Wealth brings obvious benefits, but it can also have harmful and unintended consequences if your children are not ready to inherit or manage large amounts of money on their own. Here are ideas on how to pass on your wealth to your kids without spoiling them.
Sandra comes from a working-class immigrant family. Her husband, Pete, has the same background and both worked hard in and outside of school and became successful — Sandra in accounting and Pete as a financial analyst. Now in their 50s, they and their three kids live comfortably in a large home in an affluent neighbourhood with abundant disposable income, yet they still have a vigorous work ethic they hope to pass on to their kids.

In fact, they hope independence, self-sufficiency and the benefits of hard work may be the only things they pass on to their kids because Sandra and Pete have decided to only leave their children a small amount of money in their will.

Canada’s wealthiest generation is aging and it must soon decide what it wishes to do with its wealth; give it to charity, pass it on to the kids or spend it on themselves. It is estimated that more than US$1.5 trillion dollars will be passed down to the next generation in North America over the next 10 years. So the Moms and Dads with money to give must make a decision. Should they pay their kids’ way even though they are adults, give them cash to help them start out, give them large gifts, such as an early inheritance, or make a traditional estate plan to give their assets to their kids after they die? But, how much money is enough and how much should you give them?

**Money can’t buy happiness**

Sandra and Pete are not alone. Many others, ranging from billionaires like Bill and Melinda Gates to those with more modest nest-eggs, are choosing to leave only a small part of their fortunes to their children. Those parents believe wealth can be a burden for those who didn’t personally earn it and that the qualities needed to become a fulfilled adult — the capacity and desire to get ahead in life — are much more enriching and worth striving for than having money for money’s sake.
Sandra and Pete know that being a parent is hard work and, unfortunately, the responsibilities don’t end when kids move out. While no one will argue with the importance of providing all the love your children need, the idea of supplying them with large sums of money is trickier. Most people would agree that if you give a five-year-old every toy in the toy store, you risk spoiling them. It’s great that you have saved enough for their post-secondary education but, at what point are you helping your children along and at what point are you spoiling them and preventing them from taking responsibility for their own lives?

Every family is different. Should you help them buy a car? Pay for postgraduate education? Send them on holiday with their friends? Pay for their wedding? A down payment on a home? Bail them out of financial trouble? Help pay for a divorce settlement? Help start a business? Help out with the grandkids’ expenses? The list goes on and on.

No progress without struggle
The issue becomes more complicated if your adult children are not well equipped to handle the wealth they may receive. David C. Bentall, of Next Step Advisors, who advises family businesses, says that “with some young people, their general lack of maturity can be a contributing factor to the challenges they face in managing money.”

Bentall, who is also an Adjunct Professor at UBC’s Sauder School of Business, says as young people develop independence, it is natural for them to explore the freedom that adulthood will eventually bring. Consequently, it

“With some young people, their general lack of maturity can be a contributing factor to the challenges they face in managing money.”

DAVID C. BENTALL, ADJUNCT PROFESSOR, UBC SAUDER SCHOOL OF BUSINESS
is also normal for them to “test their boundaries.” But sometimes, in the process of individuation, young people will make unwise choices. We are not surprised when they make mistakes with how they spend their time, or who they choose as friends. Therefore, we should not be surprised when teens make mistakes with how they spend their money.

Obviously, if they obtain access to too much money at an early age, young people may begin to spread it around, hoping to buy a little happiness. However, seeing money simply as a way to buy “good times” or even to attract friends, can develop unhealthy patterns, he says.

Such a pleasure-seeking attitude towards money ignores the connection between wealth and the ability to earn it. This attitude can also divorce individuals from the responsibilities that come with wealth, including saving, investing, budgeting, and even charitable giving, Bentall says. If parents are wise, they will help their children to learn the connection between all these elements.

Interestingly, Bentall notes that recent research has shown that a high percentage of lottery winners (those who did not “earn” their wealth) do not experience an increase in happiness with their new wealth. This is a clear illustration of the idea that money does not buy happiness.

Unfortunately, if young adults are given too much money before they are ready, they may try spending it on a lot of different things before they learn this lesson.

Moreover, Bentall says that having access to wealth that you haven’t earned may also have negative consequences for how a person develops a sense of financial capacity and responsibility. This is because money given too early, or too freely, can result in young people not being motivated to develop their own “financial muscles.” Obviously, no one can develop
their own muscles by watching their personal trainer work out. Similarly, if parents do for their children, what they could do for themselves, they may be inadvertently limiting their offsprings’ growth.

Just like we will permanently damage a butterfly if we cut it out of a cocoon instead of letting it struggle, a young adult may not develop to their full potential unless they are motivated to work hard to acquire their own wealth. “If they don’t have the struggle that leads to growth and to developing their own capacities, we can end up destroying the butterfly in the process,” Bentall says.

“I have clients who say . . . ‘I want to make sure that (my kids) only get what they need, but I don’t want them to lose their drive and ambition by receiving a substantial amount.’”

SAMAN JAFFERY ULLMANN, ESTATE AND TRUST ADVISOR, TD WEALTH

The struggle of life was all about Sandra and Pete’s decision. They simply believed that the life experiences they developed while fighting to get ahead would simply be absent if their children were loaded with money at a young age.

When is the best time to give your children money
Saman Jaffery Ullmann, an estate and trust advisor at TD Wealth, says that many clients with similar problems are talking to her, wondering when and how is the best way to pass on wealth. She points out that once the money is in the hands of an adult child, the funds are vulnerable to creditors or unscrupulous friends and could be at stake if there is a breakdown in a marriage.

