

REAL MONEY

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In the final days of this year's income tax season, we have to remind ourselves to be grateful for the wondrous opportunities we all have for enriching our lives and providing for our families in ways undreamed of several generations ago. At the same time, with the passing on of many people who lived through World War II, our country is experiencing an unprecedented transfer of wealth between generations. Fortunately, the estate tax laws have been liberalized, so by the middle of this decade, most Americans passing along their wealth will not feel so pinched by Uncle Sam and need not be concerned with trying to avoid inheritance taxes by adopting intricate legal means in order to keep the family money out of Uncle Sam's hands!

Probate, which is the process families go through to legally transfer property titles after someone dies, has been greatly simplified in most states. However, if the assets are held in a Living Trust, the transfer is much simpler. Keep in mind that writing and updating a Living Trust is easy, fairly inexpensive, and no more trouble than maintaining a current will, and it serves to avoid probate for assets titled in the Living Trust. Where the skill comes in now, is not in how to transfer money from one generation to another, but when and in what format. How these issues get addressed can make the difference between families that stay together or those that get torn apart.

Initiating family dialogue on the subject of inheritance is not easy. Although experts disagree strongly on the pros and cons of using various kinds of trust vehicles to divide and then control assets, everyone agrees that early and ample communication is the key to success. The responsibility for opening up the discussion usually falls to the parents. After all, we are supposed to be the mature ones!

Professional facilitators are available to help with one format that seems to yield good results: the "family retreat." The focus of these offsite gatherings is primarily, but not solely, on the scope and nature of family holdings and what the elders would like to see the assets accomplish over time. Specific requests or concerns that younger generation members may have about their present and future access to the family's money are also a key component part of the dialogue. Money management and strategic planning issues should also be reviewed.

There are great differences in individual levels of comfort in talking about these matters. Discussions about sex, politics and religion may disrupt many dinner parties, but there is nothing like the subject of money to bring out long suppressed resentments among family members. The opportunity to have a non-charged atmosphere to discuss family finances is well worth the effort to set up such a meeting.

Another beneficial result of such discussions is education of the next generation, involving and helping them mature in this difficult area. Today, families need to plan for money passing on to the next generation much as in the days when people thought through the same issues but they focused on the family farm or small business. Teaching younger people how to handle money plays a pivotal role in a family's success. Here are some suggestions on how to approach the subject in a positive way.

Involve the younger generation in learning by doing. Give people who have not done any investing a small account to handle. Ask them to justify their decisions to you and try to get them to calculate the results of their investment decisions. Through these simple steps, most people, no matter what their age, come to appreciate the value of simplicity and having a long-term approach.

Set up a family council. If your assets are substantial, look at creating a Family Limited Partnership (FLP). FLPs provide for transferring wealth within a family while creating a blueprint for multi-generational decisions to be made under the supervision of a business-minded parent or grandparent. FLPs are good vehicles for tax planning since they also help to organize many disparate business ventures, such as real estate, small businesses, and stock/bond accounts under one roof.

For families with charitable objectives, we suggest private family foundations and charitable trusts. This involves several family generations working together, once or twice a year, to prioritize in which good works in the world they will invest. The internal negotiations are less charged than running a Family Limited Partnership, since the money is going to charity, but the positive bonds created among the participants are much the same. Families that have an ongoing reason to meet together, to discuss how events are affecting their personal, professional and charitable interests, are much more likely to stay together and feel good about maintaining multifaceted sibling relationships in the long run.

Controlling family financial information until one dies isolates relatives from one another. Silence allows opportunities for misunderstandings and negative viewpoints to grow. It is not hard to understand why many families have not been able to stay connected over the past thirty years.

The picture of family members visiting one another at their family cabin or those lucky enough to have an extended family shared vacation destination and reunion, is analogous to the family wealth planning meeting. It should be a structure for relatives to interact regularly, but without much pressure. It serves as a meeting ground with rules to follow and requires agreeing on goals for the near and distant future. If it is well-maintained, family meetings, no matter when they occur, will provide fertile ground for people to enjoy the fruits of their fore bearers' work, and participants should get to play as well! So, despite the difficulty in different generations discussing the volatile subject of money, it makes good financial planning sense to do so!