WHEELER

Wealth Management

FLASH REPORT

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Addressing the Challenges of Giving—and Receiving—Family Wealth

While most people would agree that having money is better than not having money, wealth itself doesn't guarantee a smooth, happy or successful path.

That can be particularly true among those who inherit family wealth. Affluent parents and grandparents often worry about the potential negative impacts of giving significant wealth to their kids. Meanwhile, inheritors can feel overwhelmed by sudden wealth—particularly if their "good fortune" resulted from the death of someone they loved dearly.

The first step to navigating wealth transfer among family is to recognize the challenges that inheritors are likely to face so you can be on the lookout for them—whether you're the giver or the receiver of assets. While every affluent family has its unique characteristics, there are a few challenges that we see cropping up repeatedly among inheritors of wealth.

1. Lack of financial knowledge. Inheritors and would-be inheritors too often don't know much about their own money or about money generally. This lack of knowledge can leave them feeling disconnected from their own wealth. What's more, they may be more susceptible to making poor decisions with their money—or being cheated out of it.

2. Bad spending habits. This goes beyond the obvious hedonistic overspending of inherited money that turns an ocean of wealth into a puddle (although that's certainly a trap inheritors fall into). Poor spending also entails using wealth in ways that fail to generate the results people most want from their spending—which often includes greater happiness and pleasure, or a more meaningful life. Regardless of whether they spend a ton or not much at all, the feeling of emptiness that can occur when they realize their spending isn't meaningfully improving their lives can be a rude awakening.

3. Feelings of guilt and low self-esteem. It's common to find inheritors saddled with a sense of guilt or anxiety about money that's given to them. Sometimes these feelings stem from inheritors not having a clear, strong sense of who they are and their place in the world prior to receiving assets. These inheritors often feel like they're defined by money and affluence they did little to deserve—leading to the classic "impostor syndrome."

4. Pressure to have a lasting positive impact. The opportunity to be a good steward of the wealth we receive can sometimes feel like a burden if the inheritor feels a great deal of pressure to help, coupled with uncertainty about the "right" or "best" way to offer financial resources and support.

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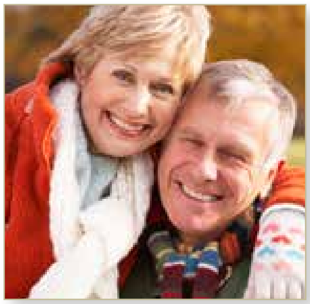
ACTION STEPS TO CONSIDER

The good news: There are ways to address and overcome these (and other) challenges that inheritors often face. *For example:*

1. Build and hone financial decision-making skills. Chances are an advisor or wealth manager will be involved in managing inherited wealth. Even so, inheritors themselves need to develop some big-picture financial knowledge and an overall sense of ownership of their wealth and decisions around it. Parents and grandparents can impart knowledge about saving, spending and investing over time. Heirs can also sign up for classes in high school and college that teach key financial basics. One specific area of focus to consider is the relationship between money and meaning. Encourage heirs to pursue a lifestyle that speaks to their values—both their family's and their own.

2. Build an identity for yourself. When you've got nothing in your life but your wealth, that wealth will define you. Inheritors—ideally well before they receive assets—should be allowed and encouraged to pursue a life that includes dealing with challenges, exploring their interests, discovering what they're capable of and sacrificing in some way. Working, volunteering and other "real life" experiences build confidence, identity and self-esteem that can potentially help inheritors avoid feelings of unworthiness or isolation later on.

3. Share challenges with peers and others. In our experience, inheritors will admit that their wealth creates feelings of isolation and loneliness in them. Their affluence can make it hard for them to relate to or bond with others they encounter in their lives—especially if those people have far less wealth. But such alienation can also occur between inheritors who are very much alike. When families overemphasize privacy concerns or tell their children to hide their fears and concerns from others, it can stunt important social and emotional connections to others that we all need. That, in turn, can potentially lead to depression, substance abuse and other life-altering problems. Therefore, inheritors—and indeed, entire affluent families—need opportunities to communicate, commiserate and share with one another.



4. Be an active steward of wealth. Stewardship can mean passively sustaining family wealth and status over time, but it also can—and some say should—instill and further values such as entrepreneurship and active wealth creation in heirs. By encouraging entrepreneurship and engaging in it, families can potentially reduce the risk that heirs will become defined by their inheritance or become unmotivated to pursue their own accomplishments in life. Active wealth stewardship can and does take many forms—such as leaders of a family-owned business bringing heirs up through the ranks of the company, or matriarchs and patriarchs lending money to heirs for business ideas via a "family bank" structure.

Ultimately, family wealth can be a resource to generate amazing good—just as it can be used in ways that lead to personal stagnation or worse. Givers and receivers of such wealth should put their heads together and work collaboratively to help ensure it's the former, not the latter.