Professional Financial
*Purposeful Wealth Management*

## Wealth Planning Report

# Family Challenges of Giving—and Receiving—Wealth

While most people would agree that having more money is better than less money, simply having more than enough money does not assure a successful, happy, or even a good life.

This is apparent among many who have inherited significant family wealth and wasted it. Affluent parents and grandparents rightfully worry about the potential negative impact of giving or leaving too much wealth to their kids too soon, particularly when younger people are inexperienced handling large sums of money. Meanwhile, young people suddenly inheriting wealth are easily overwhelmed—particularly when their "good fortune" was due to the death of someone they loved deeply.

The first step to navigating a successful wealth transfer that empowers a younger generation is for the older generation to identify challenges likely to be faced—both for the givers and the receivers. While each family is unique, events of how wealth is inherited have much in common.

**1. Lack of practical financial knowledge.** Inheritors and would-be inheritors typically lack even basic knowledge of wealth management. Unlike older and experienced givers, they rarely started small and learned to do better while making small mistakes. That experiential knowledge gap is a disconnect from inherited wealth. Unaware of a serious knowledge gap, combined with youthful overconfidence, inheritors often make unwise and outright bad decisions early on—misled by social media schemes or seductive stories from lucky friends of easy roads to greater riches.

**2. Innate bad spending behaviors.** Stories of hedonistically shrinking a sea of wealth into a muddy puddle abound. Poor choices in legal or illegal lifestyle activities (absent a strong moral anchor) are only part of the problem. Overconfident heirs try to generate more money either to support their bad habits or, ashamed of their mistakes, double down to recover money lost from failed schemes leading to worse results. The empty void that occurs after realizing a fortune has been ruined can become self-destructive.

**3. Guilt feelings and low self-esteem.** Sudden-wealth inheritors often possess a sense of guilt or anxiety about money they didn't earn. These feelings frequently stem from a lack of identity with a career or profession or sense of place in the world with a strong community prior to inheriting their wealth. Believing their identity has become defined by money they did little to deserve leads to the classic "impostor syndrome." Stagnated personal maturity reinforces bad behaviors.

**4. Pressure to have a positive impact.** Even for those more mature or better established, social pressure of being a "good steward" can become burdensome without a mission. Inheritors can feel influenced to help numerous people and causes. Without guiding structures, there can be much confusion deciding the "best ways" to "do good."

## Action Steps To Consider

Fortunately, good planning can address challenges that inheritors face. For example:

**1. Develop financial decision-making skills.** Inheritors need some fundamental financial knowledge, to understand what wealth is, and to make wise money decisions. They need to make small mistakes before they inherit. At the very least, have heirs take classes in college or over the internet to learn the basics. Successful parents and grandparents should impart knowledge and stories about saving, spending, and investing, particularly of their values and mission related to money. They need to encourage heirs to pursue a lifestyle that shares family values. Financial professionals involved in asset management should be asked to develop relationships with the inheritors well in advance.

**2. Build an identity or community.** When inheritors have nothing in their life but that inheritance, that wealth will define them. Inheritors—ideally long before they receive the bulk of assets—should be encouraged to pursue challenging activities, exploring their interests, discovering what they're capable of and making sacrifices related to money. Completing college, making progress in a career or profession, volunteering and other "real life" experiences build confidence, identity and self-esteem that can counteract feelings of unworthiness and help make friends now to reduce isolation later on.

**3. Share challenges with peers and family.** Inheritors will admit that their wealth creates feelings of isolation and loneliness. Their new affluence makes it hard for them to relate to or bond with others having far less wealth. But such alienation can also occur between inheritors within a family. When families overemphasize privacy, sharing little information with their children, or even telling them to hide their fears and concerns, important family social and emotional connections can be stunted. Lacking trusted close connections can potentially lead to depression, substance abuse and other life-altering problems. Therefore, inheritors—and their entire family—need opportunities to communicate, commiserate and share with one another regularly.

**4. Be an active steward of wealth.** Good stewardship simply can be passively preserving family wealth and status. Alternatively, stewardship can instill and advance values such as entrepreneurship through active wealth creation. By encouraging activities such as real estate development, families can reduce the risk that heirs will be defined by their inheritance and become unmotivated to make anything of their lives. Active wealth stewardship can take many forms—such as becoming leaders of a family-owned business by bringing heirs up through the company ranks, or as matriarchs and patriarchs lending money to heirs via a "family bank" structure.

## Conclusion

Ultimately, family wealth can be a resource to generate enormous good both for family members and their communities. Wrongly used, wealth enables personal stagnation or worse. Wealth givers and receivers should come together and plan collaboratively to help ensure it's the former, not the latter.

Also, wealth givers should consider that future inheritors who do well with what they have been entrusted before the time of transfer, get a disproportionately larger share than those who choose to live passively as "trust consumers" rather than generate greater wealth for the greater good.

**This is an executive summary of our wealth management ebook. For a complimentary copy of our complete report, please contact us.**

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Paul founded Professional Financial Strategies, Inc. in 1993 as one of the first fiduciary planning firms that specializes in retirement and wealth management for affluent and aspiring families. Paul is a personal chief financial officer acting in best interest of clients. He brings together a proven process and a network of specialists for making informed decisions for systematic strategies, secure income, mitigating taxes, protecting assets, and preserving wealth for family and purposeful causes.

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