“The concerns depend on the family and the unique dynamics that exist within that family. Often, families with substantial amounts to leave are
concerned that their children who inherit at a young age will squander the money that is left to them or won’t manage it responsibly,” she says. Needless-to-say, if a parent is always bailing their adult kid out of their credit card debt, it would be unwise to give them a lump sum of money with no strings attached.

“I have clients who say, ‘My kids are finished university, I’ve invested a lot in them already, I don’t want them to receive a large inheritance now that they are in their mid to late 20s, should something happen to me. I want to make sure that they only get what they need, but I don’t want them to lose their drive and ambition by receiving a substantial amount,’” she says. This is exactly what Sandra and Peter have decided to do. They will give a certain amount of money to each of their three kids to get them started as young adults, and pay for any education costs. But after that, their kids can expect no inheritance.

Disinheriting adult children or removing them entirely from your estate plan is, according to Jaffery Ullmann, an extreme decision — one that may certainly be right for some families, but absolutely not right for others. Parents in Canada can choose to distribute their wealth however they see fit, including writing a child out of the will entirely (provided that their children are not dependents at the time of their death). However, under various provincial legislation (which can be different from province-to-province), she cautions that a will can be challenged for inequity or invalidity, as well as other claims asserted by disinherited children. If parents are not going to include their children in their wills, Jaffery Ullmann recommends that they work with an estate planning lawyer to ensure that their estate plan is reasonable and will not be subjected to a court challenge following their death.

Jaffery Ullmann also says that if parents are going this route they may consider speaking to their children about their estate plan, if they are comfortable doing so. Especially if the parents have given significant gifts of money in
the past, parents can explain their decision not to give large bequests after they pass away — as it is not necessarily ‘disinheriting’ the children, but recognizing they have made a plan to help their children financially to a point, but not to make life too cushy for them. This also sends a message to adult children that they should plan for their own financial future, and not necessarily count on a large inheritance.

**Determine how to distribute money – trust planning**

Jaffery Ullmann says there are several methods parents can consider when thinking of passing wealth to their adult children. First, parents should consider whether their children should receive their inheritance outright at some age. For some children, who have disabilities or may never be able to manage money on their own for other reasons, there are other planning options to consider. But once parents have decided that they wish for their child to receive their inheritance outright, they should consider at what milestone age their adult children can make mature decisions about money. If this decision isn’t made by the parents and reflected in the provisions of their wills, their children will be entitled to receive their inheritance at age 18.

However, Jaffery Ullmann says the overwhelming majority of parents feel that 18 is much too soon and risky an age, and delay an outright gift in a will to their children to a later age. This is an individual decision for each family — for some it will be age 20, for others it will be 40, and for some it may even be 65 — but the determining factor should be whether the parent will be confident the child will make mature use of it (paying down their

“If they don’t have the struggle that leads to growth and to developing their own capacities, we can end up destroying the butterfly in the process.”

**DAVID C. BENTALL, ADJUNCT PROFESSOR, UBC SAUDER SCHOOL OF BUSINESS**
mortgage, investing in education or retirement) and not burn through the
money. The hope is that by the milestone age specified in the will, the child
will come to have similar values about money as the parent. Until the child
reaches the milestone age, their inheritance is held in trust for their benefit.

Another method to protecting the family wealth can be to stagger
distributions to a child, using a trust arrangement over a period of time, says
Jaffery Ullmann. For instance, at age 30, 20% of the total distribution could
be released and then the rest could be released in two distributions five
years apart. In this way, a certain amount of wealth is distributed to provide
a certain level of lifestyle, but not enough wealth is given to them to remove
their incentive to achieve what they can in their working lives. This also
provides the child with the opportunity to manage a large amount on their
own for some time. If they make mistakes, hopefully by the time the next
distribution is paid out to them, they’ll have learned from these mistakes.

Conditions and criteria for distributions can be included and customized
in the terms of a trust, but Jaffrey Ullmann cautions that parents shouldn’t
try to ‘rule from the grave’, at least without reason, when deciding the
circumstances under which their children can access money or not. For
instance, supplying funds for education, health care expenses, or the down
payment of a home may be fine, but stipulating changes in a child’s lifestyle
— demanding someone marry within their ethnic or religious group — will
not endear you in anyone’s memory and may not be enforceable.

**Maturity about money doesn’t come naturally**
Maturity about financial matters does not come naturally, and the
responsibility of teaching children about responsible spending and money
management falls on parents to impart to their children at an early age.
Closely related to this is that children are different (of course!) and one may
be more ready to handle money at a younger age than an older sibling. In
fact, depending on a child’s circumstances and achievements, one child
may not need an inheritance as much as another who is younger, still in school, or have other significant factors that weigh in their favour.

Jaffrey Ullman said that if you think your kids will be okay without a large inheritance, be sure to communicate with them early so as not to raise expectations and to thwart the possibility of challenges to your will after you’re gone.
Sandra and Pete are happy with their decision. They have always emphasized giving their children ‘experiences’ such as taking them on trips around the world rather than loading them up with consumer goods. They hope that the experience of making their own way through life — and living within their means on their own terms — will be the best experience they can give them, says Sandra.

“If there is anything else out there that is of value to you, you better go out there and work for it.”

— *Don Sutton, MoneyTalk Life*


3. Roberts, Ibid.