

Transcript: Arne Boudewyn on When to Talk to Heirs About Money and What to Say

Talking about money can be complicated, especially when conversations pertain to multi-generational family wealth – and when there are expectations for preserving that wealth for future generations.

Hi, I'm Arne Boudewyn, Managing Director of Family Dynamics and Education at Abbot Downing. All families are unique, but many share the same concerns and questions about raising responsible heirs and building a legacy that stands the test of time.

Nearly all experts on family wealth agree that it is of central importance to communicate actively with family members who will be impacted by your estate plans.

At a very basic level, this should be seen as an important part of educating the individuals in your family to become competent stewards of the wealth that they may inherit or manage – on behalf of themselves or others in the family.

At a more fundamental level than that, communication is a form of empowerment when it comes to the topic of wealth. Secrecy surrounding family wealth can occasionally contribute to inaccurate assumptions, misunderstandings, hurt feelings and complex family dynamics as individual family members attempt to understand how decisions around wealth may impact their future.

Talking to children and grandchildren about wealth isn't just of hypothetical importance – it is an established best practice for ensuring that wealth is preserved and transitioned over time.

At a basic level most beneficiaries need to know:

- What financial education they will need to be fluent, competent and confident as wealth stewards
- If money will be available to them to attend college, buy a home, or start a business
- At what ages or life stages any planned trust distributions may impact them

Now most parents and grandparents would also agree that beneficiaries should have a good sense of their family's history and values as well as a vision or roadmap to help them understand and manage wealth's full impact.

In one of the most comprehensive research studies to date of wealth transition best practices, more than 3,500 families of significant wealth were tracked over a 20 year period to see how successful they were in transitioning wealth and keeping wealth in the family from generation to generation. Now over the course of the study, 70 percent of the families that were studied failed to transition their wealth successfully beyond the third generation. One of the key factors behind this finding in the study was the absence of beneficiary education and preparation among families that didn't preserve their assets over time.

Looking at the 30 percent of families in this study that successfully transitioned wealth beyond the 3rd generation, the study authors observed a common theme: these families focused intentionally on helping next generation family members learn about and practice with the roles and responsibilities associated with wealth stewardship.

So when do you start?

Learning about money and wealth as a young person is an important rite of passage for any future wealth steward. At the same time, it is important to take a developmental approach in deciding "when" and "how" talk about money with children and grandchildren.

Generally speaking, the most important concepts to discuss with children between the ages of 5 and 13 are:

- Concepts like saving, spending, and giving
- Understanding the value of a dollar, including what it takes to make money in the first place and certainly what it takes to replace money in situations where assets are depleted.
- Another important concept for children in this age range is the concept of getting paid what you are worth – that is, understanding the value of your contributions
- And finally, it's important for younger children to develop an understanding that not all families come from backgrounds of privilege – this enhances their understanding of important concepts like privacy, philanthropy and empathy

As children become adolescents, concepts like basic investment fundamentals and how to use credit responsibly are important wealth conversations. It becomes increasingly important here for young people to take on more responsibility and accountability for money and other tasks related to wealth stewardship.

One helpful best practice is to engage rising generation family members in discussions around charitable giving and philanthropy to underscore the value of contributing to the world around you by giving back to communities and causes you care about. Philanthropy is also a great vehicle for teaching children about basic financial concepts like deciding how much to give away and how to measure the value of philanthropic contributions.

By the time children move into adolescence and early adulthood, many are capable of understanding what wealth means and they're interested in learning more.

And here, a good general practice is to share basic money messages with heirs around the time they begin to show interest.

In developmental terms, we might think about this process of learning about family wealth as an important rite of passage that will prepare your heirs for their future roles as wealth stewards.

If you would benefit from a consultation focused on communicating about wealth with your children, grandchildren or other family members, please contact your relationship manager to connect you to our Abbot Downing Family Dynamics and Education team.

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