SUDDEN WEALTH SYNDROME

You've heard the stories, and perhaps a feeling of dread sinks in as you think about your own family: A wealthy family builds significant wealth and passes it on to the next generation. Inevitably, that wealth is squandered by poor decisions made by the inheriting generation or the next.

Introducing Sudden Wealth Syndrome. This happens when a family member or members suddenly inherit wealth, and, unprepared for the responsibility, they make poor decisions. This can lead to massive wealth deterioration which, over time, can destroy even the largest of family fortunes.

Estate planning documents are necessary tools for transferring wealth to the next generation, but in reality, estate planning is not enough to prepare your heirs to take the helm of managing the family wealth. The values, talent and resources that helped to build the wealth in the first place seem to fade, and poor decision making and family conflict begin to take a toll on the family's legacy.

All that said, what can a family do in advance to protect against the wealth transfer deterioration? Families who actively prepare for wealth transfer can take proactive measures to prevent Sudden Wealth Syndrome, protecting the family's wealth and future legacy. There are, in fact, many proactive strategies a family can embrace. Once a family decides to protect their wealth proactively, the first step is to decide what they want their legacy to be.

PREVENTION

Once a family is ready to get started, the most basic and effective method of prevention is to enhance communication, and family meetings are a great way to stave off the impact of Sudden Wealth Syndrome. Each family is different, and there are many different ways to approach family meetings.

What's most important, however, is to avoid delay! Have your first family meeting sooner rather than later. It may also be a good idea to bring in a professional facilitator who can act as a neutral third party and foster conversation around important topics. You want to keep the conversation honest, and be open to the viewpoints of the other family members at the table. These family meetings can be amazing tools to transmit those values that helped build and sustain the family wealth in the first place.

Another approach, best used in conjunction with family meetings, is heir education. Gradually introduce the next generation to the wealth management process and gain a proficient understanding of basic financial language and tools. This can mean different things at different ages. For young children, allowances are a great way to introduce the concept of a spending plan or budget. You might also take advantage of this opportunity to open their eyes to the world of philanthropy. Say for every $10, $9 are free to spend as they see fit, but that last $1 will be set aside for others. One of your family meetings can be set up around what charity should receive that money.

For older heirs, a college course in financial planning or investing may be useful. In addition, you could consider engaging an estate-planning attorney or accountant to provide additional insight. When ready, it is helpful to give them a say in the investment policy of a relatively small piece of the family wealth. Think of it as a training wheels approach. With enough freedom to make potentially bad decisions, yet keeping the size small enough so that the family wealth isn't put at risk helps them to understand the responsibility of their role as the family's decision maker and the impact each decision can have. Making mistakes is key to the learning process, and it's best to make a mistake when the stakes are relatively small. Equip the next generation with the experience needed to make wise decisions.

In the event that the next generation wants to start a business or invest in an existing one, it's a good idea to take a very disciplined approach. The family should consider it with the same critical process that they would use for any other investment: require the presentation of a detailed business plan, insist that the family isn't the sole source of equity capital, etc. These may seem like onerous requests to the entrepreneurial next generation, but will be good training for future endeavors.

SUPPORT

Your family's existing network of trusted professional advisors should be a great support network for avoiding the effects of Sudden Wealth Syndrome. You may even want to consider using your family wealth advisor or estate planning attorney to facilitate your family meetings. These professionals have a working knowledge of your financial assets, estate planning, personal circumstances and your family members. They also benefit from the experience of having worked with multiple families who have probably gone through issues similar to the ones you are facing now. Drawing upon that collective experience can help your family come to potential solutions much more quickly.

REAL WORLD EXAMPLES

PROACTIVE PLANNING

The Smith family began having family meetings towards the end of their patriarch's life. While they may have been late to the game, they didn't hesitate to have a family meeting once the need was recognized. As a result, the patriarch and matriarch were able to sit down with their children, grandchildren, and even great-grandchildren to explain why their estate plan was structured in the way that it was. They had a trusted family wealth advisor facilitate the meeting, and the advisor was able to add detail where needed and offer a professional perspective on the circumstances. Unfortunately, the patriarch did eventually pass away. But because they had in-depth conversations while Mr. Smith was still alive, the family was able to focus on the grieving process without wondering why dad/grandpa set the trusts up the way he did.

HEIR PREPARATION

The Cooper family estate plan gradually gives their son and daughter more and more responsibility as they age. This is done by making increasing gifts at certain "milestone" birthdays, hopefully well before the death of the parents and any inheritance. The goal is to build comfort and confidence in the next generation, as well as allow them to learn from mistakes while controlling exposure to the overall family wealth. Mr. and Mrs. Cooper have also introduced their son and daughter to the family's wealth advisor. This multi-family office has a multigenerational focus and composition and has included the children in the wealth conversation. Your kids would probably rather talk to somebody closer to their age than yours.

FAMILY BUSINESS SUCCESSION PLANNING

The Winstons' two adult children were very involved in the family manufacturing business. While both daughters were working in the family business, only one pursued a long-term career there. Working with their family office, the Winston family was able to engineer a peaceful transition and buy-out for the other daughter. The forethought and planning prevented what could have been a lengthy, painful conflict between siblings.

Whatever your current circumstances, it's important to start discussing the family wealth with your heirs as soon as possible. Even though your estate plan may account for every possibility, it is imperative to prepare the next generation for the responsibilities that come with significant wealth. The values and experience that helped build the wealth can't be transferred through any trust or will. You don't want your family wealth becoming another sudden wealth statistic.