Educate your children on wealth management

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If you've worked a lifetime to build a large estate, you undoubtedly would like to leave a lasting legacy to your children and future generations. Educating your children about saving, investing and other money management skills can help keep your legacy alive.

Teaching techniques

There's no one right way to teach your children about money. The best way depends on your circumstances, their personalities and your comfort level.

If your kids are old enough, consider sending them to a money management class. For younger children, you might start by simply giving them an allowance in exchange for doing household chores. This helps teach them the value of work. Opening a savings account or a CD, or buying bonds, can help teach kids about investing and the power of compounding.

For families that are charitably inclined, a private foundation may be a great vehicle for teaching children about the joys of giving and the impact that wealth can make beyond one's family. For this strategy to be effective, older children should have some input into the foundation's activities. When the time comes, this can also be a great way to get your grandchildren involved at a young age.

Timing and amount of distributions

Many parents take an all-or-nothing approach when it comes to the timing and amounts of distributions to their children — either transferring substantial amounts of wealth all at once or making gifts that are too small to provide meaningful lessons.

Consider making distributions large enough so that your kids have something significant to lose, but not so large that their entire inheritance is at risk.

Introduce incentives, but remain flexible

An incentive trust is a trust that rewards children for doing things that they might not otherwise do. Such a trust can be an effective estate planning tool, but there's a fine line between encouraging positive behavior and controlling your children's life choices. A trust that's too restrictive may incite rebellion or invite lawsuits.

Incentives can be valuable, however, if the trust is flexible enough to allow a child to chart his or her own course. A so-called "principle trust," for example, gives the trustee discretion to make distributions based on certain guiding principles or values without limiting beneficiaries to narrowly defined goals. But no matter how carefully designed, an incentive trust won't teach your children critical money skills.

Communication is key

To maintain family harmony when leaving a large portion of your estate to your children, clearly communicate the reason for your decisions. Please contact us for more information.

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