Intergenerational Wealth

Greg Nasson, *Director and Trust Officer, discusses the importance of having conversations with one's family regarding one's wealth.*

Most parents want their children to be financially secure and to have the assurance that their children will be able to lead better lives than they were able to, with the benefit of their financial legacy for intergenerational wealth.

In most cultures, there are sayings about the status of family wealth between the different generations. The Japanese have "Rice Paddies to Rice Paddies", the Irish have "Clogs to Clogs". There is also "Shirtsleeves to Shirtsleeves", which I believe originates in American culture. I think that the Scottish summarise it the best: *"The father buys, the son builds, the grandchild sells, and his son begs"*. Basically, what all these proverbs are saying is that most families fail to hold onto any semblance of wealth for more than three generations.

My son is 12 years old and now in Grade 7. One of his class subjects is Economics and Management Sciences (part of the new mathematics curriculum) which covers topics such as tax, the role of informal and formal businesses, the role of money, consumer economy and Maslow's Hierarchy of Needs. Dinner conversations are sometimes quite testing, but what it shows is that the younger generation are more in tune with finance and their entrepreneurial minds are working all the time (they still have no concept of money though when dad or mom must pay).

At Personal Trust, we encourage our clients to have conversations with their families about wealth, or more so, the awareness of wealth creation and the preservation thereof through effective estate and financial planning tools. We often speak of leaving a legacy behind, but the importance of managing the legacy could benefit the second and third generations.

Some food for thought:

- Don't avoid the topic of talking about wealth with your heirs and start having the conversations as early as you can
- A Family Constitution can help instil values and manage conflict – especially as families become more complex, due to migration, second marriages, etc.
- The importance of keeping an up-to-date Will – one that also considers the different tax regimes that may apply to assets and family members in different countries
- Discuss the contents of your Will with your children, especially where you foresee unhappiness between heirs one day
- Estate duties in other countries, or situs taxes, can have a major impact on the transfer of wealth
- Creating a Trust either during your lifetime or out of your Will to secure the wealth for future generations.

A recent survey conducted in South Africa showed the following:

- 75% felt it was important to leave their heirs better off, while 24% wanted to contribute to their community, society at large or the environment
- 59% said they had conversations around succession, wealth distribution and philosophies around dealing with money
- 21% said they felt they were well prepared to transfer their wealth to the next generation
- 41% said they felt moderately prepared and
- 38% were either slightly or not prepared.

Parents can hand a chunk of wealth over to their children in the form of a formal education, their first home, a company to work at, or a loan to start a company … the list goes on. All these things can be considered wealth. Simply handing over inheritance with no planning or preparation could result in heirs being ill-equipped or perhaps incapable of managing their inheritance effectively, hence the importance of having these valuable, difficult conversations.

In this regard, you are very welcome to call on your Trust Officer for further guidance.