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COMMITTEE REPORT: THE MODERN PRACTICE

By **Timothy Belber**

How Much Is Enough?

Defining the "right" inheritance through a four-step process

Clients regularly confront wealth planning professionals with the question, "How much is enough to leave my children?"

Popular culture has been giving advice on this topic for decades: "Leave enough so the children can do anything but not so much that they don't have to do anything."[1]

In an 1891 essay, Andrew Carnegie conveyed a similar sentiment:

> The parent who leaves his son enormous wealth generally deadens the talents and energies of the son, and tempts him to lead a less useful and less worthy life than he otherwise would.[2]

The messages about transferring wealth from one generation to the next go on and on, but they all hold an ambiguity that leaves many wealth owners scratching their heads. Eventually, some wealth owners throw up their hands and say, "I'm going to leave them enough to buy a house and give the rest away to charity!" Or, they say, "I started with nothing, so I've already given them enough!"

Most often, the decisions are fraught with anxiety, fear and doubt, but the process of defining an inheritance doesn't have to be this way. The process can be positive and even fun, drawing a family closer together and creating an indelible mark on lives of the wealth owner's descendants long after the wealth owner is gone.[3] It all begins with helping wealth owners think differently about inheritance, legacy and family.

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Not About Money

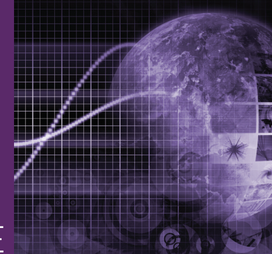
One of the many definitions for the word "inheritance" found in the *Merriam Webster* dictionary is "the acquisition of something from the past that is still important or valuable." A real inheritance isn't defined in financial terms. Rather, it's supported by financial assets. You see, an inheritance is deeply entangled in the wealth owner's legacy—in what people feel, think and say when they hear his name.

Four Questions

Here are four questions to help your client define the appropriate inheritance:

Question 1: What do you want your children, grandchildren and other descendants to think and say when they hear your name? The answers will take many forms but must not be financially based. Often, advisors will help wealth owners move from financial thinking to a more connected response. Consider this dialogue from an actual conversation:

> *Advisor:* Legacy is about more than dollar and cents. Let me ask you a question: What do you want your children, grandchildren and beyond to feel, think and say when they hear your name?
> *Client:* Interesting way to look at it. For a start, I'd like to be thought of as someone who gave back.
> *Advisor:* What does that mean to you?
> *Client:* Well, I suppose it means recognizing what's been important to me.
> *Advisor:* Such as?
> *Client:* I've always wanted to endow a chair at my college.
> *Advisor:* Why is that important to you?
> *Client:* The education I received there gave me the foundation for my success. I worry about our



country's education system. I worry about the lack of support for free enterprise and the entrepreneurial spark. I'm afraid it's being stifled, and we need more support for the creation of businesses and capital.

From there, we were able to flesh out several themes around what he hoped his real legacy would be and what it would mean to his family.

Question 2: What do you want every member of your family to always have? The discussion with most wealth owners sounds something like this:

Advisor: If your family is like most, you may have one or two family members who raise concerns. You may have considered disinheriting these family members out of concern about what they'll do with the money gifted to them. Keep those people in mind: Do you want them to be left out, or do you want to safeguard your money so that it's used appropriately? Most families want to know that each member, no matter what issues he might have, will have access to three things:

- A safe place to live.
- Quality medical care, including help with substance abuse and mental issues.
- Food to eat.

Later, you'll learn solutions that allow you to provide these three items without putting a single dollar into someone's hands.

The conversation at this point has the potential to generate a strong "Aha" moment. In the following situation based on a family I advised, this was a game changing moment for how the wealth owners thought about the role of money in the lives of their children.

This family consists of Marcus and Tyra, their five children and their children's spouses, eight grandchildren and three step-grandchildren.

A 22-year-old grandson, Sean, was in recovery from a long-term substance abuse problem. He'd successfully completed rehab, changed his entire lifestyle and was now working as a substance abuse counselor. He'd kept his life in order for over 18 months. He wanted to go to school and needed financial help. Marcus wanted to cut him off completely, both now and in the family estate plan. He felt Sean had created the situation he was in and any dollar support would only exacerbate it. Tyra wanted to help Sean. At this point, Marcus and Tyra felt like they couldn't agree on anything

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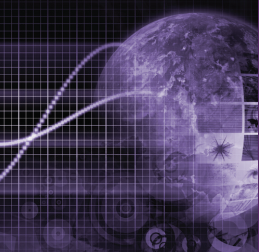
When I met with them, I decided to bypass the topic of Sean's specific situation. Instead, we focused on what Marcus and Tyra wanted their wealth to achieve for their family.

