

Family and Finances: Start the Dialogue

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Article Highlights

- The first step to protecting an inheritance is to encourage a family dialogue about money.
- Make sure your beneficiaries are correctly listed on all financial documents.
- If caring for both parents and kids, discuss how much of a commitment you can make.

Family communication, education, and understanding are just a few of the components that can add to the success or failure of managing family money. Here are some of the steps you can take to deal more effectively with family finances.



children. Many also worry that poor spending habits or costly life events, such as divorce, may dangerously erode the funds. These concerns are as valid as the steps for addressing them.

The first step is to encourage an open family environment where money can be discussed. For many families, this can be intimidating. Families must resolve to openly discuss their hopes for what can be accomplished with family money.

Inheritance: Avoid the “Three-and-Out” Dilemma

There are many complexities involved in how money is transferred between generations. In many cases, inheritance encompasses the tiny details that can make the difference between keeping your money in the family and losing it to spending blunders, investment errors, and costly tax consequences. Some studies indicate that a family’s wealth is usually dissipated within about three generations—the thinking being that the first generation earns the money while the second generation gets to enjoy it. Because the second generation didn’t earn the money, they may have less respect for how to handle it. By the third generation, family members have no concept of the discipline needed to earn the money and may have no financial management skills at all.

When we think about a pending inheritance, or passing family money to the next generation, the “three-and-out” dilemma becomes even clearer. There’s an overriding concern among many families about how not to lose an inheritance. Parents may worry about how to divide the funds among

Discussions need to be interactive with an emphasis on defining the family’s values and mission for the money. The big myth to recognize is that talking to children about money will give them a sense of entitlement. The reality is quite the opposite. And never be fooled into thinking a family money conversation is a one-time event—the discussion should be an ongoing process. The last thing anyone wants is for their kids to one day be stuck in a financial squeeze that could have been avoided with proper discussion, planning, and resources.

A final step toward the successful inheritance and transfer of family money is to talk frequently and candidly about how the family got its money or how the family business operates. The key in such discussions is to encourage a consensus around how the family can best take care of future generations. Rather than falling prey to the “three-and-out” tendency for family money, we should create a multigenerational dialogue. We must let future generations know that we were thinking about them, and they in turn should think about the generation behind them. In this way, family money

can become a lasting legacy.

Handling Sudden Wealth

Windfall and inheritance recipients often find themselves on an emotional roller coaster after coming into a large sum of unexpected money. One might expect typical emotional responses to include excitement, exuberance, and elation. But some of the more common emotions actually include guilt, shame, isolation, and fear.

Take a Decision-Making Timeout

Think of it as a financial sabbatical. The money is new to you, and you're new to it. And it's not going anywhere soon. So, create a safe place to work through your emotions as well as your options.

Take Stock of Your Identity

Don't redefine or reinvent yourself. If your inheritance is large, keep a level head. The only thing sudden wealth should change is your ability to achieve your retirement goals that much sooner.

Protect Your Legacy—B.O.S.S.

One of the most common financial planning errors impacting families today is also one of the errors most frequently overlooked. It is the issue of incorrect beneficiary designations on financial products, including mutual funds, retirement accounts, IRAs, life insurance, and annuities. Such beneficiary designation errors can have severe, unanticipated consequences, including needless expenses and taxes; potential of disinheriting children or grandchildren; and delays in providing for the financial needs of loved ones. Unfortunately, most people do not realize they have a problem until it is too late. Fortunately, although a potentially devastating risk to your family's finances, the issue can be one of the most straightforward and easy to rectify.

The use of a simple acronym (B.O.S.S.) can be helpful in illustrating the issue. No, B.O.S.S. is not just the person you work for, although it cer-

tainly can have a more lasting impact on you and your family than any employer ever would. B.O.S.S. is an acronym that stands for: beneficiary, owner, spouse, and survivor.

These four key designations need to be completed accurately on your financial accounts to make sure your assets pass to your desired heirs at the right time and in an efficient manner. Estate-planning experts indicate that there are four common errors with B.O.S.S.: 1) failing to update beneficiary designations; 2) failing to name a contingent beneficiary; 3) naming the estate as the beneficiary; and 4) owning assets jointly.

Failing to Update Beneficiary Designations

This is one of the most common—and easily avoidable—errors. If you have experienced any of the following, it is time to work with an adviser to review and update all your financial account forms:

- Change in marital status
- Birth of a child or grandchild
- Death in the family
- Health problem
- Relocation
- New job or promotion

Failing to Name a Contingent Beneficiary

Another common mistake is failing to name, or maintain, accurate beneficiary designations. If the primary beneficiary predeceases the account owner or insured, the proceeds are paid to the estate—which may subject the assets to probate with double taxation and creditor access ensuing. Also, there may be estate-planning scenarios where it's advantageous for the primary beneficiary to disclaim their right to the inherited asset. Contingent beneficiary designations play an important role in these situations. A general recommendation may be to employ the "Rule of Two." Name two backups for every person named on the account as a beneficiary. This way all parties involved know who the assets will pass to, and you can usually avoid having the assets become subject to probate.

