CIBC FAMILY OFFICE

WHEN TO SHARE DETAILS OF YOUR ESTATE WITH YOUR CHILDREN

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Susan guides ultra-high-net-worth individuals, business owners and family enterprises through their unique opportunities and challenges. Susan works with your trusted advisors to provide guidance and ensure alignment on all fronts in the areas of wealth, tax and estate planning, philanthropy, family governance and business succession planning.

With over 30 years' experience in private wealth management, commercial banking, investment banking and public accounting, Susan is a trusted and skilled professional.

Susan holds an Honours Bachelor of Commerce in Finance and the Family Enterprise Advisor (FEA) designation. She is also a member of the Chartered Professional Accountants of Ontario since 1992.

Executive Summary

Knowing when to share the details of your estate plans with your kids can be difficult. Many parents with wealth worry that revealing the particulars of their financial circumstances will prevent their children from finding their purpose and making their own way in life. Together we'll explore strategies and messaging for each phase of your child's development, that can help prepare you and them for discussions about your estate and the legacy it represents.

One of the questions many clients ask is, "When should we share details of our estate with our children?" If you're a parent with wealth you, like many other parents, may struggle with knowing how much to tell your children and when. Many parents fear that expectations of a substantial wealth transfer will get in the way of their child finding their own purpose or developing a work ethic. Maybe you're one of those parents who just doesn't want their kids to know that they come from wealth. If you have a blended family or relatives in different socio-economic brackets, you may worry that your child's sense of wealth will drive a wedge between them and your loved ones.

> Sharing information with your kids is important, but being deliberate about it, and doing it at the right time is even more so.

Most of us can agree that ensuring kids have a chance and the desire to go out and make their own way is important. You may worry that disclosing your wealth to your children will undermine that drive and replace it with a sense of entitlement. However, avoiding discussions about the wealth that your kids may one day receive potentially robs them of valuable lessons about financial responsibility and wealth management. So how do you find the right balance?

Sharing information with your kids is important, but being deliberate about it, and doing it at the right time is even more so. In general, what information you share about your wealth depends on your children's:

- Age
- Maturity
- Stage of life

Let's look at some useful approaches for kids of different ages and stages.

Younger kids (5 – 10 years old)

It would be naïve for us to assume that kids, even as young as 5 and maybe less don't already have some sense of what's going on. Whether we realize it or not, we share information with them all the time. They pick up clues, piece together snippets of overheard conversations, or hear comments from family and friends. Young children are keen observers of what's going on in the family.

However, just because kids may know more than you might think doesn't mean they need to know everything about your finances. A young child doesn't need to know exactly how much you make or have saved. On the other hand, avoiding the topic completely, or denying that there is any wealth, is equally unhelpful. What's more, in the absence of any information from you, your children will make assumptions and fill in the blanks on their own. So rather than having them come to incorrect conclusions, you should start to plant the seeds of financial understanding at this age to manage their expectations around wealth.

Normalizing discussions about money and wealth in a balanced way is a good thing, particularly when the world around us continues to regard wealth as a taboo topic. It's important to talk about it so you can help frame the messaging your kids receive. Start by talking about wealth in an objective non-emotional manner. You can teach kids that money is simply a resource that some have in greater quantity than others, but a resource that needs to be managed responsibly nonetheless.

Education around money is critical in every family. Even young children understand money exists. An easy and important place to start is with allowances. Allowances are important because they deliver the message in concrete terms that money is a scarce resource. A common strategy for parents is to present the allowance as a two or three-part allowance:

- Spend
- Save
- Donate

The part that you spend allows children to start thinking about budgeting, learning to differentiate between wants and needs, and making small decisions around what spending to prioritize. The part that you save teaches kids about deferred gratification, like saving up for a longer-term goal or investing. The part that you give away opens up conversations about philanthropy, giving back to the community, or causes that are important to you and your kids.

Older kids (12 – 18 years old)

As kids get a little older, say in their teens, we can start to share more detail with them to manage expectations around the family wealth. It's okay for kids of this age to understand that the family has some wealth. But how do we stop our kids from thinking that they're millionaires and will never have to work? You may want to initiate a very deliberate conversation that could go something like:

> "While we are fortunate to have more money in our family than we may need day-to-day to feed and clothe and keep a roof over our heads, we'll need some of that money to take care of us in our old age or if anything unexpected happens. Our priority is to get you a good education so that you have the tools and skills that you'll need to make your own way. And if we have some extra, we'll use some of our wealth to make the world a better place."

