

How to tell your children about their inheritance

By Patricia Annino, Esquire



I cannot count the number of times parents have sat in my office and asked if now is the right time to tell their children about their expected inheritance. This question comes from parents of every age and net worth level.

The answer is personal and complex.

In some families, the level of net worth and income is taboo, while in others, it is openly discussed. In any case, it is unlikely nowadays that one's children not know what one's level of wealth is. We live in a Google and Zillow world, one in which a great

deal of financial information is easily accessible online. Your children already know what your station in life is, if not in exact figures, then at least what the ballpark is.

So, it is not so much when you should tell your children, but why and how you tell your children.

To start with, you should identify your main concerns. Is it that your children, if they know of your net worth, will believe that they do not have to lead productive lives in their own right? Or maybe that they will be taken advantage of by someone who

wants to marry them for your money? Are you suspicious that the person your son is dating is simply a gold digger and will clear him out when given the chance? Or do you think your daughter is easily susceptible to peers and will give away her money and possessions? Maybe you are worried that your child may take reckless financial risks if he thinks there is a significant safety net behind him.

You may be concerned that your children will not be able to handle it when they receive a gift or

inheritance, so you want to prepare them. Perhaps, you believe that financial education should take place early, or that telling them now is fine because the dinner table discussions have instilled the right values, such as work ethic, respect for wealth and responsibility. You may want to tell them now because you may die tomorrow and you think they should understand their responsibility to ask questions and find the right advisors.

Educating children about wealth does not mean handing them a balance statement or your income tax return. It means having an ongoing discussion about your wealth, the responsibility that comes with it and your values. It is important to share with your children how you (or your ancestors) created your wealth, what risks were taken and what mistakes were made in the process. Respect comes from understanding the work that was put into building and maintaining wealth – and that while it is hard to create, wealth is easy to lose. Educating children about this topic should encompass matters like the difference between income and principal, how to invest, who to invest with, what risks to take, and how to correct mistakes, which can be taught by reading and discussing certain books as a family, or hiring a tutor.

In many families, parents do not initially hand their children substantial sums of money. Instead, they lend it to them at prevailing interest rates and expect to be paid back at regular intervals. Some families lend children money to start a business only after the child has given them a business plan and made their case. The lesson continues with financial and operational oversight, much the way a conventional lender would do. This encourages ongoing conversations

about risk and makes the child think through their business at a much deeper level. Moreover, you may wish to consider incentives for a child to learn to live within their means, such as earning a set income, maintaining a certain level of debt, and establishing and staying within a budget. This type of financial incentive can lead your child to develop lifelong habits.

For many families, educating children about stewardship and philanthropy is a vital part of this education process. This discussion can begin when the children are very young and can include site visits to charities.

Having the children articulate from a very young age their philanthropic concerns can have long-lasting positive effects.

The discussion and education of money, wealth and inheritance should begin early and evolve as your children, your family and your wealth do. Understanding wealth and inheritance is important and should be an ongoing process. If you are having a hard time discussing

money and its lead to inheritance with your children, think about why, then evaluate what proactive steps you should take to make this crucial conversation instructive and enduring.

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Patricia Annino is a nationally recognized authority on estate planning and taxation, with more than 30 years of experience serving the estate planning needs of families, individuals, and owners of closely held and family owned businesses. She has written five books and also writes a monthly column for AICPA's CPA Insider, a newsletter sent to more than 320,000 CPAs. Patricia is a graduate of Smith College (A.B.), Suffolk University School of Law (J.D.) and Boston University School of Law (L.L.M. in Taxation). She is a Fellow of the American College of Trust and Estates Council, and a member of the Board of Directors of Family Firm Institute, the Board of Directors of Business Families Foundation, and the Advisory Board of the Indiana University Women's Philanthropy Institute.

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