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Randy P. Siller and Jeffrey S. Cohen

The Siller & Cohen Report

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Inheritance: How Much to Leave to the Kids!

Siller & Cohen
Family Wealth Advisors

Inheritance: How Much to Leave to the Kids!

By: Gregory J. Thompson, JD[1], CFP® and
Randy P. Siller, CPA[1], Masters in Tax, CIMA®

"Parents who leave their children enormous wealth generally deaden the talents and energies of their children, and tempt them to lead less useful and less worthy lives than they otherwise would." *Andrew Carnegie, 1891*[2]

Almost all wealthy families confront the question of how much should they leave their children. On the one hand, inherited wealth can allow their children to have a financially more comfortable life, that allows them to investigate interests and passions that they otherwise wouldn't have access to. On the other hand, parents rightly fear the sometimes negative consequences of inherited wealth. Wealth at a young age may rob children of the drive, ambition and motivation to work hard to advance their careers and succeed on their own. Too often, taking all of the struggle out of children's lives takes away valuable life lessons; the pride of succeeding, and the humility of failing. Inheriting too much, too soon, can deprive them of the satisfaction and self-esteem they earn by making it on their own.

The decision about how much wealth to leave to the children and grandchildren is a personal choice unique to each family, and will depend on many factors; family net worth, how many beneficiaries there are to provide for, the age of the children and grandchildren, how much they've achieved on their own so far, how financially well off they are on their own, and whether they will be grateful for the gift of the inheritance that is bestowed upon them. It may also depend on the types of assets to be passed on. If, for example, a significant portion of the net worth is made up of a family business, then the ability to pass that on at the right time, and to the right parties, may be of paramount importance.

Here are some ideas to consider as you think about this decision:

• How can you leave your money to your children so that it acts as a security blanket, and not a blank check?

• What do you want every member of your family to always have? A safe place to live, enough food, access to quality medical care, a good education, a reasonably priced car?

• What opportunities do you want your children, grandchildren and more remote descendants to have? To travel the world, to be able to do work they are *called* to, rather than work they *have* to, to start their own businesses, to be lifelong learners, to have a sense of control over their futures, a well-defined self, understanding of the importance of family?

• Later in life may be better. Given too early, significant wealth can hamper a child's development and important life experiences. Waiting for later in life, for example, age 35 or later, allows the child time to build his or her own life. Exceptions may be made to provide for basic income needs, to get an education, to purchase a first home, etc.

• Consider matching the gifts to specific events where the money will be especially appreciated. For example, for completing an education, or purchasing a house, or having a child, or paying for private school for a grandchild. This approach can cover the big-ticket expenses the children may not be able to afford on their own, while still allowing them to be independent and self-supporting in all other aspects of their lives.

• Consider matching their income. If a child works hard and earns $100,000 in a job, have the child's trust pay him another $100,000. If the child chooses to slack off and only earns $15,000, the child only gets $15,000 from his or her trust. You can include provisions that appropriately reward a child if he or she chooses to join the Peace Corps or similar non-profit organization. On the other hand, a more practical and flexible approach may be to instead "trust" the trustee to make the right decisions based on non-legally binding guidance that they receive from you.

• If you're not sure how good of a steward a child may be of significant wealth, consider making gifts of more modest amounts while you are still alive. Then watch what the child does with the money; does she use it to pay down her mortgage or student loans, or save it for retirement, or to make charitable gifts? Or does he use it to purchase a new Tesla, or go on over-the-top vacations? Depending on what the child does with the money, you can decide how much, or how little, control that you want to give the child over his or her inherited money.

• If you're concerned that gifted money won't be well spent by the child, consider paying down the child's mortgage or student loans by writing your checks directly to the bank or student loan lender.