In this way, you can set reasonable expectations about what the family money is going to be used for, how the kids can expect it will be used for them, and what their responsibilities are to themselves. This is also how philanthropy can play a key role.

By suggesting that philanthropy may be a part of the plan for the family wealth, the next generation can't rest on their laurels expecting a large inheritance. You've made room for the possibility that you may decide to donate a portion of your estate.

This messaging above also helps by modelling positive attitudes toward work, instilling a family work ethic, and reinforcing the importance of finding fulfilment from work beyond money. Other good messaging to share with kids of this age about the benefits of work beyond the paycheque can be that it:

- Offers a sense of accomplishment
- Provides a sense of fulfilment
- Builds purpose and self-esteem
- Makes you feel productive and useful

It's even more powerful if as parents we aren't just saying these things to our children but are modelling these feelings about our own work and finding fulfilment there. Finally, when we say it's not just about money, it's perfectly valid to work in your dream job (that may be lower paying), work in the not-for-profit sector, or volunteer your time to help others. Most important is that your kids learn to get up every day and do something productive for themselves and the community in some way.

By being deliberate in setting out expectations for your children, their generation will understand that they need to build their own achievements.

Career building years (20 – 35 years old)

As our kids get older, we owe it to them to offer greater transparency about our intentions for the family wealth. Without clarity from you, young adults will start making assumptions and potentially even make decisions based on these incorrect assumptions without realizing it. Even though we may want to provide more transparency at this stage, it doesn't necessarily mean we want to start sharing or transferring wealth since we don't want our kids to be dissuaded from making their own way. For this reason, you may want to deliberately refrain from providing a lot of passive wealth or income transfer to your children during their career building years. Rather, at this stage, you may want to offer more specific messaging about what they can expect from the family wealth, with only a few details on the quantum they can expect, but with greater specifics around timing. Consider framing the discussion with a few deliberate points such as:

- Can we talk a bit more about the meaning of wealth in our family and what it might mean for you down the road?
- We've continued to manage our wealth carefully over the years to ensure that we have money to fund our retirement and our needs going forward.
- If we continue to do well and things go as planned, you may get some help in buying a house or, if you want, to start a business of your own.
- Because education is so important, chances are, if you have them, we may be able to help with your kids' (our grandchildren's) schooling.
- You may eventually get some extra money to help you in your retirement. But it's important that you know that we're arranging our estate in a way that assumes you'll be productive and make your own way for most of your life.
- Our hope is that you'll build on the family wealth to benefit future generations in the same way and set the same expectations for your own kids down the road.

By being deliberate in setting out expectations for your children, their generation will understand that they need to build their own achievements. By encouraging them to develop professional competency, we offer our children the potential to achieve and experience fulfilment beyond what the wealth can bring. If you can help your kids cultivate a sense of purpose in their lives, then you are giving them a gift beyond your wealth.

