Concentus Wealth Advisors

Volume IX | July 2013

V A L U A B L E S

Ideas, Systems and Strategies for Managing Family Wealth to Fulfill Your Greatest Values.

About V A L U A B L E S

Many financial advisors focus on communicating with clients to provide complex analysis of the investment markets and economies. However, we have learned that most clients are not particularly interested in this complex analysis. Most clients hire an advisor for their knowledge of the markets, not for their ability to explain that knowledge. Most want to know what time it is, not how to build a watch.

Experience has taught us is that wealthy families care most about using their wealth as a means to a desirable end, which is to achieve a more satisfying, fulfilled and impactful life, and to fulfill their most important Life Values.

V A L U A B L E S is a periodic article series focused on the concepts, systems, and habits which we have observed among families who have been successful in this quest to use their wealth as a tool to live a life of significance. The most successful families share a set of habits, systems, and insights which enable them to use their wealth as a tool to fulfill their Values and what is most important to them.

We are naming this article series **V A L U A B L E S**, because it will provide an exploration of those habits, systems, and insights. We hope it will help you to consider your assets and possessions which are most valuable to you, and how you can use your financial wealth to enhance and cultivate your true "Valuables".

The Greatest Gifts

By Erik Strid

"The Person who kindly guides another on his way,
Lights as it were another's lantern from his own
Nor is his light the less for kindling the other."

- Cicero, On Duties

An Outstanding Book

The purpose of our **V A L U A B L E S** article series is to provide readers with specific insights about the habits and values which we have observed among families who have been successful in their quest to become financially wealthy, and to use their wealth as a tool to live a life of great Significance. We hope to share common principles which may enable you to use your wealth as a tool to enable a fantastic Quality of Life, and to fulfill your values and the things that are most important to you.

Every so often, we read a book which is so relevant to this mission, and whose message is so valuable, that we feel obliged to use this space to provide a book review. *The Cycle of the Gift* is an outstanding book written by James E. Hughes Jr., Susan E. Massenzio, and Keith Whitaker, which we strongly recommend as an invaluable handbook on the topic of family gifting and inheritance. We would view this remarkable book as required reading for anyone who has sufficient wealth to consider family gifts, or whose children or grandchildren may be someday in line to receive an inheritance of any amount of financial wealth.

Not all Gifts are Created Equal

Moses Maimonides was a famous Jewish philosopher and scholar in the 12th century, who provided the world with exceptional wisdom on the topic of giving to others. He is famous for articulating his Eight Levels of Giving, in which the lowest levels of giving are the least preferable and helpful, and the highest levels are the most impactful and blessed.

At the bottom of his Eight Levels is "Giving Unwillingly", or giving grudgingly out of obligation or shame. Next is giving willingly, but inadequately, followed by giving adequately after being asked, then giving without being asked. It is slightly nobler to give publicly to an unknown recipient, and even better to give anonymously to a known recipient. The second highest form of giving is to give anonymously to a recipient who is unknown to you, as these completely anonymous gifts free the giver and the recipient from complicated feelings of control, guilt, or resentment.

However, the highest level of generosity, and the most effective, and blessed form of giving is when we give as follows:

> *Giving an interest-free loan to a person in need; forming a partnership with a person in need; giving a grant to a person in need; finding a job for a person in need; so long as that loan, grant, partnership, or job results in strengthening that person so that he no longer lives by relying upon others, and no longer needs to ask help of anyone.*

In other words, not all gifts are created equal, and some forms of giving are superior to others. In fact, the authors of *The Cycle of the Gift* make an important distinction between gifts which foster ***freedom and flourishing***, and gifts which feed a sense of ***entitlement***. When gifts are made in the absence of a thoughtful and mindful approach, there is a great risk that gifts may deplete the energy, aspirations, and motivations of the receivers, and create a sense entitlement and ingratitude. In other instances, in which gifts are made in a thoughtful way, the giving can lead to a greater sense of freedom and enhancement of the quality of life of the recipient, and a true sense of gratitude to the giver.

