



Passing Along Your
Wealth and Values

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Passing along a financial legacy to the next generation may ultimately benefit many future generations of your family — but only if your children become conscientious stewards of the family's wealth. By sharing your values as well as your money, you can pass along a priceless legacy that may help preserve your family's prosperity for years to come.

Open Communication

Transferring your knowledge and values generally takes more than just being a good role model. It also takes clear communication about your financial goals, priorities, and expectations. Family discussions can provide a forum for talking about the legacy you wish to leave behind, while giving your children an opportunity to ask questions and voice their concerns. Explaining your estate and wealth transfer plan can prevent misunderstandings and reduce the potential for resentment, especially if your plan calls for an unequal distribution of assets among your beneficiaries or if a large portion of your assets will go to charity.

Your Stewardship Policy

Defining your own position on money management, debt, and charitable giving can help you create a stewardship policy that you can communicate to your children. Beginning this process when they're young makes it more likely that you'll successfully instill in your children the values that are important to you. If one of your goals is to discourage debt, for example, you might make it clear to your children that you will not come to their rescue if they spend beyond their means. A stewardship policy could also describe your expectations for using the family's wealth for humanitarian and other charitable purposes.

Family Philanthropy

Involving your children in “hands-on” family philanthropy from the time they’re young can cultivate social responsibility and prepare them to continue your charitable legacy. Family discussions can identify values that are important to everyone and help your family create a strategy for charitable giving. You may even want to establish and endow a private or family foundation to carry out your charitable mission. Family members could serve as trustees and board members, giving more than one generation a voice in making philanthropic decisions. A family foundation offers you more control and greater flexibility in making charitable gifts. However, there are set-up and operating costs, as well as administrative responsibilities and tax requirements, that you’ll want to consider before taking this route.

The Incentive Trust

Inheriting significant wealth brings with it significant responsibility. But not everyone is mature enough to handle the pressures of managing a large inheritance. If you have concerns about your family’s ability to properly manage or preserve the assets that will eventually pass to them, you may want to include distribution restrictions in your estate planning. An *incentive trust* offers an opportunity to reward desirable — and discourage poor — behavior and promote the values you cherish.

When you create an incentive trust, you determine what conditions your children, grandchildren, or other beneficiaries must satisfy in order to receive trust assets. This type of trust is typically used to motivate a younger generation to achieve a wide variety of objectives and to discourage behavior that you, the grantor, consider undesirable. The trust’s terms generally spell out requirements for distributing assets when a beneficiary reaches a certain age or achieves a specific goal that you’ve established. And, in the event that a beneficiary does

not meet the conditions you've imposed, the trust usually includes a provision allowing a disbursement of trust assets to pay for certain expenses, such as medical care.

An incentive trust arrangement can help build character in your children and secure their financial independence by encouraging education, philanthropy, a healthy lifestyle, a solid work ethic, or any number of other things that are important to you. It also can ensure that the wealth you may have worked hard to build will be preserved for future generations of your family.

You can structure your trust arrangement to accomplish almost any objective, as long as the trust provisions comply with federal and state law. Here are examples of some common ways incentive trusts may be used to foster the values that are important to you.

Education. Your child receives disbursements from the trust for certain academic achievements, such as a particular grade point average or an advanced degree, or to reward other educational pursuits. You could, for example, give your trustee the authority to make distributions for tuition, room and board, and a wide range of other educational activities, such as travel, study abroad, music lessons, and so on.

Maturity. Your child receives distributions from the trust at an age specified in the trust document. Trust distributions could also be staggered over a number of years as the beneficiary reaches milestone ages.

Philanthropy. Trust distributions are tied to your child's charitable pursuits, such as volunteerism, community service, and charitable giving. This arrangement is designed to encourage philanthropy by rewarding your beneficiary for developing charitable habits.

Lifestyle choices. Trust payouts can be structured to reward a child for making personal choices that you wish to encourage or for refraining from specific activities that you want to discourage.

Careers and employment. Trust distributions are contingent on your child pursuing a career, starting a business, or assuming responsibilities in the family business. Parents who have concerns about their child's work ethic can set up the trust to pay out an amount of trust assets that matches earnings of the beneficiary.

Since it's impossible to predict the changes that may occur over time, consider building sufficient flexibility into your trust document to allow the trustee broad discretion in carrying out the trust's provisions.

Passing along your wealth *and* your values to younger generations is a worthy goal. Good communication and appropriate planning can help you achieve it.

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