Before it's too late

The whys and hows of estate discussions with your family

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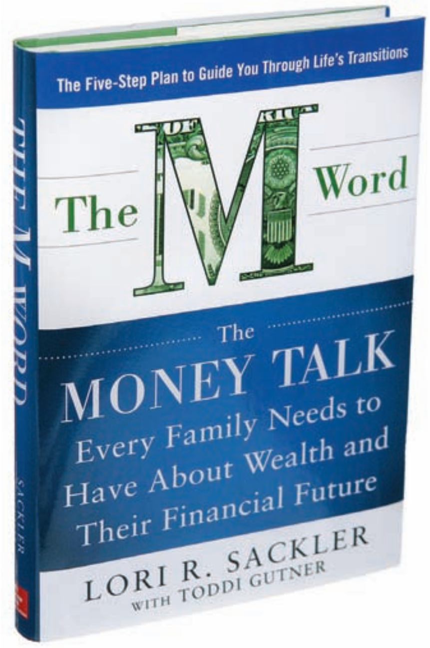

"How can we tell our kids about our estate plans without creating a family drama?" That's the question I'm most often asked when I tell people I've written a book about money, family and communications. It's no wonder: More than $15 trillion will be transferred to the next generation between 2007 and 2026 and more than $59 trillion between 2007 and 2061; and there is a 70 percent failure rate worldwide when transferring family wealth from one generation to another.

Many of these failures occur because families do not do enough to prepare their heirs. It is as if they are giving a 16-year-old the keys to a car without ever giving him a driving lesson. Imagine that teenager on the road, behind the wheel of an incredibly powerful machine. Being unprepared to inherit money will not kill someone directly. But in the absence of adequate learning and experience, it can certainly wreak immense emotional, mental, and financial destruction.

One of the most common conflicts I see among family members arises when they are probating an estate that hasn't been previously discussed. Whether or not the children all get exactly the same inheritance, knowing what is written in the will in advance eliminates some anxiety from an already stressful situation. If you add unequal inheritances among the kids, however justified or anticipated, to a first-time revealing of the will, you will unleash a tsunami of emotions. This can largely be avoided through successful conversations in advance.

In my opinion, and in my experience, it is best to treat your children equally in your will. If you want to treat them differently when they are alive, that is a different story. Of course, if one of your children is incapacitated in some way or has special needs, such as autism, that means that he will not be able to care for himself, more financial assistance can be provided through either a special needs trust, an insurance policy, or a larger portion of the estate. If this is the case, I recommend that everyone in the family know about it beforehand, so that there are no surprises. If the parents explain to all the kids in advance why one offspring will be given a larger share, and if the will says, "I love you just as much, but this is what we felt we had to do as parents," it is possible that "bad feelings" and a will contest will not result. If hard issues are discussed in advance and children are prepared, family finances and relationships can remain unscathed during and after the estate transfer.

Whom and what you will tell should be guided in part by your family values and in part by each child's individual ability to handle the information. In many families, there is one child who has special issues involving money. This could be the result of bad habits, or maybe a physical, mental, or emotional challenge. If this is the case, you might need to have a separate conversation and create a special arrangement that will work for that person and her special circumstances.

However, in general, I think a balanced approach to sharing information about the family wealth and any special arrangements for members is the best option. You will still need to take into account each child's individual readiness and maturity. Obviously, the content and nature of the talk will change over time as the kids mature and demonstrate responsible behavior, and as the parents age and feel the need to share more information. However, whenever you approach the process, it is best to keep it simple.

One idea to help with the communication is to have your attorney draft a simple summary that can be understood by a nonprofessional and distribute it to your heirs. Then, hold a family meeting to review the summary and answer any questions. Of course, family dynamics can interfere with this type of meeting. Some families may be concerned about protecting assets because they are worried about a potential divorce, or they may not trust their in-laws to use the information wisely. In general, however, it is best to at least tell all family members where the important financial documents are located, what to expect in the will, and what roles the heirs might play in the future, well in advance of any wealth transfer taking place.

Don't forget to account for personal property. One of the most contentious aspects of settling an estate is the distribution of mom's diamond engagement ring, dad's collection of abstract expressionist artwork, or great-grandma's gold-plated china. And this is just as true for personal property that has little more than sentimental value.

I recommend my clients have a meeting with their children to specifically discuss personal property. Give each child a chance to talk about his favorite items and come to a resolution on how everything is going to be divided in advance. Not only does this allow family members to share stories and talk openly about items that may have sentimental value, but it also encourages a healthy dialogue and cooperative spirit regarding estate matters. This will prove to be extremely valuable down the road.

Don't overlook the potential advantages of having a trusted and competent adviser – accountant, attorney, financial advisor or other wise family counsel – present to help run these meetings and make sure that there is an atmosphere of tolerance, patience and impartiality. You are ultimately responsible for creating healthy family intergenerational patterns and ensuring successful money transfers.