"We want to share it without wasting it," Tyra told me.

Instead of focusing on whether helping Sean was a good idea, we talked about what they wanted for all family members. They agreed completely on several things, including that they both wanted to be sure every family member always had a safe place to live, access to the best health care, plenty to eat and the opportunity to pursue productive and meaningful work and careers.

Now we turned to the topic of Sean. After talking through the timeline of Sean's life, Marcus agreed that helping with education and possibly buying him an inexpensive car wouldn't constitute enabling an unhealthy lifestyle. To the contrary, it would help empower Sean to continue building his life. Tyra asked if they should buy Sean a place to live. After applying the standards and purpose we'd pinpointed, both Marcus and Tyra



agreed that buying Sean a home wouldn't do anything to improve his progress. He had a safe apartment and was actually quite proud of being able to support himself at that level.

Question 3: What opportunities do you want your children, grandchildren and beyond to have? The advisor will again need to keep the focus, for the moment, off financial assets. You can begin the conversation like this:

> *Advisor:* Try asking yourself this question without worrying about the possibility of entitlement. The key word here is 'opportunity,' and you'll learn later that this opportunity is open to all who are willing to act on it responsibly. For now, just consider this short list to stimulate your thinking:
>
> - Travel the world.
> - Be able to do work you're called to do, rather than work you have to do.
> - Start businesses.
> - Go on extended church mission trips.
> - Be lifelong learners.
> - Have the ability to take advantage of meaningful, productive and empowering opportunities.
> - Have a sense of control over your own future and a well defined sense of self.
> - Have an understanding of the importance of family.
>
> You might also consider opportunities you wish you'd been given.

When appropriately crafted, a purposeful legacy trust creates a community for the beneficiaries, trustees and advisors.

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Question 4: If the world is to be a healthy place with healthy people in it, what do you think is needed? This is another area in which the advisor needs to serve as a thinking partner. The answer to this question might include things that the wealth owner wants to see more of in the world, things he wants to see less of or things he wants sustained. It might also include virtues that he thinks are important.

Here are some examples from other family plans:

- The family as a strong unit.
- The entrepreneurial spark and the free-enterprise system.
- A well-educated population.
- The spirit of giving back and impacting the world.
- The importance of faith and religion.
- The conservation of wild spaces and wildlife.
- A belief in the importance of personal ethics.

Four Steps

Once your client has answered Questions 1 through 4, you have the ingredients for an inheritance. Now, let's look at how the ingredients come together. Keep in mind that each family is different, so consider this process as a guideline.

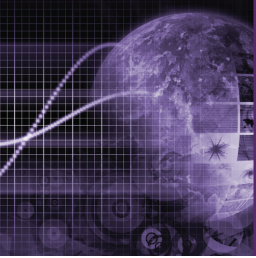
To create this type of inheritance, I use a common vehicle called a purposeful legacy trust (PLT), which is a highly personalized generation-skipping transfer (GST) trust. The PLT focuses first on its purpose (function) and then gives equal attention to its technical constructs (form).

When appropriately crafted, a PLT creates a community for the beneficiaries, trustees and advisors.[4]

Step 1: Define the mission statement for the PLT. The wealth owner can create two or three sentences that explain his intentions. This step can be challenging for many wealth owners, so advisors should be prepared to create a draft for their clients, who can then edit it.

Here's a sample from an actual trust document:

> The Trust does not exist as an end unto itself. It is merely the means by which we have chosen to share some of our wealth with our children, and



> eventually our future descendants. It is a framework to help our family better govern itself, and to encourage our children and their descendants to strive to be the best individuals they can be and to seek joy by living in accordance with the values expressed in this Agreement. We hope that this Trust will remind our children to discover the personal growth and satisfaction that can be realized through sharing our good fortune with those who are less fortunate. We also hope the Trustee will offer positive encouragement and assistance to each beneficiary in their quests, crises, and challenges.

