

# Giving wisely





One of the keys to a family flourishing, especially amid significant wealth, is giving and receiving wisely. That means much more than attending to the tax implications of gifts. *The Cycle of the Gift: Family Wealth and Wisdom* (Bloomberg, 2013) shows how gifts can enhance recipients' lives rather than lead to dependency or entitlement. It takes forethought and care, but it is possible.

### **Giving**

It's important to recognize that every true gift carries something more than money or property. It carries spirit, from the giver to the recipient. Often the spirit expresses the giver's intention: for example, to further the recipient's education or to provide a place to live and raise a family. True gifts promote the growth and freedom of both giver and recipient.

Most gifts, however, lack spirit and can be referred to as "transfers." Transfers move assets from one balance sheet to another. They often leave both giver and recipient feeling that "strings are attached." Repeated over time, they can create a sense of subsidy. Not all transfers are bad; sometimes they are necessary. The most crucial distinction is to recognize what's a transfer, what's a true gift, and how, if desired, to turn transfers into gifts with spirit.

### **Know thyself**

Making true gifts starts with asking the right questions. When most people think about giving, they start with what they want to give. Or they move quickly to asking how they should give, in the sense of which structures they should use.

These are some of the main questions for much estate planning because often the focus is how to reduce taxes. This is a fine goal, as far as it goes, but it may not touch upon the ultimate purposes of the gift.

Our work with families has shown that the most common question to begin with is not what or how but who. Start with the people rather than the property or the process. In particular, it may make sense to start with yourself, the giver: Who are you?

"Know thyself" is the maxim to adopt. Some questions that help toward that goal include:

- What do you want to achieve with this gift?
- Does it reflect your values?
- Does it bring you joy?



## Understanding your recipient

The next “who” to consider in the cycle of the gift is the recipient. Recipients may be young and still unformed. They may not even be born. But for giving to work well, they require attention.

Gifts can be like a meteor flying from the giver to the recipients. These meteor-gifts enter recipients’ atmospheres and have an impact. So, just as givers should reflect on themselves, they should also reflect on their recipients, with questions such as the following:

- What is the recipient’s age and stage of development?
- What is his or her character—is it formed or still developing?
- Do you trust him or her?
- In short, is the recipient prepared to receive well?

The answers to these questions will then allow you to start thinking through the secondary questions of what, when, and how to give—and how, if needed, to prepare the recipient.

## How much is enough? Fair versus equal?

Thinking about who each recipient is leads naturally to two questions that families ask all the time: How much is enough for my children? And should I give an equal amount to each of them?

“How much” is a question whose answer depends upon both the giver and the recipient. For example, you might begin by asking yourself the following questions:

- How much is enough for you?
- How much do you need to live?
- How much do you want to give to others (including charities) during your life?
- How much do you want to leave for your heirs?
- What kind of standard of living do you want to set?

“Equality” is another major consideration for families. Children have different abilities, aspirations, and needs. As a result, parents often give their children different levels of attention, care, and advice at different points in their lives. But when it comes to financial wealth, unequal giving can lead to hurt feelings, resentment, and even conflict. That is why, unless special circumstances demand otherwise, we believe it is generally a good idea that parents make financial gifts equally. In particular cases, such as involving a child’s disability or dependency, there may be good reason for giving unequally or for structuring equal gifts differently, based on the recipients’ different abilities or needs. In

those cases, it is crucial to communicate your reasons early and clearly, so that there are no surprises down the road.

## Communication and control

Once you have gained some clarity about yourself and your recipients, another important factor in giving well is communication. Gifts can’t speak for themselves.

Many parents ask, “When should I start telling my children about our wealth?” There is no one time nor is there just one message. In general, fearing to do harm or not knowing how to communicate effectively, sometimes people wait too long and share too little.

Instead, we believe that parents should consider communicating more rather than less, sooner rather than later. Most adolescents or young adults may know more than their parents would like to admit. Waiting and keeping secrets can sometimes carry a hefty opportunity cost. Sharing some information can be a chance to listen and to learn from your recipients’ responses.



Of course, communicating well depends on preparation. Too often estate planning or giving turns into a series of down-to-the-wire faxes and phone calls between family members and their advisers. It is hard to retain, much less communicate to others, matters that have happened in a flurry. If that has been your experience, then ask your advisers for a one-page summary of any new trust, plan or gift that highlights the key terms. Use that summary as the starting point for thinking through your communication with recipients.

Another step you can take with your advisers is to create a communication plan. Talking about your gifts with your recipients may be daunting. One way to reduce the difficulty is to work with your advisers to craft a communication plan to share the news about the gift at the appropriate time, in the appropriate way, with the proper recipients. A good plan covers the content, the tone, and the process of communication.

### Letting go

Even if you take all these steps, it's natural to worry about making a significant gift. Gifts can be powerful. One may never know what all the consequences will be. Part of giving wisely, then, is to acknowledge the reality that we cannot control everything we would like to. We can only control what we say, what we do, and how we respond to events. Remembering these truths will help you make your gifts and let go.

Giving wisely is difficult, but in many cases it can bring families together and strengthen the bonds between generations. Giving and receiving well offer opportunities to develop character and exhibit love. They are not just key to living but to living well.

Many givers feel that communication means ceding control. This doesn't have to be the case. The key is to plan your communication so that you manage your disclosures and you learn from the process.

For example, many families start with sharing only the existence of certain trusts and information about how the trusts will work. They hold off on sharing the numbers. The questions that your recipients ask or their reactions to what you share can then help you decide how much more to share and when. Also, to discuss a matter is not the same as deciding it. Parents can share their thinking with adult children about prospective gifts, while adding very clearly the caveat that they have not made any decisions and retain the prerogative to change their minds. Sharing your thinking before a gift is made can be a great way to judge whether the time, amount, and vehicles are all right for the recipients.

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Material for this white paper has been derived from the following copyrighted source (all rights reserved): *The Cycle of the Gift: Family Wealth & Wisdom*, Hughes, Massenzio, and Whitaker, New York: Bloomberg, 2013.

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