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## THE GENERATIONAL TRANSFER OF WEALTH: ARE YOU AND YOUR LOVED ONES PREPARED?

A tidal wave is coming. Not from the ocean, but from the generational passing of wealth known as the “Great Transfer” that will see nearly \$12 trillion transferred to the Baby Boomers from their parents. More massive, perhaps, is the phenomenon that some are calling the “Greater Transfer” which is the transition of nearly \$30 trillion in wealth that is expected to be passed down from the Baby Boomers to their heirs.<sup>1</sup> Currently in its very early stages, this enormous transfer is projected to reach its peak between 2031 and 2045; a period when it’s predicted that roughly 10 percent of the total wealth in the U.S. will be changing hands every five years.<sup>2</sup>

Given the scope of these events, it’s very likely that you and your heirs will in some way be affected either through an inheritance you receive, a bequest that you may leave, or maybe even both. But have you adequately planned for the eventual transfer of your wealth, and perhaps just as importantly, are your beneficiaries prepared to handle the windfall that an inheritance may provide?

While the sudden receipt of new found wealth has the potential to better the financial well-being of the recipient, unfortunately, many may lack the financial knowledge and preparedness to use the money constructively. According to Todd Fithian of the Legacy Companies, a consulting firm based in Norwell, MA, “Statistically speaking, sudden money creates all kinds of challenges for people who are not prepared and who are not surrounded by people they can trust.” Said Fithian, “It’s a known fact that lottery winners often end up bankrupt, divorced, or faced with a number of new challenges” and furthermore, he states that 70 percent of lottery winners spend the majority of their money within the first couple of years of receiving it.<sup>3</sup>

Similar beliefs were posited by Rodney Zee and Perry Cochell, authors of *Beating the Midas Curse*, who contend that people who inherit wealth very often waste or misuse it. By their estimates, about 60 percent of affluent families see their wealth significantly depleted by the second generation. Worse still, their research indicates that by the third generation, nine out of ten family fortunes are essentially gone.<sup>4</sup>

To help adult children prepare for the eventual receipt of an inheritance, and to hopefully use it wisely, it may be prudent for parents to do some advance planning that may include a general discussion with their children about their finances. Even though many older individuals may value their financial privacy and independence, some may find it useful to provide their children with a broad overview of their investments, as well as information regarding any plans or provisions that may take effect in the event they were to become incapacitated and unable to manage their finances.

Additionally, aging parents may want to consider discussing to whom they will leave their assets, and how they will be divided, as well as the rationale for any disparity in the value of the inheritances left to each child. While parents often split their assets equally among their children, there may be situations where one child may receive a greater share than the others as in the case where one child has special care needs, or if the parents have helped another child financially at a previous point in time. Through an honest, rational, reasons-based discussion, however, parents may be better able to set their children’s expectations about their inheritances, thereby helping to diffuse the potential for anger or resentment that may arise if the children were to be unpleasantly surprised about the division of the estate after their parents have passed.

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To help ease the transition of one's assets or estate, or to help facilitate a financial plan for the next generations, some parents of advancing age may wish to consider introducing their adult children to their financial advisor. In doing so, parents can designate a trusted point person with whom the advisor could work and communicate in the case of any unforeseen events, potentially giving themselves greater peace of mind. Furthermore, through discussion and interaction that brings the advisor and children together in a collaborative fashion, the advisor may be able to help their aging clients communicate their investment strategies and plans for the future, including their hopes for how their children may use or invest their inheritances to better their futures. Of course, for those who fear that their beneficiaries are almost certain to squander an inheritance, a financial advisor may suggest the use of a legally-binding trust that contains provisions as to when and how the beneficiaries can receive and use the inheritance.

If you are considering introducing your child or children to your advisor, discuss with him or her ahead of time the information you would like to share with your children, as well as those things you would like to keep private. As a professional, your advisor should use discretion and only discuss as much of your personal information as you are comfortable sharing.

Regardless of how involved older parents may or may not want their children in their financial affairs, we believe it's extremely important that they make at least one person aware of where they keep their financial information and legal documents, and that they're accessible to that person in the case of an emergency. Among the documents that should likely be stored together safely are copies of wills, living wills, powers of attorney, trust documents, bank and investment statements, life insurance policies and records of any contracts or debts. Additionally, we would suggest that social security numbers and important passwords also be stored with these documents so that they can also be accessed if needed.

While some may feel uncomfortable planning for the transfer of their wealth, or for a time when they may be unable to manage their finances, some basic preparation may help eliminate the need for family members to make important decisions at a highly emotional time. Furthermore, with basic planning, you may help ensure that your personal wealth transfer goes smoothly and as you intended, and that your heirs are better prepared to receive and benefit from the legacy you leave. Please call us for additional information, or if we can help in any way.

<sup>1,2</sup> <http://wealthmanagement.com/business-planning/generational-transfer-wealth-and-its-impact-financial-advisory-practices>

<sup>3</sup> <http://www.usatoday.com/story/money/personalfinance/2013/11/24/inheritance-baby-boomer-wealth-transfer/3667643/>

<sup>4</sup> <http://www.thinkadvisor.com/2007/10/01/children-and-wealth>

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