Inheritance Lost: Are Donors and Their Heirs Ready?

BY CATHY R. SHEFFIELD

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Did you know that:

- the average retired person plans to leave their heirs an inheritance of approximately $177,000[1];
- seventy percent of the time, inherited assets are exhausted within five years from one generation to the next. By the third generation, the inherited assets are exhausted 90 percent of the time[2]; and
- over one-third of people receiving an inheritance experience no change or even experience a decline in their wealth after receiving an inheritance[3]?

The "silver tsunami" and "great wealth transfer" have become part of the charitable gift planner's lexicon these days. This great wealth transfer refers to the unprecedented and mind-blowing wealth baby boomers will transfer to their children over the next 25 years. Estimates range between $30 trillion to well over $65 trillion — the biggest generational wealth transfer ever.

Silver tsunami refers to the aging and retirement of baby boomers (approximately 10,000 boomers retire each day). The silver tsunami, in conjunction with the great wealth transfer, require solid estate planning combined with good communication in order to ensure inheritors are equipped with the skills and understanding needed to be proper stewards of inherited wealth.

Yet as wealthy individuals plan for how to pass on their accumulated assets, many are not discussing it with their heirs. Bank of America recently released the findings of a new study conducted by Merrill Lynch Wealth Management. The study found "64 percent of wealth holders have never talked with family members about how or why they intend to pass on their assets." Many indicated the most important thing they want to communicate to their heirs is how to use their inherited money wisely. But just 46 percent of respondents said they have communicated with their families about things such as personal values or beliefs. [4]

As charitable gift planners, we are accustomed to having conversations about testamentary gifts and creating lasting legacies. However, we have an opportunity to modify how we serve our donors and clients to help them deal with the inevitable of their death, and how to best prepare their heirs for that time. The more we can meet their needs in a holistic fashion — even when that might mean assisting them to get things done that are outside of our core responsibility — the better and deeper the relationships will become.

Cathy R. Sheffield

In my role as a values-based estate planner, I work with nonprofit organizations to lead their donors through a personalized and comprehensive estate-planning. This planning familiarizes clients with the process of how assets transfer at death, whether the assets are being transferred to their heirs, nonprofit organizations, or even to the government in the form of taxes. Additionally, the process encourages the transferring of more than money and valuable assets to heirs; it encourages the transferring of planning clients' personal values and beliefs to their heirs.

A common concern revealed during many of my conversations with planning clients is the hope that heirs are prepared to receive an inheritance — large or small. We usually discuss ways heirs can receive their future inheritance. This discussion triggers questions such as how they wish to provide for heirs, long term, in a way that will help them, not harm them. Should they treat heirs equally or differently based on individual situations?

They will also begin thinking about how best to pass along their values to their heirs. Of course, there are planning mechanisms which address some of these concerns, such as wills, trusts, and contracts. While these mechanisms may control how the assets are distributed to the heirs, they do not address how clients' values and beliefs, including those around savings, financial management, and, of course, the belief in philanthropy, are transferred to their heirs.

I have found that many of the planning clients I work with have, or plan to have, a conversation with the family or friends

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Are you ready for the big wealth transfer?

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Educate the next generation.

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to request service as an executor, trustee, and/or guardian. This is typically the extent of their planned conversations. When the inevitable happens, the death of our donor and client, those left behind must interpret the estate plan that was put into place. Many times, without proper communication, unintended and sometimes hurtful messages are sent to the heirs. This can cause lasting disharmony within the family for generations.

What if charitable gift planners, while discussing intended gifts to charitable organizations, brought up the importance of communicating the estate plan to family members and other heirs? Talking about inheritance sensibly is the first step in imparting the knowledge and providing the tools to deal with it responsibly.

Many beneficiaries view their inheritances as "free money" and spend their newfound wealth on impulse purchases, paying off debt, and end up saving very little. Often heirs do not anticipate the tax hit on inherited retirement plans, or they make unwise investments, which can quickly dissolve the gift from their loved one. This is surely not the idea our donors and clients intended when planning their estates and leaving their heirs an inheritance.

