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► ESTATE PLANNING

## Are Your Children Ready To Inherit?

Early guidance can prepare your heirs to be good stewards of family wealth and help prevent long-term losses. The first step? Have the “money talk.”

Leaving an inheritance is one of the most common financial objectives, but it’s not always a successful endeavour: 70 percent of family money evaporates before reaching the third generation, with average losses climbing to a staggering 90 percent by the fourth.\* The major culprits: mismanagement and poor communication.

“The biggest reason wealth is diminished from generation to generation is that younger people have not been prepared to be stewards of the legacy they’re given,” says Deb Houden, a consultant with the Family Business Consulting Group. “They think it’s there for them to use instead of to protect.”

Your family’s story can be different. According to Houden, taking steps today to prepare children for tomorrow’s inheritance can help prevent irresponsible spending and set a foundation for continued growth of the family’s assets.

**HAVE THE MONEY TALK**

Some parents are uncomfortable discussing the details of their personal finances. Or, Houden says, “they’re petrified of developing spoiled and entitled children,

so they err on the side of keeping their wealth secret.” But avoidance is rarely a good strategy—and the earlier you begin talking about money, the better.

The substance of the conversation will depend on your child’s age and maturity level. “Detailed descriptions of numbers won’t mean as much to someone who is 18 as they will to someone who is 30 or 35 and emotionally ready to understand what those numbers mean,” Houden says. But there must be a common thread to every discussion, regardless of age. Dialogues should cover what the wealth means to each individual, what parents want for and from their children, and shared goals for the family wealth. Parents should also use these talks to foster an environment of financial education, to help ensure that children will be well equipped to step into a money-management role.

Most important is ensuring that the next generation understands:

- The assets they can expect to inherit
- Any restrictions or conditions they must meet to receive the inheritance
- Expectations for use of the funds

(continued)

## Understanding Your Unique Needs

My concept of wealth management keeps your whole life in focus—since managing your money does not end with managing your portfolio. Your business, philanthropic and lifestyle pursuits all play a role in this process. *One To One Insights* offers you relevant and engaging articles that can bring you closer to achieving your ideal lifestyle—and the means to support it.

### EMPHASIZE VALUES

Don't let the money talk be only about money. "One big mistake that parents make in these conversations is putting all the emphasis on the wealth itself, as opposed to the values you hold as a family, and how money can help you achieve those values," Houden says.

To reframe the conversation, consider drawing up a **family mission statement** that summarizes what is important to you as a group, such as community service, hard work, education, family coherence, faith and fun. You can then use this statement to shape future discussions of financial topics.

And remember to listen to your children. "No human being in the world likes being told what to do without being able to express their own opinion," Houden says. "A family unit is made up of individuals, and a family discussion of what should be included in the mission statement is just as important as the

mission itself." She recommends asking your children open-ended, values-based questions, such as:

- What are your dreams, and how can we help invest in them?
- What financial challenges do you anticipate you'll face?
- What is your personal mission?

### BRING IN A PROFESSIONAL

Take advantage of the expertise of my team, or another financial professional such as an attorney, to facilitate the conversation and ensure that the terms of the inheritance are understood by all parties. "A financial professional can also help ease the tension in the room," Houden says. "Rather than a discussion between a parent and a child, it's a more general discussion."

Parents can meet with the professional beforehand to discuss some of the important topics they want to address. That professional can then ensure that the conversation stays on track by queuing up questions, explaining financial concepts, sharing anecdotes and helping to mitigate the emotional charge that can accompany these meetings.

### TEST THE WATERS

Houden recommends giving young adults a small sum of money to manage on their own long before they're set to receive their inheritance — say, while they're in college. If they do so responsibly, that's a good sign they'll be able to handle a larger sum in future, and if they exhibit warning signs that suggest they may not be ready to inherit, the family has time to work on it. "The major things to watch out for are squandering, apathy, excuses, inattention and a simple lack of understanding," Houden says. If your

## HOW TO START YOUR FAMILY WEALTH DIALOGUE

Ready to bring your kids into the conversation? Houden recommends using these key questions to encourage productive communication during your next family meeting.

### Ask yourself:

- What does wealth mean to me?
- What are my greatest fears concerning wealth?
- What do I really want my children to gain from wealth?
- What is the biggest obstacle I face regarding my wealth and the next generation?

### Ask your kids:

- I've been thinking about my will and legacy. Is there anything I need to know from you when I think about distributing my assets?
- What questions or concerns do you have when it comes to our family's money?
- What information can we share with you now that will help you to understand our family wealth and help you make financial decisions?
- What does the money mean to you now, and how do you envision its use in the future?

daughter consistently exceeds her budget and continually asks for more funds, or your son gives away his philanthropy stipend without first doing his research, consider additional coaching before you hand over the reins.

Don't panic if you see evidence that your child might not be ready. Instead, step back and try a different approach. Talk to us about creating a financial education plan to help get your children up to speed.

No matter how you approach the wealth transfer process, keep in mind that your own values and actions provide an exam-

ple for your children. "A legacy isn't something you pass down at your death," Houden says. "It's something you live every day."

*Call us to learn more about intergenerational wealth transfer. We can discuss strategies that may be appropriate for your family and ways to initiate the "money talk" with children and grandchildren. As*

*always, if you have any questions about your accounts or any of the information contained in this newsletter, please do not hesitate to contact us.*

\* Missy Sullivan, "Lost Inheritance," *The Wall Street Journal*, 8 March 2013, <http://online.wsj.com/news/articles/SB10001424127887324662404578334663271139552>.

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