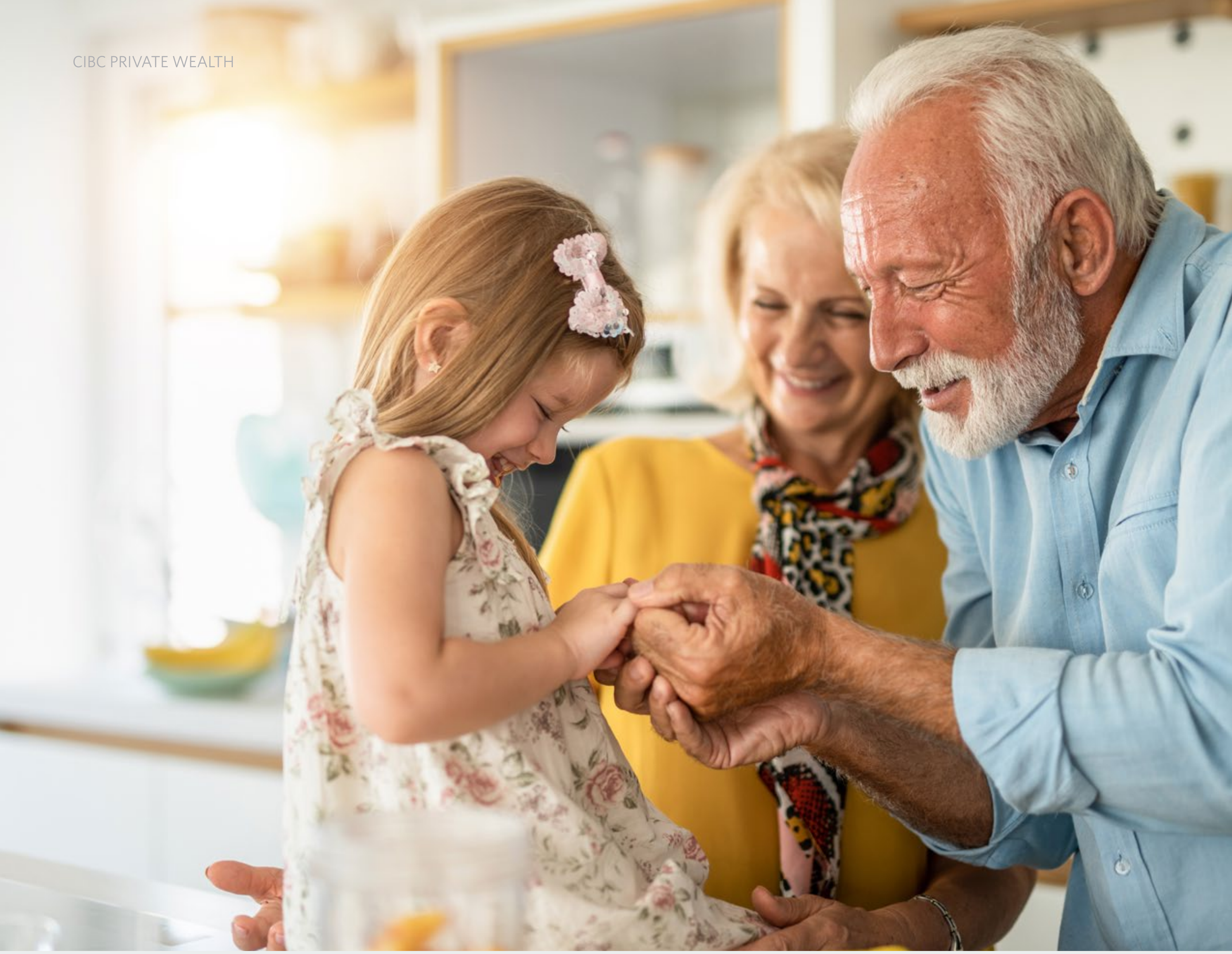
When kids are established (40+ years old)

Some parents are of the view that details of their estate distribution should only be shared on death so as not to cause conflict, invite scrutiny or limit their flexibility in case they should want to change their mind. Some believe it shouldn't be shared simply because it's their money and no one else's business. However, more often than not, preparing your children with the details of your estate has more benefits than drawbacks. At the very least, if they are your executor, they should be aware of where your estate documents are and what your wishes are as outlined in those documents.

Once children are established, are able to support themselves with, and demonstrate responsible behaviour with their finances, they'll need to know of your plans for wealth transition too since it may have implications for plans they put in place for their own children. If there is substantial wealth that will eventually be transitioned to them or your grandchildren, your adult kids need to know. Giving them a heads-up lets them plan for things like their own estate taxes or property transfers triggered by your estate. Doing so not only helps them manage their own finances, but also teaches them how to plan their own estates as thoughtfully as possible, particularly as it relates to how the wealth will be transitioned to their own children.

What you decide to do with your estate will likely have implications for what your kids may want to do in life, as well as on their passing. Problems with estate plans most often arise because no one was consulted. Delays in settling the estate, additional costs, misunderstandings, hurt feelings and conflict can all happen if your heirs aren't familiar with your plans. While it may fend off conflict in the near-term, not talking about your estate now is more likely to result in longer-lasting conflicts down the road or poor decisions being made based on lack of information.

While it's obviously not appropriate to share details of your estate plan with young children, it's important to discuss your estate plans with your kids as they grow. By modelling this gradual sharing of age-appropriate information, you help your kids develop and prepare them for the eventual transition of wealth, and you provide an example for your heirs to follow and teach to future generations.



CIBC Family Office helps you and your family manage the complexities of multi-generational wealth. Working with our clients to help them organize and understand the intricacies of wealth ownership, we develop a plan that is tailored to each individual family, responsive to the needs of each member and reflects the family's current and future vision.

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