MFS Heritage Planning®
Helping Yourself. Helping Your Parents. Helping Your Children.®

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FINANCIAL BASICS

FAMILY WEALTH MANAGEMENT: TIPS FOR A SUCCESSFUL TRANSITION BETWEEN GENERATIONS

Passing on wealth is not just about getting financial assets to future generations. It's also about passing on what you think is important and avoiding damage to your children's relationships with each other. Unfortunately, research shows that for many families the process goes awry. Here are some steps you can take to try to avoid common and costly mistakes, while increasing the likelihood that your estate transfers successfully and lasts through another generation.

Avoid this unfortunate inheritance situation.

It's not an uncommon scenario: The parents pass away and leave the family home to the children, Joe, Bill and Marie. Joe wants to keep the house and live in it to preserve the homestead for generations. Bill is fine with that as long as Joe can buy out Bill's share. Marie insists they sell the home because the market is hot and there's a good profit to be made. And so the fighting begins.

Certainly no family likes to think that the parents' legacy will turn into a tussle over assets. Yet it happens all too often. The result? According to one study, 70% of estates fail in the transition to the next generation.[1]

Understand why most transfers fail.

While wealth transfers fail for many reasons, the top explanation is simple: lack of communication. Most parents are uncomfortable discussing money with their children. Perhaps we fear such talks will reveal children's greed or that by talking about inheritance the kids will be less motivated to strive in life. Maybe parents believe such a discussion would be all about trusts, tax strategies and insurance policies. While your advisor might use these tools to achieve your wealth transfer goals, the real purpose of talking with your heirs ahead of time is to express the impact you hope the assets will have on your family and

By the numbers

- **70%** of estates fail in the transition to the next generation.[1]
- **60%** of the time family wealth evaporates after being passed to heirs because of a breakdown in trust and communication.[1]
- **75%** of children have not met their parents' advisors.[2]
- **69%** of investors have not discussed family wealth plans with their advisors, even though 94% of those who had the conversation found it helpful.[2]

[1] Institute for Preparing Heirs, "The Future of Estate Planning," June 2010.
[2] MFS Investment Sentiments Insights, May 2013.

This material should be used as helpful hints only. Each person's situation is different. You should consult your investment professional or other relevant professional before making any decisions.

Key points

- Develop a family financial map
- Communicate early and often
- Be clear about your expectations and values
- Introduce your heirs to your financial advisor

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community — both now and after you're gone. Pointed communication of what you would like to accomplish with the assets can help legacies endure for generations.

Plan to avoid mistakes.

Before you talk with family members about your legacy, it's critical to fully consider all of your potential beneficiaries. Map out and identify all of your immediate and extended family members so that you will have a clear picture of whom you and your advisors may want to plan for. Perhaps you have a child who requires custodial care when you're gone. Or you may have elderly parents whom you hope to support financially if you predecease them. Before you talk with your heirs, take time to document specific details — including names, addresses and contact numbers — and then use the map as the basis for a planning conversation with your attorney, tax professional and financial advisor.

Shape the conversation appropriately.

A thorough discussion of family wealth may be confusing to underage heirs. Minor children should probably be kept on a need-to-know basis and given increments of information as they mature. Older heirs, however, may benefit from knowing what they will inherit so that they can make plans for future assets that fit with their life choices and plans. This is especially true when passing on the family business. Such a legacy may affect an heir's decisions about college or other opportunities that could enhance the business's health. On the other hand, if an heir doesn't want the business, it's best to know that when the heir is a young adult so you can make alternative succession plans.

Take your time

The family wealth conversation should not be a one-time event. Legacies can be complicated. So can the reactions of family members as they review inheritance plans. There is no reason why everything needs to be discussed in one meeting around the kitchen table. If, for example, you choose one child to be your executor, disclose this one-on-one so the conversation can take place undistracted by the reaction of other family members. Many advisors recommend you choose a disposition officer outside of the family to be the executor. This way siblings can communicate with an outside party as executor, rather than be inclined to hound or badger an executor who is a relation. You might also want to talk about the dispensation of family heirlooms. Asking each child privately if he or she has an interest in grandmother's jewelry or your valuable artwork may be easier than an open discussion when the entire family is gathered for the holidays.

Share your values

Sometimes, legacies involve arrangements outside the family boundaries. Maybe you'd like to leave a portion of your stock holdings to a favorite charity. Or perhaps you've decided the summer home should be bequeathed to a nonprofit organization for housing or educational facilities. Let your children know the reasons behind the division of your estate so they won't feel confused or resentful when your legacy transfers to others. The "why" of your estate is as important as the "what" if you hope to minimize conflict when you're gone. This can also be a time for your heirs to make their own wishes and feelings known so that they, too, can share their values with the whole family.

Introduce your financial advisor

If possible, this should happen well before your children inherit your estate. If one child is your executor, invite that child to your annual review with your advisor so you can begin to discuss financial matters openly. If another child is just starting out on a career, arrange a meeting with your advisor to explore saving strategies for long-term goals. Your advisor can educate your heirs on general money management, help build trust and communication concerning family wealth and work with your family to ensure your legacy endures.

Communicate early and often

By keeping loved ones engaged in the inheritance planning process, you can increase the opportunity to transfer your wealth successfully. For example, when you open an account for an heir and want him to be aware of it, include that person in the meeting with your advisor to talk about what you're doing and why. The same goes for any gift you might make to a savings account or a retirement or college financing investment vehicle. Ensure that your loved ones

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have easy access to the names and numbers of all your legal, tax, insurance, employer and financial contacts. By engaging and educating heirs along the way, you can help them avoid common and costly mistakes later on while protecting against the negative impact that surprise and a lack of preparedness might have on your estate.

Aiming to achieve wealth transfer success

While one of the greatest challenges in passing on wealth is the high frequency of transfer failure, most inheritance transitions derail for reasons you can potentially control. Not having a plan, not communicating your plan and failing to prepare your heirs top the list of mistakes many people make and you can avoid. You can leave a lasting legacy. Together with your financial advisor, make sure you understand the common mistakes, develop a plan for those you want and need to provide for and make sure everyone knows your wishes and intentions before the time comes. If you express what you'd like to see them accomplish with the inheritance, you improve the odds of creating longevity of those assets throughout generations.

Resources

Worksheets and articles

Ask your advisor for worksheets and educational articles that can help you develop

- a family financial map
- philanthropy strategies
- estate and legacy plans
- beneficiary arrangements
- financial account and contact lists

Books

Saving the Family Cottage: A guide to succession planning for your cottage, cabin, camp or vacation home by Stuart Hollander, David Fry, Rose Hollander, NOLO, 2013.

Inspired Philanthropy: Your step-by-step guide to creating a giving plan and leaving a legacy by Tracy Gary, Jossey-Bass, 2007.

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Contact your financial advisor for more information.

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