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How To Prepare Your Heirs For Their Inheritance

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by Brian Luster and Steven Abernathy

“Be careful to leave your sons well instructed rather than rich, for the hopes of the instructed are better than the wealth of the ignorant.” - Epictetus

Research cited in a 2013 *Wall Street Journal* [article](#) found that 70% of an affluent family’s wealth is typically gone by the end of the second generation, and 90% is destroyed by the end of the third. Nearly every culture has some version of the axiom “from shirtsleeves to shirtsleeves in three generations,” dating back to China over 2000 years ago. The proverb describes how the first generation works hard to create a fortune; the second generation enjoys its spoils, substituting hard work with entertainment, and the third generation—with no role model to follow—squanders what remains of the fortune, relegating their children to starting the process over again. Unsurprisingly, when the family fortune is blown, family unity is typically obliterated along with it.

The answer for what is responsible for such wealth destruction is surprising. Many might expect the culprits to be poor investment strategies, poor economies or turbulent financial markets, as did nearly two-thirds of ultra-affluent families recently surveyed by [The Family Office Exchange](#). The real culprit is far more insidious, though.

Roy Williams and Vic Priesser collected data from 3,250 families who had lost their wealth. Less than 3% said poor planning and investments were cause for reversal of fortune. 25% said heirs were unprepared, and, 60% replied it was lack of communication and trust in the family. Affluent families continue to fall short in this area.

Evidence to support the consequences of neglecting emotional legacy can be seen in the families who ignored it themselves, such as Cornelius Vanderbilt’s heirs. If subsequent generations of his clan hadn’t spent so much, their total fortune would be worth around \$205 billion in today’s dollars, according to

[CNNMoney](#). However, by 1973, in just two generations, not a single heir was even a millionaire. (*For more on the Vanderbilts, see [“How American Royalty Lost Their Crown Jewels.”](#)*)

So, what do successful families do differently?

Start with self-exploration. The foundation of successful multi-generational planning begins with a conversation, often in the form of a family round table, whereby the heads of the family share their vision for the family, both now, and into the future. They discuss where they are at present, and, what separates their current reality from their potential future. Thus the planning process begins with a dialogue intended to be open, inter-generational, and ongoing.

Articulate the family’s unique story. The next stage in the process of successful multi-generational wealth planning is to capture the memories, experiences, and life lessons from the older generation in the family story. This offers the younger generation a deepened understanding of their predecessor’s values, responsibilities, and choices. These conversations can be quite a powerful and moving experience both for the head of the family and as well as his or her descendants. The family story reveals ideals, beliefs, values, and the shared vision that might otherwise have been left unsaid. It also allows the family to identify and articulate its common vision, and support both the family and its vision for multiple generations.

Create a Heritage Statement. The Heritage Statement constitutes all documentation of the story and values, as well as the appropriate structure for sharing those values with future generations. It describes who the leader of the family is, where s/he came from, what s/he believes, and hopes for the family now, and in the future. More importantly, it captures the personal story in the leader of the family’s own words, eliminating the risk that this personal history is re-written by future generations.

Hold annual family retreats. Successful families set aside a few days each year for annual family retreats, intended to foster communication, create a shared experience, and encourage growth. External facilitators will lead the family in exercises aimed at sharing the family’s values, vision, and Heritage Statement in an open, honest, and comfortable setting. When ongoing, regularly scheduled family retreats become part of the family’s calendar, there is a structure to work on the family’s activities, make plans for the future, share ideas, and have fun. Meeting at least once annually is recommended. The goal of these gatherings is to promote family unity through team building, leadership, shared responsibility and active communication. This is the time, year after year, where families renew their

commitment to making healthy decisions and nurturing family harmony. The ultimate goal of heritage design is to provide each family member the support needed live a meaningful and fulfilled life.

Build Collaborative Teams. Eventually all principal advisers— legal, tax, financial—will retain a copy of the family’s Heritage Statement. As it is updated, they will receive these changes as well. The Heritage Statement offers each adviser a clear, shared mission for their work goals. This clearly defined, common vision aligns not only the goals, beliefs, and values of the family, but, offers a road map from which the advisers can best work in service to the family.

What about the actual family business? This should be kept separate. The goal of a successful meeting will be for everyone in attendance to know they’re part of a family owning a business; not a business owning a family.

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