The mission statement is something that can be revisited regularly to make sure that all the tenets and mechanisms of the PLT are appropriate and still relevant to the family's situation.

Step 2: Decide on regular distributions. This decision varies from family to family. Here are a few examples of the different structures that families can consider for making distributions. Keep in mind that these are only examples; each family's decision should be unique:

- Distribute $50,000 (2016 dollars adjusted by an index that you define) per year to each of your children, while giving the trustee the ability to withhold a specific distribution if a family member is having some form of trouble that money would only exacerbate.
- Distribute a lump sum of $500,000 to each of your children and grandchildren with a note detailing what you hope they can accomplish with this sum of money. In addition to the lump sum, you may also decide to provide an annual income as mentioned above.
- Make no required distributions, provide detailed instructions to a trustee and allow the trustee to make distributions based on his discretion.

Step 3: Define discretionary distributions. This step has two components. First, the trustee should be authorized to provide each beneficiary with the basic human needs as defined in Question 2. Under the terms of trust, the wealth owner can determine whether to have the trustee pay for these basic needs directly or to distribute funds to the beneficiary, who in turn makes the payment directly. If there are family members who raise concerns, the trustee can pay for housing and medical needs on their behalf, which keeps the money out of their hands and directs it to covering basic needs.

Keep in mind: When the trust covers medical expenses, the beneficiaries should also be required to execute whatever documents are necessary so that the trustee can assist in any health care decisions.

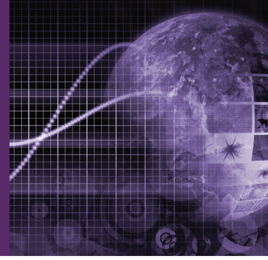
The second component of this step is to consider "opportunity distributions." Reflect back on the answers to Question 3. How do beneficiaries go about accessing funds to support these opportunities?

For example, if one of the goals is for the beneficiaries to have the opportunity to experience establishing businesses, the trust could require beneficiaries to submit a professional business plan and secure some percentage of start-up funds from an institution that requires a solid business plan before investing. This third-party funding (which typically ranges from 25 percent to 50 percent) could be in the form of a loan, an equity position or a direct distribution. The most important requirement would be that the beneficiary regularly reports back on the experience so that other members of the trust community can learn from it.

Keep in mind that the requirements you place on discretionary distributions aren't considered penalties or obstacles.

Another example is a "general opportunity" distribution. Under this scenario, the beneficiary applies to the trustee and addresses four areas. The beneficiary must describe:

1. The opportunity in detail.
2. Why the opportunity is personally important to that particular beneficiary.
3. What the beneficiary has done to prepare himself to maximize on the experience.
4. The type of funding and the timing of distributions.



On completion of the activity/undertaking, the beneficiary has to report back to the entire trust community, answering three questions:

1. What surprised you?
2. What disappointed you?
3. What one piece of advice would you give someone about to do the same thing?

Keep in mind that the requirements you place on discretionary distributions aren't considered penalties or obstacles. Rather, they're used to promote mindfulness toward using wealth with good purpose.

Remember that an inheritance is a form of a gift, and a gift should contribute to the relationship between the giver and the recipient.

Step 4: Determine if descendants have philanthropic or giving back requirements. Often, the answers to Question 4 will point toward a philanthropy plan. For instance, the trustee could be authorized to distribute up to 5 percent of each beneficiary's share to a charity designated by the beneficiary. Under this plan, the beneficiary would need to share details of the distribution and the cause with the trust community. Following is how one family I counseled experienced this powerful requirement during a family meeting:

> A wealth owner allocated funds for all five of his adult children to donate to a charity of their choice. The five children were each charged with making a short presentation about their respective choices at the annual family meeting.
>
> For several years, the eldest son had been distant from his siblings. His two sisters in particular had previously demonstrated great disrespect for him, his lack of formal education and his seeming lack of interest in any family events involving money.
>
> When it was the oldest son's turn to announce his charity, he spoke about the importance of maintaining Civil War memorials so that we remember how America once found itself pitting brother against brother. His passion about the consequences of that war and the lessons to be remembered came through so clearly that both his sisters changed their minds and decided to donate to his cause instead. The girls saw him in a new light, and he learned that money can be deployed in ways to keep families together rather than in ways that divide them.

