HOW MUCH IS TOO MUCH—WHAT TO LEAVE YOUR HEIRS

By: John Welsh, Senior Vice President, Director, Commerce Family Office at Commerce Trust Company

Many Americans have long believed in the cultural tradition of leaving some if not all remaining assets after they've passed away to their offspring. Down through the years, an inheritance generally has been considered more of a gift than an obligation on the part of parents to take care of their children—but not something to be taken for granted by their heirs. **But how much is too much?**

PARENTS PLAN TO SHARE THEIR WEALTH

Baby boomers across America are preparing to pass their wealth on to their heirs. Over the next 25 years, according to a report from research firm Cerulli Associates, 45 million U.S. households will pass a mind-boggling $68 trillion to their children — the biggest generational wealth transfer in history.[1]

HOW MUCH OTHERS ARE GIVING

The fact that many boomers seem to be planning on leaving assets to their children may be influenced to some degree by what their parents left them. A 2019 study by United Income[2] analyzed data from the Federal Reserve on inheritances passed down from the Silent Generation (born before 1945) to Baby Boomers (born between 1946 and 1964). Some interesting findings came to light. From 1989 to 2016:

- The total value of inheritances per year rose by 119% from $195 billion to $427 billion (once adjusted for inflation).
- In total, over $8.5 trillion was transferred to individual households.
- Average inheritances rose in value by 75% from $169,000 to $295,000.
- Major inheritances ($1 million or more) received by 0.3% of people grew from $2.7 million to $6.6 million (an increase of 149%).

The study also found the average age adults received an inheritance rose from 41 years in 1989 to 51 years in 2016. Also, more than 25% of inheritances went to adults over the age of 61—indicating that inheritances may be becoming less about lifestyle enhancements for younger heirs (fast cars and expensive homes) and more about shoring up the financial security of older Americans.

TO LEAVE OR NOT TO LEAVE?

Perhaps that's the real question to ponder. As time rolls by, it's no surprise that statistics show American households are growing older—and often wealthier. However, in spite of the great wealth transfer that's been going on for decades, the school of thought on inheritance seems to be changing.

Individuals across all wealth classes are living longer—and with inflation, health care expenses, and the rising cost of living they may not have saved enough to maintain their current lifestyle through retirement, let alone pass along an inheritance. Others question whether their gifts to heirs will be used wisely and are concerned that too much money could spoil their kids or ruin their lives. They worry their children may never have the incentive to find a job and build a career they're passionate about or figure out how to make it through life on their own.

Opinions about how much—and what—to leave for an inheritance also vary. If wealth has been passed down through the family from one generation to another, chances are good the parents will try to carry on the tradition. For ambitious entrepreneurs who started at the bottom and worked their way up fortune's ladder, the legacy they pass on to their children could look entirely different from a traditional inheritance of real estate, stocks, bonds, and cash.

For example, it's been well publicized that Mark Zuckerberg, Warren Buffett, and Bill Gates don't plan to leave their children much (or any) money at all. Buffett's famous philosophy on the subject is this: "A very rich person should leave his kids enough to do anything, but not enough to do nothing."[3] That quote has inspired and guided parents for years, including Bill and Melinda Gates. These famous individuals and other families who aren't as wealthy, believe in donating much of their wealth to causes that make our society and world a better place instead of passing it all to their children.

CONSIDER WHAT—AND HOW MUCH—TO LEAVE YOUR HEIRS

In general, everyone does agree on one point: There's no formula to calculate how much to leave your heirs—and no set cutoff for how much is too much.

Determining what and how much to pass on to your offspring is a very private and personal decision that should include guidance from your advisor, tax, and legal professionals. These six tips may help you work through the initial stages of the process:

- Put your own needs first—be realistic about what it will cost to maintain your current lifestyle through retirement.
- Determine how much financial wealth you can afford to leave to your heirs—not how much you want to pass along.
- Consider other ways to share your wealth with your children and grandchildren while you are still living: pay for their education, help them set up a business of their own, purchase a vacation home where the family can spend quality time together and build memories, or assist family members with buying homes or property of their own. Giving during your life allows you to see how your gifts are being enjoyed and how recipients handle them, which can then guide any future gifts..
- Find ways to spend time with your children and grandchildren—share your values, work ethic, family history, life skills, hobbies, and culture. You can consider leaving a personal letter expressing your values, how you accumulated your wealth, and your hopes for how beneficiaries will use the funds. In addition to sharing with your family, this type of letter could help trustees better align with your wishes.
- Decide which charities you wish to support with your estate—involve your heirs in those decisions so they can carry on your philanthropy work.
- Carefully consider how your inheritance gifts will affect and change the lives of your loved ones, then determine the amount you want to leave accordingly. Consider having a conversation with beneficiaries about their inheritance as these gifts can be problematic when they come as a surprise. Plan how you can help prepare your family members to handle their inheritance responsibly once they receive it.

CAREFULLY CONSIDER ALL YOUR ESTATE PLANNING OPTIONS

Preserving your assets can be as challenging as building your wealth, but an effective and current estate plan is important for all levels of wealth. The earlier you start planning, the more effective the plan can be in accomplishing financial and non-financial goals.

Contact Commerce Trust Company today to learn how our team of professionals can help you transfer your assets according to your wishes and distribute them privately and expeditiously when the time comes.

[1]Source: David Robinson, founder and CEO, RTS Private Wealth Management, https://www.cnbc.com/2019/02/22/how-to-prepare-your-heirs-for-the-68-trillion-great-wealth-transfer.html

[2]Source: Matt Fellowes and Lincoln Plews, Executive Summary, "Inheriting Retirement Security: How Inheritances Help Households Afford Retirement," November 19, 2019, https://unitedincome.capitalone.com/library/inheriting-retirement-security ©2020 Capital One and United Income

[3]Warren Buffett, Fortune interview, September 29, 1986

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John is a managing director of Commerce Family Office in St. Louis. He collaborates closely with clients on strategies for addressing the complex personal, family, and financial challenges that can accompany significant wealth and often impact current and future generations. John works to help clients integrate core values into wealth planning and decision making, translate vision and mission statements into actionable solutions, implement successful family communication strategies, and establish effective family governance structures and processes. Prior to joining the Commerce Family Office team, John was a Family Wealth Strategist in Chicago, where he worked with families and individuals on the development and implementation of estate, wealth transfer, philanthropic, family education and fiduciary planning activities, as well as a variety of wealth planning matters. Prior to that, John was an attorney where he was a part of the Private Client group providing wealth and estate planning services to ultra high net worth individuals, families, family offices and foundations. John earned his Bachelor of Business Administration from the University of Notre Dame and his Juris Doctor from Northwestern University School of Law.