When parents worry about irresponsible children

Help clients take the right steps when it comes to their legacy.

BY BRYCE SANDERS

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In an episode of the television show "The Blacklist," one of the characters confronts the patriarch of a 200-year-old crime family whose wealth has passed through generations and asks: "Sixty-five percent of inherited wealth is gone by the second generation, 90 percent by the third. How do you do it?"

Wealth preservation and transfer is a big issue for people with money. Few realize a heart-to-heart conversation with their financial advisor can be the first step in finding a solution.

The first generation makes the money, the second generation tries keeping it intact and the third generation blows it. Baby boomers born between 1946 and 1964 are now 50 to 70 years old. Their nest egg has remained largely intact thanks to defined benefit retirement plans and other nifty job perks. They benefited from spectacular run-ups in the stock market and real estate.

Now, they want to leave a legacy. They are thinking of educating their future generations. But they get a wakeup call. Buffy and Breezy, their adult children, have been raised in a life of privilege. They are conspicuous consumers.

The boomer parents think they are their children's retirement plan. But they also know 70 percent of lottery winners burn through their winnings in a few years, and they worry their children might do the same. Maybe they'll marry badly and lose most of the assets in a divorce settlement. The loss of control of assets they worked hard to accumulate is a big boomers' fear.

These boomers want to control the money from the grave. "I'll put this money into a trust. They won't be able to touch it until age 40," they decide. They hire an attorney who will never let their children touch the principal.

Logic notwithstanding, setting up those restrictive trusts that shell out only a tiny allowance creates resentment, which will be passed down to the next generation. Is that the legacy they want to leave, children and grandchildren who despise their memory?

Or, if they take no action, their worst fears might come true. Maybe the children inherit and spend it all.

Enter that charming young man they know at the country club. This advisor knows a hot-button issue — and an opportunity to steal your client — when he sees it. He tells them what they want to hear. He talks about restrictive trusts. He knows a few attorneys who have helped others. The assets will have to move to him, of course, and you've just lost your client.

This is why it's crucial for you, the advisor, to have a discussion with your boomer clients before they even address these concerns.

By getting this issue out in the open, you are addressing their "elephant in the room." You are proving you are their go-to person for a wide range of financial problems.

Have the children changed?

Despite their best intentions, your clients might be wrong. Their irresponsible teenagers may have grown into responsible adults, especially if they moved away for job reasons, married and are raising a family. The parents may only see their children at holidays, and old perceptions persist. Help them update those perceptions by having them reevaluate the situation.

Step One: Ask the boomers to take a close look at those children again. Are they doing a good job raising their grandchildren? Are they gainfully employed? Are they solving their own financial problems or looking for handouts?

Step Two: The world is made up of givers and takers. The boomer parents want to leave a legacy, ultimately educating future generations. They are givers. Your boomer clients likely make gifts to local charities. If they have lots of money, suggest they establish a foundation or introduce donor-advised funds.

Suggest they put their children in charge of selecting charities, researching them and choosing how to distribute that year's contribution dollars. It's a great way to teach their children about stewardship and determine if they can be responsible with money.

When children aren't responsible

Uh oh. Buffy and Breezy failed the test. They aren't responsible. The client gave them the opportunity to prove themselves, and they didn't. Perhaps a trust or guardianship arrangement is the best solution.

Now the advisor is in the driver's seat. It's time to put the boomer clients at ease. You can explain different alternatives involving trusts and the concept of guardianship. You know several attorneys experienced with trusts who you can connect the client with. You guide the clients through the next steps.

In the end, it comes down to this: Have you done good? Yes. Have you made money? Yes. Have you bonded with the client? Yes. It's a win-win situation. RT

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HAVING THE CONVERSATION

Unlike retirement planning, which is brought up by the client as a problem they are facing, having irresponsible children is often something the client is hiding. Draw them out without embarrassment. When you conduct periodic portfolio reviews or update their financial plan, it's natural to ask about their children.

Question 1: "You have two grown children, Buffy and Breezy. How are they? Are they set on their paths in life? Do you feel they are responsible?" Stop talking. This gives them the opening they need to get the issue out into the open.

Question 2: "You own your own business. Do you plan to bring them into the business as part of your succession plan? If not, do you see them in another business or following a different career path?" They have the opportunity to explain if their children want to be in the family business and vice versa. They may have found their direction already. Maybe not.

Question 3: "You are charitable and give back to the community. Do you have a foundation, or have you considered establishing a donor-advised fund? This could be a great opportunity to bring in your children and give them a role in choosing the charities that will get gifts."

You have provided a safe testing ground. The boomer parents relinquish control over a portion of their charitable contribution dollars. The children can demonstrate responsibility.