In essence, the authors recommend that giving must be done in a mindful and thoughtful way. The acts of giving and receiving are fraught with complicated emotions of control, resentment, ingratitude, guilt, and entitlement. In its worst form, giving can lead to unwanted outcomes, and can actually become an obstacle to the success and happiness of the receiver, as well as a source of unhappiness and frustration for the giver. In its best form, giving enables the receiver to flourish and grow, and provides the giver with an intense satisfaction at having made a positive impact. The difference lies simply in how ***thoughtful*** the giver must be before making the gift.

Unintended Consequences

Upon first blush, it may be difficult to grasp these subtle complexities of inter family giving. On a very basic level, any family with a degree of wealth could view such giving as a positive experience in every instance: After all, any monetary gift or inheritance to a younger family generation should be beneficial to them, and should instill a sense of gratitude toward the giver. However, family giving is not always so clear cut. The authors point out several ways in which well meaning and financially astute forms of giving may bring about negative unintended consequences which often catch wealthy families totally unaware.

The Cycle of the Gift demonstrates these complexities by using an example of a family who has decided to undertake a very common form of gifting, the "annual exclusion" gift. Because the first generation of this family had wealth sufficient to undertake some basic estate planning, their competent advisors recommended that they begin to reduce the size of their taxable estate, by making an annual gift of $13,000 each to each of their children and their children's spouses, a common tax planning strategy for wealthy families focused on estate planning.

Confident that they were undertaking a wise financial planning strategy, and also endowing their children with some well intentioned financial help, this couple dutifully wrote out several $13,000 checks each year, gave the checks to their accountant, and asked him to mail out all of the checks to their children.

As the years passed, this couple began to notice a disturbing trend: These gifts were being received without a peep. Not one of their children bothered to make a thank you call, write a thank you note, or even acknowledge of the gifts. Concerned that their kids were either not receiving the gifts, or more likely that they had raised ungrateful kids, the couple began to wonder about the impact of these gifts upon their children. They considered simply stopping this annual gifting program, but instead first decided to hire the authors as consultants to interview their children, in order to gather more information about why they were not grateful, and what impact these gifts were having.

Their findings were quite interesting, and a real revelation to the parents. As the book explains:

> *One of the children's spouses, for example, had grown up in a blue – collar family. Once she was married – without a word of preparation - $20,000 checks from her parents-in-law started showing up in her mailbox each December, as she put it, "like a meteor!" She had never received more than a few hundred dollars as a gift before. She did not know what the right thing was to do in response.*
>
> *Adele and Albert's estranged son suspected his parents of trying to buy his affection. He blamed them for not sending a card or note with the check. He feared that "Mom and Dad's money" came with strings attached. Also, he was angry with his parents for giving money to his three children (their*

grandchildren) without his input or oversight as their father. He worried that his parents' generosity would create dependency and entitlement in his own children. (He did not know that his parents were worried about the same thing with respect to him!) His reaction reflected the levels of hurt that existed between him and his parents that eclipsed money.

One of Adele and Albert's daughters summed up her response to her parents' checks very simply. She knew from reading books on finance that such gifts were a regular part of estate planning. She was grateful to receive the money, but she also wondered, "Are these gifts really for me? Or are they just a tax reduction tactic for mom and dad?

Why had she or her siblings not asked Adele and Albert some of these questions? They all had more or less the same response: "it's their business and their money. I would not want to pry. I would appear ungrateful!"

The book also explores another area of inter family gifting which can be fraught with unforeseen "land mines", which is the idea of gifting or trust planning between grandparents and grandchildren. Again, this is an area that may appear to be rather straight forward – most grandparents have an unconditional love for their grandkids which rivals even the love of a parent for their child, because their relationship is not complicated by the obligation of daily child rearing, instilling discipline, or the other "hard parts" of parenting. As a result, it is common for a grandparent to wish to be generous to grandchildren through lifetime gifts, inheritance or trust planning, or paying for educational tuitions for the child. On its surface, this generosity appears to be virtuous in every way, as it is an expression of pure love and wonderful intention for the child.

