

How Much Money Should You Pass To Your Kids?

Warren Buffett, one of the world's richest men, is famous for his quote in Fortune magazine in 1986 saying that he was leaving the bulk of his fortune to charity because one should leave "enough money to your kids so they can do anything, but not enough so they can do nothing."

While few have fortunes resembling Buffett's, there are many families who wonder how much of their estate they should leave their children, and in what form. Many of these families are overnight millionaires—45 percent of today's millionaires are younger than 55. They worry about whether giving their kids a large amount of their wealth will undermine their work ethic. More and more wealthy are following Buffett's advice: they're giving more to charity and less to their heirs.

Many Certified Financial Planner practitioners have clients wrestling with these issues. Here's some of their advice for helping determine who, how and when to give away your estate.

Start young. Whether you already have a fortune or hope to have a fortune, or just want to help your kids, start teaching them about money when they are younger, the value of money and how to manage money. Beyond the direct teaching, many financial planners point out that the best way you can teach your children about money is to set a good example yourself in the way you manage money, give to charity, avoid excessive spending and so on. Teaching your children how to manage their money well may be the best gift you can give, say planners.

Give during lifetime. Passing money on to your children when they are young and middle-age adults offers several benefits. As long as estate taxes continue, there are tax benefits to lifetime gifting. With more and more people living well into their 80s and even 90s, waiting until death to pass on your wealth probably means your children are themselves retired or nearly retired, and the need for the gift may be greatly diminished. But more important here, say financial planners, lifetime gifting gives you an opportunity to see how your children handle wealth. If they handle it well, you may feel more comfortable in passing on more, whether during lifetime or at death.

Communicate your intentions. Planners can't stress this enough. Let your children know your plans while you are alive. This is particularly important if you plan to give much of your wealth to charity or you want to give more to one child than another. Perhaps one child has lifetime medical needs while the other is already well-off financially, or you want to pass the family business on to a particular child. By explaining your intentions and reasoning, you can diminish or eliminate misunderstandings or hard feelings that may cause squabbles among your heirs or angry memories about you.

Work with professionals. When communicating with your family, you may want to bring in your financial advisors to help explain the financial issues. You may want to have the family work with a therapist to air out the emotions that so often cloud money issues. The wealthy sometimes delay taking important estate planning steps because they fear dredging up these issues. And look at matters from the viewpoint of your children, as well. As surprising as it may seem, some young adults are uncomfortable inheriting wealth they themselves haven't earned.

Use estate planning tools. Consider using trusts to help manage your wealth for the benefit of your heirs. There are many kinds, including incentive trusts which require an heir to accomplish specific tasks on their own (say earn a certain amount of money, complete college or even pass drug tests) before receiving assets from the trusts. What financial planners caution against is trying to overcontrol the child using trusts. It's one thing to use a trust help a young adult who's not ready to manage money, and another to control the money until the child is in their sixties.

Don't fail to plan. Above, all create an estate plan. Otherwise, your estate will be distributed according to state law after your death, and it may not go where or how you want it to.