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Here’s to Your Wealth

Discussions for financial health and well-being

富不过三代

Fù bùguò sāndài

This Chinese proverb roughly translates to “wealth does not sustain beyond three generations” (Campbell, 2021). In the U.S., we have similar sayings such as “rags to riches” or “shirtsleeves to shirtsleeves.” In fact, you can find sayings like this all over the world. Why is it so hard for a family to pass wealth from generation to generation?

First generation wealth comes from hardworking people who have lived within their means and saved diligently to amass substantial sums of money. Most people want to ensure a comfortable life for themselves and for future generations, while also instilling other values like hard work and philanthropy. Studies have shown that this is not easy to do.

One study by The Williams Group found that the first heirs (the second generation) lose approximately 70% of the wealth created by the first generation. By the end of the third generation, 90% of the original wealth has been lost. More tragic than the lost wealth are the reasons for it being lost. This study found that the two biggest reasons for wealth to be lost across generations are: 1) a breakdown in communication and trust within the family unit (60%), and 2) heirs being inadequately prepared (25%). The remaining 15% of generational wealth transfer failure is due to other causes such as improper tax planning, legal issues, etc. (Williams & Preisser, 2011).

- **America: “shirtsleeves to shirtsleeves”**
- **China: “wealth does not sustain beyond three generations”**
- **Mexico: “father-merchant, son-gentleman, grandson-beggar”**
- **Brazil: “rich father, noble son, poor grandson”**
- **Italy: “from the stables to the stars and back to the stables in three generations”**

(Course Hero, 2017)

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The first two reasons in the preceding paragraph, which account for 85% of wealth transfer failure, are actually the easiest to fix. It comes down to simple communication. The problem is, Americans are lousy communicators when it comes to money. A CNBC/Acorns Invest survey found that 83% of U.S. adults think parents are responsible for teaching their kids about money. Unfortunately, only 15% of them said they actually did teach their children. (Fox, 2022). Reasons for this lack of communication can include a desire for privacy, a general uneasiness when speaking about money, or the fear that future generations will be less motivated if they know about an inheritance. However, as shown in the preceding paragraph, **not** communicating and preparing the next generation can be very costly.

There is no specific age at which parents should begin talking to their children about money; it all depends on their maturity. An allowance is a good example of a way to teach younger children about money. You can introduce the idea of saving some for future use and using some for current consumption. Some people use the “three jar method” where one jar is labeled “Spend,” another “Save,” and the third jar “Give.” Children deposit a portion of their allowance into each jar. This method allows you to introduce your belief of preparing and saving for the future along with your charitable values.

As children get older, you can introduce more complex subjects like budgeting and investing. You can begin teaching them about saving, investing, and the power of compounding returns by opening a 529 plan or brokerage account for them. If they are earning wage income, they could open an IRA.

For adult-aged children, you could start to introduce them to more complex financial issues if you feel they are mature enough. This could be a time to discuss your will. If you have a trust, you can begin to explain what this means and how it will work. Tell them who the executor is and/or the trustee(s). You can tell them if you have a power of attorney, a healthcare power of attorney, and a living will. The level of detail you get into is up to you. At the very least, they should know where these documents are and the name of the attorney who drew them up.

Another useful practice is to begin introducing your adult children to the various professionals in your life: your attorney, tax advisor, and wealth advisor, for example. This will allow a level of familiarity before a tragic event, such has incapacity or death, both of which are highly emotional, stressful events.

These meetings do not need to delve into the nitty gritty of your plans and assets if you don't want to have that discussion yet. However, they do give a chance for your family to see with whom you have been working and to learn some of the basic plans you have put into place. You can also consider doing this with your medical appointments by asking them to be your healthcare advocate.

By communicating with your children, regardless of age, you will help prepare them for the financial responsibilities that lie ahead. Discussing your successes and your failures will help them to make better decisions. Show them how you prepared for your future and life after your career. Teach them your values, so they can look beyond themselves. By doing these simple things, your generosity and hard work will reshape your family tree for generations to come.

If you would like to start educating your heirs, we can help. We would be happy to schedule a meeting and prepare documents with whatever details you wish to share. By opening the lines of communication, you will build trust and transfer your values as well as your assets.

Wishing you good health and good wealth.

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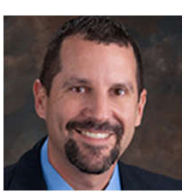

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