



Charles W. Collier MTS '73

Financial Inheritance as a Family Conversation

Insights from Charles W. Collier,
Harvard's Senior Philanthropic Adviser
and Author of *Wealth in Families*

"I used to think I was up against more than I actually am regarding our daughters' inheritances," says Bill Collatos '76, founding managing partner of Spectrum Equity Investors in Boston. "The dialogue between my wife and me has taken an interesting turn. For some time, we had differences about how much to give our three daughters, but, after a few years and numerous conversations, we came up with the principles and the strategy, and then the dollar amounts came into sharper focus."

Several key questions illuminate decisions regarding a financial inheritance:

- What amount of financial inheritance will you leave for your children and grandchildren?
- What, if anything, will you tell your children about your estate plan and their inheritance? And, if you do tell them about this, how much detail will you provide?
- Will you actively help this next generation learn about finance and investments?
- Should you include sons- and daughters-in-law in these conversations?
- What do you think is the purpose of a financial inheritance for your children? For example, is it to be used to provide a safety net, to purchase a vacation home, to fund financial or social entrepreneurial initiatives, to enable a choice of career without regard for the economics of that choice, or for anything your children choose?

Because I believe that the true wealth of your family is not financial, I think that you should first discuss the *principles* that will guide your decision about how much to give your children. It makes sense to have these conversations *before* implementing various estate planning strategies. Remember, money is important, but not all-important. The best thing you can do for your family is to invest in their human, intellectual, and social capital.

"The most important truths, I believe," says Jay Hughes, a retired counselor of law in Aspen, Colorado, and the author of *Family Wealth—Keeping It in the Family*, "are whether the gifts will permit the recipient to bring his or her own dream to life and enable him or her the choice of a vocation. The priority is to help this person whom you love and invest in their journey. Another truth is that, if the recipient receives a greater sum than they need to live a liberated life, that extra sum will require them to act as a steward of those funds—for someone or something other than themselves. Those excess funds will impose a responsibility upon them that will restrict the experience of enhancement of freedom that the gift was designed to achieve."

What is the best way to proceed?

"Where should a parent begin?" asks Kathy Wiseman, a family facilitator and the CEO of Working Systems, Inc. "Should you begin with your spouse or your adult children? As with any discussion about a sensitive topic, it is important that all conversations about family assets be planned, factual and detail-based, open, and inviting of questions. Difficult conversations are always challenging, but the benefits are significant. Planning and thinking through what you want to achieve are a first step, while at the same time remembering that questions are a good start to knowing what it is that the next generation wants to learn."

My recommended process is a three-part conversation, starting with your spouse and then your children. One way through those questions listed previously is a series of "breakthrough conversations," which are critical to the success of the family in the future. The conversations start small and evolve over time.

The first part begins with a conversation with your spouse and focuses on exploring all your options. How much to give, through which vehicles—that is, outright or via trusts—etc.

continued

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From that conversation, a key goal is to create clarity about what the inheritance should achieve and generally how much to leave the children. You may not agree, but differences are critically important and should be discussed and respected. Indeed, you may find that there are differences where you thought there were none, and points of agreement that you did not expect.

Ask yourselves the following questions:

- What principles guide our decisions regarding our children's inheritances? What factors might make it difficult to follow our principles?
- Do we treat our children equally or fairly? What are the challenges and solutions for both scenarios?
- At what stage do we tell them about their financial inheritance?
- What would our parents say about the financial inheritance we plan to leave our children?
- What worries us most about our children's use of their inheritances?
- What are our hopes for the next and then future generations?
- What amount of inheritance would be life-giving to our children?
- Could we give them a *say* in their financial inheritance?

The second part of the conversation is talking with your children about what you have decided in part one. You can have this talk with one child at a time or all the children together. Sometimes, families need only one conversation. Other families have a number of conversations, often over a number of years.

You may want to begin with the following general questions, with the option of adding others that are more specific to your own family:

- What is the meaning and purpose of a financial inheritance for you?
- How much money do you need to live a worthwhile life?
- What do you think about the purpose of inheritance for your generation?
- Do you want to bring your husband/wife/partner into this conversation?

- What is the best financial decision you have made? The worst?
- Is it important to you to work together with your siblings around inheritances?
- What are the challenges that your parents' estate presents for you and your family?
- What kind of guidance/consultation would assist you in the management of your parents' estate?

The third part of the conversation should be a discussion of the principles that guided your decisions, the general nature of the estate plan, and then the amounts that your children will receive. Also, you can explain how you have integrated some of their ideas into your planning. You can also discuss any next steps and other issues that focus on the future.

My primary message is this:

Think carefully about the purpose of the financial inheritance. Engage all of your children in conversations about your financial wealth and their inheritances. Planning for a financial inheritance is both a legal process and a family process. It is an opportunity for connection, education, and openness. It also can be an opportunity for strengthening the family as you address difficult issues with candor and respect.

"My wife and I are both comfortable with our decisions to date," says Bill Collatos, "but we view this as an iterative process. We have not told our daughters what we have done yet, but we will have a conversation when the last one graduates from college."

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