Closing the Gap

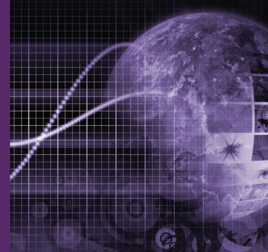
After answering the four questions and taking these four steps, the wealth owners now have an inheritance plan that:

1. Keeps all family members safe, fed and medically taken care of;
2. Provides some basic cash flow each quarter;
3. Creates tremendous opportunities for them to pursue passions and dreams in a very appropriate way; and
4. Allows them to impact societal causes that are important to them.

Now the financial assets enter the picture. Using the personal balance sheet, advisors should be able to quantify what's necessary to deliver this inheritance. I use a form of scenario planning that takes into account the future size of the family. This is very important if part of the goal is to establish something like a multi-generational education fund. Building in a "refreshing strategy," such as allocation to life insurance at each generation, allows for the trustee to make regular but tightly defined adjustments to the trust terms so the fund continues to be relevant as the family changes.

An Inheritance is a Gift

Finally, remember that an inheritance is a form of a gift, and a gift should contribute to the relationship between the giver and the recipient. An inheritance that does nothing to enhance the solidarity of the relationship



between the wealth owner and the beneficiary is a contradiction. With a true gift, both the giver's and the recipient's honor must be engaged and respected.

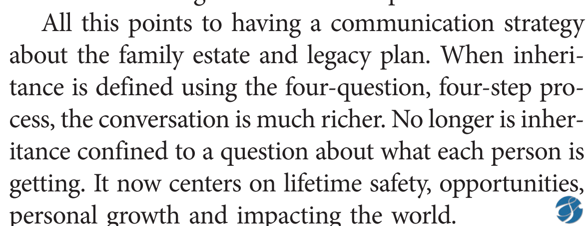
The Cycle of the Gift by James E. Hughes, Jr., Susan E. Massenzio and Keith Whitaker presents the best discussion I've seen of the thinking that should go into every intentional gift.[5] The authors provide two distinctions that make a gift "well-thought-out:"

1. A well-thought-out gift has spirit behind it. Think about a gift that's delivered in an otherwise empty envelope with the following written on the memo line: "Annual Exclusion Gift for Tax Year 2014."

   Now think about a gift that's comprised of a check and a personal note suggesting how the money can be used to help the recipient reach a goal.

   The former does nothing to enhance the relationship between wealth owner and beneficiary. The latter honors both giver and receiver.
2. A gift can be a meteoric event. When a large financial gift arrives, the daily routine of life changes. What happens next? Big questions can surround the gift. How will the recipient adapt to the new circumstances and integrate this gift into his life? Nothing makes the point better than the example of lottery winners. The majority of lottery winners are unprepared to deal with the financial meteor that has slammed into their world. Our society does little to impart financial skills and knowledge to its members, so lottery winners are often taken advantage of and make decisions that they might not have made with a little more education. As a result, they may not have lasting enjoyment of their lottery winnings.

When beneficiaries suddenly come into large sums of money—as they do under inheritances—the same lack of preparation can happen, but it doesn't have to be this way. A gift makes the most positive impact when it's infused with a healthy spirit and given forethought as to how it will be integrated into the recipient's life.



All this points to having a communication strategy about the family estate and legacy plan. When inheritance is defined using the four-question, four-step process, the conversation is much richer. No longer is inheritance confined to a question about what each person is getting. It now centers on lifetime safety, opportunities, personal growth and impacting the world.

Endnotes

1. Paraphrasing Warren Buffett in, "Should You Leave It All to the Children?" *Fortune* (Sept. 29, 1986).
2. Andrew Carnegie, *The Gospel of Wealth, (*Applewood Books Reprint Edition, 1998) (originally published in *The North American Review,* June 1889).
3. My firm has created a simple workbook, which served, along with my book *The Middle Way: Using balance to create successful generational wealth plans*, as the basis for this article.
4. *See* John A. Warnick, "Guidance: Capturing our Client's Life Wisdom Through Guidelights and Guidelines to the Beneficiary and Trustee," *A Purposeful Planning Institute White Paper* (2013); John A. Warnick, "Purpose Clauses: The Heart of the Purposeful Trust," *A Purposeful Planning Institute White Paper* (2013).
5. James E. Hughes, Jr., Susan E. Massenzio and Keith Whitaker, *The Cycle of the Gift* (Bloomberg Press, 2012).

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