Engaging the Next Generation on Family Wealth

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Understanding the Challenges

Teaching young adult children about wealth can be a challenge. Many of the ultra-high net worth clients we work with have thoughtful ideas on how to take on this process. Although circumstances may vary, most families want to impart on their children a solid understanding of their wealth, creating opportunities for younger generations to continue growing the family's resources while embracing the responsibilities associated with acting as stewards of intergenerational legacy.

We have all witnessed the consequences of young adults inheriting wealth without this foundational guidance, and yet we lack universal agreement on how to best teach the next generation of young adults about their assets. When managed well, conversations about wealth can facilitate its passing from one generation to another while strengthening family ties.

To start, we recognize that talking about wealth is uncomfortable. Many people would rather discuss religion, politics, or literally any other charged topic, than talk about their net worth and bequests. In fact, a research study by the U.S. Trust Survey of Affluent Americans (Volume 19) shows that families fail to successfully transfer wealth for two primary reasons: a lack of communication and trust (60%) and inadequate preparation (25%). All other reasons comprise a meager 15% of failure points, which shows the importance of communication and preparation.

Furthermore, A 2018 Young Adult Financial Literacy Survey from Charles Schwab showed 53% of millennials anticipated their parents leaving them an inheritance, but a 2019 BECU Credit Union study noted that 82% of parents they surveyed were fearful of talking with their children about finances. Bridging this gap – that the majority of millennials are expecting a future inheritance but overwhelmingly, their parents don't educate them on responsible financial management – is imperative for families who want to ensure that their hard-earned wealth is a foundation for family growth and harmony.

Solutions to Consider

Here are a few suggestions from our clients that might facilitate productive discussions with inheriting generations:

(Note that these points apply to "children" of all ages, in age-appropriate language)

1. **Understand that the conversation doesn't have to involve numbers.**

   Starting conversations about wealth is often a challenge for high-net-worth families. We suggest beginning with the philosophy of wealth. Ask your children what money means to them. Independence? The ability to make certain decisions? The opportunity to support causes they care about? Talk openly about how money can sometimes be used as leverage in personal relationships and discuss strategies to avoid this. The skeleton of a financial plan can introduce broad topics that can be filled in with figures over time.

2. **Don't just educate, engage.**

   There are many resources that teach young adults about financial literacy and investment concepts. But getting the next generation actively engaged is a more difficult task. They often feel like spectators until they are "thrown into the deep end" and abruptly given responsibility to make investment decisions. We encourage families to include their children in family meetings as early as possible (If it is too early for young adults to be exposed to actual figures, they can attend the high-level parts of the meetings to start.) Internships with investment firms or a company's finance department can also stimulate engagement. Finally, several families we work with create family mission statements that crystallize values, priorities, and goals. The process of creating these mission statements is dynamic and often includes several drafts, engaging various family members throughout. Outside facilitators are sometimes helpful depending on the family dynamics.

3. **Introduce investment committees early.**

   It's never too early to introduce best practices in decision-making. One family we work with includes the next generation in investment committee meetings, first as observers and then as active members. Others have informal meetings for small decisions where they seek input from the younger members. Warren Buffett suggests having kids make a list of five or ten things they would like to purchase, identifying which is a "need" and which is a "want." Establishing a process for prioritizing these needs and wants, and encouraging family members to come to meetings prepared to ask questions and participate in decision-making will foster an appreciation of the family's investment choices. Further, instilling this discipline might help to reduce some of the emotions that come with both positive and negative investment results.

4. **Introduce advisors early.**

   Many families have said that it is helpful for their family members to meet their investment advisors, estate attorneys, accountants, and other advisors while the parents are still around, so that comfort and trust can be established. Explaining the roles of each will be helpful. Just as we establish disaster plans in case of a fire at home or a cyber-attack, it is important for the next generation to understand the plan for the disposition of the estate in the event of a sudden or eventual loss. This provides ample time for children to ask questions of their parents, to establish rapport with their parents' team, and to demystify the advisors' various roles. Additionally, it may be helpful for parents to review their wishes for their legacy assets in the presence of this team.

5. **Treat small mistakes as learning opportunities.**

   Investing can seem abstract to many young adults, so putting "real" money to work is a good way to get them started. Encourage them to share how their portfolios are doing on a regular basis, but resist the urge to check in too frequently, as that behavior pattern might imprint on the younger generation, undermining their ability to approach investing as the long term, strategic endeavor it's meant to be.

6. **Focus on impact.**

   Each young adult is unique, but an increasing number care about the impact that their investments have on the world. The Bloomberg Women's Buy-side network conducted a poll of over 600 students from leading universities across 48 countries. 40% of those students indicated that the main driver for their investment decisions was "companies with a purpose." We have found that this topic is an excellent way to stimulate conversation with the next generation and provide comfort to parents that a thoughtful decision-making framework is in place. Some of our clients are concerned that their children, who will inherit significant wealth, don't show an interest in traditional investing. Focusing on causes that these individuals have a passion for and exploring opportunities to express this passion through impact or socially responsible investing is an excellent way to encourage engagement while teaching them about due diligence, analysis, and process-oriented decision making.

What to do Next

Managed thoughtfully, conversations about family wealth can pave the way for collegial and cohesive family dynamics for generations to come. And that's where we come in: if you need help creating or executing a strategy to develop the next generation as steward of your family legacy, the first step is simple: contact us **here**.