Excerpted by permission from "The M Word: The Money Talk every Family Needs to have about Wealth and their Financial Future," published in 2013 by McGraw Hill. The book offers families strategies for discussing the taboo topic of money and approaching it without anxiety. Ms. Sackler's five-step action plan helps families tackle issues that accompany life's financial transitions, creates a process for keeping finances intact, and facilitates why communicating about money is critical.

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Morgan Stanley investor poll measures New Jersey 'pulse'

Lori R. Sackler

Parallel with a rising stock market in 2013, Tri-State region investors are optimistic about their portfolios for 2014, according to a nationwide poll conducted for Morgan Stanley Wealth Management. The survey, known as the Investor Pulse Poll, pointed to a number of key points on which our region differs from the rest of the country.

For instance, one of the respondents' biggest concerns was stock market volatility.

How prescient! The poll was conducted in the fourth quarter of 2013 and, based upon the volatility of the past several weeks, indicated that clearly the investors had a good feel for what we have experienced.

Were the investors prescient, as well, when it comes to picking specific investments for 2014? Of course, no poll can be relied upon as a predictor of the stock market. And, as always, history is no guarantee of future performance.

Nevertheless, it is interesting that some industries with a significant presence in the New York Metro area were mostly out-of-favor by investors both nationally and regionally. Not favored by Tri-State and national investors for 2014 were aerospace (just 25 percent said it was a "good" choice for 20414), insurance, (30 percent "good") and tourism (31 percent "good").

The area sectors most favorably cited were technology (79 percent "good"), energy (77 percent "good"), bio-technology (63 percent "good") and pharmaceuticals (56 percent "good"). Unlike the national results, those surveyed in the Tri-State area viewed healthcare among the favored sectors for 2014 (55 percent "good" in Tri-State vs. 45 percent "good" nationally).

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Notably, investors in the New York Metro region expressed greater concern for terrorism in the U.S. versus investors in other regions of the county: 82 percent in Tri-State versus 66 percent in San Francisco and 63 percent in Denver, for example.

Other significant findings included:

70 percent of Tri-State investors surveyed expressed concern over their families' financial well-being versus 59 percent nationally and, for example, 53 percent in Atlanta.

70 percent of our area's investors surveyed said they were concerned about having funds for the unexpected, versus 58 percent nationally.

Regional investors also were more concerned about the ability to retire: 63 percent in Tri-State, versus 53 percent nationally, 41 percent in Houston and 51 percent in Chicago.

61 percent of Tri-State investors said dividend-bearing stocks are a good investment, versus only 46 percent in Denver.

44 percent of New York Metro investors said they like gold as an investment for 2014, versus 32 percent in Los Angeles.

Surprisingly, in the Tri-State region 23 percent said that cash was favored for asset allocation – despite the sharp rise in the stock market in 2013 and the near zero return on cash-related instruments. As in an earlier poll in 2013, the most favored type of investment remained equities.

Asked to classify investment prospects for 2014 as good, bad or neutral, investors favored dividend-bearing stocks (61 percent "good" versus 48 percent in 2013) and S&P 500 index funds (54 percent "good" versus 44 percent in 2013).

It seems to me that Tri-State investors have more realistic expectations than many investors outside of our region. Those in Tri-State, at least at the time they were surveyed, did not seem ready to simply take their profits from the market rise in 2013 and get out of the market. Rather, they apparently are using a little more caution as indicated by their preference toward dividend-yielding stocks.

Meanwhile, the January-February market volatility is not necessarily a bad thing. Dips in carefully selected stock prices can present buying opportunities, particularly in those higher-yielding dividend blue chips that Tri-State investors seemingly prefer. The key, however, is in having the type of portfolio where investments

can be properly managed in a volatile atmosphere.

Investors classified corporate and government bonds and treasuries having the lowest "good" investment prospects, likely reflecting the continued low interest rates paid by these instruments.

The pulse poll also measured preferences for foreign investment, with results pointing to a cache of in-favor and out-of-favor countries:

Tri-State, 61 percent of those polled said the U.S. was their first choice for a positive investment outlook for 2014, versus 52 percent nationally.

India, Japan, China and Brazil were the next choices both nationally and regionally, viewed favorably by more than a third of those polled.

Interestingly, 14 percent of Tri-State investors said the Middle East had a good investment outlook for 2014 versus 5 percent nationally.

Russia was not viewed favorably for 2014 in both Tri-State (9 percent positive) or nationally (8 percent positive).

Thanks to the investors who responded to the poll, we now have a better understanding of where we might tread more carefully and where we might forge ahead with the knowledge that many around the country are doing likewise.

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