However, upon further reflection there are difficult questions which must be answered when considering this gifting. What if the child's parents (your children) object to this gift giving, because they are worried that it will "spoil" their children, or rob them of the development of their own money skills and habits? What if the relationship between the grandparents and the parents is already strained, and these gifts are viewed as "buying affection" from the grandkids at the expense of their relationship with the parents? Or if the parents view these gifts as an attempt to influence their kids to adopt their grandparents' values, which may be different from their own? What if these issues actually cause the parents to threaten to limit the grandparents' access to the kids?

Gifts land like meteors in the lives of their recipients, and have the power to change everything for the recipient, and can change the very course and trajectory of their lives. The giver is wise to consider this impact before making the gift.

Whether gifting directly to your children, or by skipping a generation and executing gifts to your grandchildren, there are a variety of hidden "unintended consequences" which can occur, and which can turn a well intentioned gifting program into a family crisis. In such cases, gifts can have an impact which is the opposite of what the giver intended – resentment, guilt, and family fractures can be the result. In order to anticipate and overcome these negative unintended consequences, the authors recommend a rigorous process for thoughtful and well planned giving programs, which include a robust communication element to ensure that the gifts are well received, and that they will enhance the lives of the recipients in the intended ways.

Hit by a Meteor

A recurring image in *The Cycle of the Gift* is that of a gift as a "meteor" landing in the life of the recipient. In the words of the authors:

A central image for us is that of the gift as a Meteor. It flies from the giver to the recipient, often appearing on the recipient's horizon with no warning. It's impact can upend the recipient's environment. As a result, we ask, how can you help recipients prepare to receive this meteor well? And perhaps most importantly, what's in your meteor?

*Recipients, however, are not passive satellites. Ultimately, our hope is that recipients learn to **adapt to and integrate** the gift-meteor. This is no small matter. The result of that adaptation and integration – or lack thereof – will decisively affect a recipient's life.*

This is a wonderful metaphor which must always be considered by gift givers for the impact of their gifts. The arrival of a gift has the potential to hit the recipient's life like a meteor, causing huge changes to the environment of that recipient's life. The question is whether the "fallout" from that impact will be positive or negative for the recipient.

Will the gift-meteor land in a way that enables the recipient to flourish, as in the case of the recipient who receives a gift to pay for tuition or to start a new business? Such a gift may give them the wings to fly towards their own life of independence and self – reliance.

Will the gift–meteor land in a way that enables the recipient to adhere to their calling, as in the case of the school teacher or nonprofit worker who receives a gift from their parents which enables them to maintain her standard of living, despite their limited career earnings? Perhaps they might otherwise have had to quit their career for a more lucrative career if not for the gift, which now enables them to continue working in her passion?

Or, will the gift-meteor land in a way that enables the grandchild to live a dependent and "subsidized" life, in which they never reach their true potential because they know they can live off of grandparent's fortune for their whole life?

These are all questions which must be contemplated by gift-givers in preparation for giving a gift or leaving an inheritance.

An Invaluable Handbook

As articulated by Maimonides, not all gifts were created equally, and the true measure of a gift is in the impact it has on the recipient. Gifts land like meteors in the lives of their recipients, and have the power to change everything for the recipient, and can change the very course and trajectory of their lives. The giver is wise to consider this impact before making the gift.

The topic of family gifting and inheritance is much more complex that it may appear on the surface, and is rich in the emotions of guilt, resentment, control, entitlement and gratitude. Because of this complexity, it is important to exercise a thoughtful approach to gift giving, and to do so in advance of making the gift. The *Cycle of the Gift* is an outstanding handbook and guide for developing this thoughtful approach, and should be required reading for any family who is contemplating such gifting.

We have a number of copies available in our *Lending Library* so feel free to borrow a copy the next time you are in for a review.

Erik Strid – CFP®, ChFC
Principal
Concentus Wealth Advisors
1000 Continental Drive, Suite 560 | King of Prussia, PA 19406
855-568-1500 | erik.strid@concentuswealth.com
www.concentuswealth.com | twitter: @concentuswealth