• Consider creating a donor advised fund or a private foundation and getting your children involved. Give each of them the opportunity to research charitable causes that are important to them, and to propose grants to those causes. It can teach them the importance of money, how it can be a tool for advancing worthy causes, and instill in them your own philanthropic values. It may also teach them to be better stewards of the more significant wealth that you choose to leave them. And of course, you'll get a tax deduction. (See our 3rd Quarter 2015 newsletter article, ***"Charitable Giving – Private Foundations or Donor Advised Funds, or Both?"***)

• For long term lifetime gifting approaches, as well as for assets that you leave at your death, always consider the use of asset protection trusts. Assets held in trust will enjoy greater protection against the claims of creditors, predators and divorcing spouses. In addition, trusts can be structured to give the trustee broad discretion, and with it the flexibility, to address future changes in the circumstances of the children, etc.

As parents, we want what's best for our children. The goal should be that the inheritance you leave behind is a tool that enriches your children's lives, and not an anchor that drags them down. As Warren Buffet once famously said, "I want to give my kids enough that they could do anything, but not so much that they could do nothing."[3]

We hope this information has been of value for you.

Economic Highlights

1. SO, HOW ARE WE DOING? –The S&P 500 stock index gained +6.8% (total return) in March 2016 after losing 6.6% over the preceding 3 months (December-January-February). Since peaking on Thursday 5/21/15 at 2131, the S&P 500 has dropped 0.9% (total return) through the end of last week. The index closed at 2073 on Friday 4/01/16. The S&P 500 consists of 500 stocks chosen for market size, liquidity and industry group representation. It is a market value weighted index with each stock's weight in the index proportionate to its market value (source: BTN Research).

2. GROWING CONFIDENCE - 21% of 1,000 current workers in the United States surveyed in January 2016 are "very confident" that they will have accumulated sufficient assets before they stop working to enjoy a "comfortable retirement." Only 13% of workers surveyed in early 2013 had similar emotions (source: Employee Benefit Research Institute).

3. LAY DOWN RIGS - The total oil and gas rig count in the United States (both offshore and on land) was 480 as of Friday 3/11/16, down 31% YTD (from 698 as of 12/31/15). The 480 operating rigs is the lowest number recorded in the 21st century in the USA, i.e., since 1/01/01 (source: Baker Hughes).

4. THE COST OF BUSINESS - The breakeven oil price for Saudi Arabian oil producers is $7 a barrel. The breakeven oil price for Russian oil producers is $46 a barrel (source: Deutsche Bank).

5. FEWER HOMES ON THE MARKET - The number of existing homes for sales in the USA has fallen 47% in the last 6 years. There were 3.531 million homes for sale as of 2/28/10, reducing to 1.880 million as of 2/29/16 (source: National Association of Realtors).

BROUGHT TO YOU BY:

Randy P. Siller,
CPA[1], Masters in Tax, CIMA®,CRPC®
Partner
rsiller@sillerandcohen.com

Jeffrey S. Cohen, CFP®
Partner
jscohen@sillerandcohen.com

ABOUT SILLER & COHEN

Siller & Cohen is a boutique family wealth advisory firm providing financial solutions for the past twenty-eight years to institutions and high net worth individuals. We combine the detail and careful attention of a smaller firm with the deep resources of a national organization. Our team includes CPAs[1], Certified Investment Management Analysts, and attorneys.[1]

While we offer our clients the full range of planning services, our core areas of expertise include wealth transfer, investments, and business succession planning.

This is the 11th year in a row that Barron's Magazine has recognized a member of Siller & Cohen as being among the top advisors in the nation.[2]

1. Licensed, not practicing.
2. Andrew Carnegie, "*The Gospel of Wealth*", The North American Review, June 1889.
3. "*Should You Leave It All to the Children*", Fortune Magazine, September 29, 1986.

SILLER & COHEN
Family Wealth Advisors

Westchester – *Supervising Office*
800 Westchester Avenue
Suite S-504
Rye Brook, NY 10573
Tel: 914.305.9050
Fax: 914.305.9060

New York City
250 Park Avenue
7th Floor
New York, NY 10017
Tel: 212.572.4874
Fax: 914.305.9060

www.SillerandCohen.com