Educating the next generation about a future inheritance is a valid and serious concern. Evidence suggests that many Americans are ill prepared to handle an inheritance. Our donors and clients want to transfer more than money and assets. Their desire is to transfer their values and beliefs, which will ultimately benefit their family for generations. How can we, as charitable gift planners, assist our donors and clients with this process? How do we assist them in providing a context to their heirs as they receive an inheritance?

Once I know a person has intended for a charitable organization to be a beneficiary, I usually have a conversation similar to this:

"Thank you so much for letting me know you have included our organization in your estate plans. Your thoughtful decision to do so is a testament to the love you have for our mission. Would you like to visit about how you would like our organization to put your future gift to use? … May I ask, was your family involved in creating your estate plan and your charitable decisions? The reason I ask this question is because I have seen situations in which family members were surprised or even caught off guard by the estate plan their loved one put in place." If the response is no, you can add: "You might want to consider sharing your plan with your loved ones. Doing so will allow them to have a better understanding of your goals and objectives and appreciate the decisions you have made."

Other follow-up questions could be:

"Do your loved ones know about your charitable interests? Have you shared with them your hope that they, too, are philanthropic with their assets?"

"Did you know research shows that many heirs are not prepared to handle an inheritance? From our conversations, I know you want to transfer more than assets to your children — you want to transfer your values and beliefs."

"Did you know most adults who receive an inheritance save just half, while spending, donating, or losing the rest? Do you feel your heirs are equipped to handle their inheritance?[5]"

A common concern people have regarding sharing their plan is the disclosure of specific assets to family members. This is a valid concern. Since no one knows when they will die, the conversation should be general in nature and not around specific assets or sums of money. The communication should generally explain what steps have been taken regarding their estate and, more importantly, the reason why they have taken certain steps or planned in a certain manner.

Ideally, this communication should not happen in a single conversation. However, over the course of several conversations, heirs should have a comfort level regarding what values and beliefs are being passed on in addition to the assets.

One of the most rewarding aspects of our profession is helping donors and clients have peace of mind in regard to their philanthropy in light of their family's current and future financial need. In part, this peace of mind comes when they have completed their estate plans. However, a fully comprehensive estate plan includes the communication of that plan to loved ones.

Reminding donors and clients of the importance of sharing their finances and estate plans with their family is putting

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Charitable Gift Planning in Early America

BY RONALD A. BROWN

When did American gift planning begin? Earlier than you may realize, and gifts could be quite complex.

Written records are basic materials for historians. Unfortunately, no records of charitable giving by Native American populations before European settlement have survived, and there is little information about the colonists who attempted to settle in Roanoke, North Carolina, in the 1580s.

Surviving documents show that some of America's earliest European immigrants provided charitable bequests through their wills, continuing a long tradition. Notable bequests in Jamestown, Virginia, date from the 1620s. Four Mayflower Pilgrims, including Mary Chilton Winslow, made gifts to their churches through their written wills in the 1600s.

Winslow was, by legend, the first person to set foot on Plymouth Rock. Just 13 when she landed, she lived a full life, had 10 children, and died near Boston at age 79. One of her descendants is the late President George H.W. Bush.

Ronald A. Brown

The first college in the American colonies, and one of our earliest nonprofit organizations, is Harvard College, founded in 1636. John Harvard, an Englishman educated at Cambridge, immigrated with his wife, Ann, to Massachusetts in 1637 at age 29 and died the next year. In addition to his library of 400 volumes, John Harvard bequeathed about 800 pounds to the college — very large gifts for the time.

Grateful trustees named the college for John Harvard, and talked about his bequest whenever they were fundraising, such as in the pamphlet "New England's First Fruits" (1643):

"And as we were thinking and consulting how to effect this great Work [founding a college], it pleased God to stir up the heart of one Mr. Harvard (a godly Gentleman and a lover of Learning, there living amongst us) to give the one halfe of his

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Learn from history.

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the focus on their needs, as well as the needs of their family. Additionally, communication of the estate plan will ensure a harmonious transfer of not only the assets, but values and beliefs, cementing a beautiful legacy of which they can be proud.

This type of guidance is usually reserved for the most trusted advisor. Who knows, perhaps that is what we will become!

Endnotes

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