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Why Giving Your Heirs A Test Run With Your Money Makes Sense

by Brian Luster and Steven Abernathy

Imagine an unmoving car. Its tires are encased in heavy mud on the side of a dirt road. Every turn of the wheel feels futile as the tires spin, going nowhere. Frustrated, yet resigned to the situation, you maneuver the wheel, hit the gas lightly, turn the wheel in the other direction, and try again. Finally you free the front wheels. No amount of backseat driving, no matter how well-intentioned, will move this car. It is only when the driver discovers the sweet spot—the combination of turning the wheel ever so slightly in one direction and hitting the gas pedal just so— that moves the car out of the mud. Experiencing the cruel havoc of the wet road is vastly different than imagining it. The driver learns through experience. This is generally how adults learn new information—the learning resides in the doing. Thick mud is an effective teacher.

Unfortunately many affluent families have not implemented a system to teach younger generations how to maneuver their own way out of the proverbial mud. But passing the baton from one generation to the next is not as daunting as it may sound. Heirs who regularly participate in pre-inheritance experiences have a chance to acquire knowledge over time. Grantors can create experiences for heirs not only to test the waters of managing the family fortune, but, serve to bolster inter-generational communication, clarify personal values and ethics, and evaluate their decision-making abilities and logic. Setting up a basic savings account may serve as the first "test" of heirs working as a group. This purpose of this account is often threefold. It will serve to fund as a: 1) bank; 2) charitable fund; and 3) an educational fund. It's important to note this early exercise is not intended to put heirs in charge of legal structures within the family's asset portfolio such as a Family Bank, charitable trust, or the 529 plans.

Often the head of the family assembles a "tasting menu" of sorts. Options may include: 1) starting or investing in a business, 2) getting an education/certification, or 3) donating to charity. Actively making decisions on even a small amount of money can be a valuable experience. How heirs make decisions and problem-solve as a group is at the heart of this exercise. While their financial inheritance is likely to be spelled out in legal documents, their emotional inheritance, that is, the beliefs and attitudes shaping who they are—including in relation to the family's wealth—are not as clear. But one's emotional inheritance can make or break family unity as well as the family fortune. No matter what the total net worth of the grantor, the goal of setting up this separate account(s) is not to duplicate existing investments. The amount is far less important than the heirs' *approach to working with this money*.

A grantor worth millions may create a fund of $20,000 as a starting point. While it's only a very small percentage of the fortune, heirs are presented with two basic options: 1) divide the money equally among them, or 2) discuss how to allocate the sum. Such exercises promote communication, family unity, and working collaboratively. This also may be an incubator for leadership as dose of real-world experience, guided by senior family members and advisers, trains those who will manage the family's future. These early experiences will vary from family to family. However, grantors have an opportunity for a first-hand look at how the next generation works together. Who are the problem-solvers? Who is proactive? Is there an individual who consistently emerges as the younger generation's go-to person?

While the older generation is likely to have long standing relationships with a team dedicated to managing the family's financial capital including wealth advisors, attorneys, accountants, and others, introducing younger family members to each person's function is usually best done over time. As children age, when there is a deliberate passing of the reins, this creates a far better platform for success than an abrupt and unexpected change in family leadership (i.e. illness, death). The latter does not take into account the learning curve required to successfully assume management of an affluent family's affairs. As the new leader takes additional responsibilities, the team of experts may be changed, grown, or reduced depending on the needs of the family.

When there is advance planning for heirs to become good stewards of the family's capital, the results are clear: the family fortune flourishes, and their educational, philanthropic, and other interests thrive. Growing a family's resources translates directly into growing a family's opportunities.

Now, not everyone of the same generation holds the same responsibilities. When there is more than one competent heir apparent, several decisions, depending on the family, may be made by consensus. However, if there are heirs who are unprepared to serve the interests of the family, their participation (and possibly their knowledge and access to shared assets) can be limited. Repeated violation of written stewardship policies, i.e., struggling with addiction, failure to work consistently, or other irresponsible actions are often the impetus for limiting a troubled heir's access to the family's capital. However, those in the stewardship role may re-evaluate situations on a case-by-case basis to increase or decrease the participation of the family member in question.

Respect, empathy, active listening, and keen intelligence are a few of the qualities we recommend successful stewards cultivate within themselves and others. The "big picture" of any family's collective wellbeing includes the different personalities, values, ideas, and typical conflicts when there is a clash of ideas. The capacity to see the big picture and ask, “Where do I want my family to be in 5 years? In 10 years? Where do I envision them a generation from now? Or five generations from today?” are the questions help a family stay the course and adhere to their ideals.

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