to your children's lives when they receive what your current inheritance plan will provide to them? Will their lives be better or worse? Here is the fundamental question, "Specifically, what do you want your children's inheritance to do for them?"

Don't go on to step #3 in this fire drill until you determine the *purpose* of an inheritance.

## **Step #3** **Calculate the Timing and the Amount of an Inheritance**

Now that you are clear on your view and the purpose of an inheritance, you are now ready to calculate how much of an inheritance would be appropriate for heirs and when it would be best for them to get it.

After 30 years of working with affluent families here is my list of the ten most common purposes for why inheritances are given. You will likely want to do this exercise for each child since the needs, abilities and maturity of each heir will likely be different. As we all know, all children are not created equal. What may be good for one may actually be bad for another.

Using today's dollars, put in the amount you believe would be needed to provide the various inheritances listed below and when you would want them to get it. Do not feel compelled to put

something in each area unless you want them to get everything listed below.

### **Opportunity Inheritance**

1. Receive the family business:

\$ \_\_\_\_\_ When? \_\_\_\_\_

2. Funds available for new business start up:

\$ \_\_\_\_\_ When? \_\_\_\_\_

3. Receive funds for a first home (down payment or pay off mortgage):

\$ \_\_\_\_\_ When? \_\_\_\_\_

4. Receive funds to establish an emergency reserve (personal, medical, etc.):

\$ \_\_\_\_\_ When? \_\_\_\_\_

5. Receive funds for tuition for (all or part of) children/grandchildren's education:

\$ \_\_\_\_\_ When? \_\_\_\_\_

6. Receive funds for increased charitable giving:

\$ \_\_\_\_\_ When? \_\_\_\_\_

### **Lifestyle Inheritance**

7. Receive funds to provide ongoing income for a pre-set desired lifestyle:

\$ \_\_\_\_\_ When? \_\_\_\_\_

8. Receive family property, or the funding for other personal property (boats, cars, motor home, plane, etc.):

\$ \_\_\_\_\_ When? \_\_\_\_\_

9. Receive the family residence/farm/homestead/vacation home:

\$ \_\_\_\_\_ When? \_\_\_\_\_

10. Receive funds to provide ongoing income due to special needs/disabilities of heir (physical or emotional)

\$ \_\_\_\_\_ When? \_\_\_\_\_

Add up the amounts. You might be surprised with the total. If this inheritance fire drill produces an outcome that is appreciably different than how your current inheritance plan is set up, I would encourage you to immediately take steps to adjust your inheritance plans to align them with the outcome this fire drill has produced.

There is no part of the wealth transfer process that is more important, more dangerous and more fraught with complexity than this area of inheritance planning. Do not take it lightly. Do not settle for the default options that are characteristic of the standard traditional estate plans.

Lastly, once you have completed this inheritance fire drill and made the appropriate adjustments to your current inheritance plan, get your family together and tell them what you are going to be doing for them and why. Do it while you are still on "this side of the grass." Communication does more to ensure a successful inheritance transfer than anything else. As the old saying goes, "a word to the wise is sufficient."



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