Naming the Estate as the Beneficiary

By naming the estate as the beneficiary, you guarantee that the precious dollars that you want to go to your loved ones will be subject to the delays, expenses, and public scrutiny associated with probate. In addition, your assets may not go to the right person, in the right amount, or at the right time, resulting in the potential disinheritance of your heirs and certainly the unnecessary delays and expenses associated with probate. It can take months or even years in the probate process to determine where your assets go.

Owning Assets Jointly

For obvious reasons, the majority of assets owned by married couples are held jointly. This arrangement acts as a "poor man's will," and on the surface, jointly held property may seem like the right idea. But it can become a nightmare, possibly resulting in higher estate taxes and even the possibility of unintentionally disinheriting loved ones. The risk of higher estate taxes arises because jointly held assets pass directly to the surviving spouse, nullifying the deceased's estate tax exclusion and potentially triggering needless taxes when the second spouse passes away. Furthermore, the surviving spouse can bequeath the property at death to anyone she wants, regardless of the desires of the original deceased spouse. This loss of control can be especially horrendous if a spouse remarries or there are children from a previous marriage.

How to Avoid the Errors

First, gather all the pertinent financial documents, including copies of your beneficiary forms, title documents, insurance contracts, annuity contracts, custodial agreements, and retirement plan summary descriptions. Second, review these documents to ensure that they are up to date, in proper order, and will fulfill the objectives of your overall plan. Third, inform your beneficiaries. You may want to schedule a meeting with your adviser to review your financial plans with your beneficiaries

so that they will understand the options they have when they inherit your assets. There are a lot of rules, laws, and considerations that should be reviewed to ensure your financial and estate plans fulfill all your objectives and maximize the legacy you pass to your heirs.

Clearly, matters of the family are more complex for baby boomers than any previous generation. Significant concerns rightfully exist regarding eldercare for a parent intersecting with preparing for a child's education, on top of financial planning for one's own retirement. The sandwiching and even "club sandwiching" of a generation is in full effect. One of the best things you can do today to minimize future headaches for you and your loved ones is to develop a clear understanding of:

- What documents do I need?
- How will my beneficiaries find these documents?
- Are beneficiary and contingent beneficiaries listed and current?
- Who will advise my beneficiaries?

Although a clear plan and good documentation may not solve all your family's private and personal issues, a good roadmap and organized documentation can help ensure everybody is on the same page with respect to financial family matters. This can also help the family navigate important financial and tax hurdles along the way.

Sandwiched? Have a Plan

If you're feeling sandwiched with family finance matters, it is likely that you are facing special problems you may never have expected. The Sandwich Generation faces what experts have termed the "financial trifecta"—preparing for college or paying it off, helping your parents with medical or nursing home expenses, and planning for your own retirement (which may be fast ap-

proaching).

By most accounts, many of the boomers represented in the Sandwich Generation are handling the situation very well. But with just a little help, you can make sure you handle it even better. The first thing you may want to ask yourself is how much of a commitment you are willing and able to make. Take stock of your own abilities and go from there. It may sound odd, but being honest with yourself is every bit as important as being honest with your aging parents.

Next comes the tough part: having an honest chat with all the ingredients of this sandwich. Even if your family has not been strong at communicating previously, now is the time to learn how to change that. When you suspect you may be caring for an aging parent in the near future, be sure to get the facts right away. Avoid surprises later. Ask your parents about their finances, even difficult questions.

It is important to be empathetic about your parents' need for privacy, but you also must protect your future. This means ensuring that you have a thorough understanding of your parents' assets. You may want to consider discussing a durable power of attorney for their finances and a healthcare directive. There may even be cause to bring up the possibility of updating their wills. At the same time, ensure that your adult children have an equal understanding of your complete financial picture and life-planning objectives.

Like discussions about family money with children, a candid financial discussion with a parent should never be a one-time event. Even the most financially literate person can fall prey to scams. To help keep the scam artists at bay, you need to know what your parents are doing with their money. Take an active role with aging parents. Review

their bank and credit card statements with them. You'll be glad you did.

As your parents age, it will become very important to make sure you have the legal authority to act swiftly on their behalf in case of an emergency. Consider a durable power of attorney authorizing financial decisions on their behalf and a living will. Explore options for long-term care. Find out if your parents have long-term care insurance or enough money set aside to cover such costs. But don't forget to take care of yourself. As much as we all want to be there for our parents, it's imperative to be diligent with your money and not put your retirement goals on the back burner.

When it comes to paying for the care of an elder or a child, it's equally important to have a handle on where the financing will come from. Consider first exhausting your parents' resources and making sure your parents have long-term care insurance. And seek assistance from social services and from an attorney who specializes in care for the elderly. For the kids, start a college plan or take out loans. Whatever you do, don't stop contributing to your own retirement. Ultimately, the kids will be glad that you thought of yourself first when they become part of the next Club Sandwich Generation.

Finally, when tapping your own or a family member's assets to pay for elder care costs, it's important to think about the order in which you are removing funds. Generally speaking, you'll want to start with withdrawals from taxable accounts first so that tax-deferred accounts can continue to grow. However, there are a host of options and considerations to explore based on your individual situation and those nuances are best left between you and a qualified adviser familiar with your financial affairs. ▲

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