

The ‘Missing Link’ in Estate Planning?

Research shows that seven out of ten estates fail following their transition to heirs and their families. Here’s how advisors can help their clients beat the odds.



The failure of estates following transition to heirs

For many years, estate planning has routinely focused on the “Big Four” issues of taxation, preservation, control and philanthropy. Estate planners do a great job in these four areas, as fewer than 3 percent of estate failures (post-transition) can be attributed to errors by professional advisors, according to research conducted by The Williams Group.

Nonetheless, 70 percent of all estates fail following their transition to heirs and their families, according to a study of 3,250 families by The Institute for Preparing Heirs. And if professional advisors are not the cause for this, then what is? Is something missing from the traditional focus on the “Big Four” planning objectives?

Continuing advisors’ traditional focus on taxation, preservation, control and philanthropy has not solved the historical 70 percent failure rate. Without new tools and a new process, the 70 percent post-transition failure rate will remain unchanged. Professional advisors need to rethink their estate planning priorities and add new skills to expand their approach to estate planning. Without some additions or changes to the traditional estate planning process, no significant change in the seven-out-of-ten failure rate is likely to occur.

“The definition of insanity is doing the same thing over and over again and expecting different results.” —Albert Einstein

Need for a new estate planning component

The historical focus of estate planners has been on ***preparing the assets for the heirs***. Research clearly shows that the missing element is ***preparing the heirs for the assets***. In fact, the losses that occur during the estate’s post-transition period are driven by unprepared heirs, the lack of a family agreement on the mission of the estate, and the family’s fundamental inability to trust and communicate internally. It is not the scapegoat of estate taxes or the federal government, or even the litigious mentality of the modern day. It is frequently the result of an unprepared generation whose parents have not committed to preparing their heirs to receive and manage wealth in a responsible and competent manner. Lacking both *preparation* (skills, practice and team support) and the *motivation* (commitment to a mission greater than that of satisfying self), heirs and their bequeathed estates are failing badly, at an astonishing 70 percent rate.

Key Takeaways

- Estates fail at a rate of 70 percent following their transition to heirs.
- Planners historically prepare assets for heirs, without preparing heirs for assets.
- Family coaches are a source of professional assistance in preparing heirs.
- Preparing heirs dramatically increases the advisor’s probability of retaining family clients.

As attorney Nancy Henderson noted in a Los Angeles Society of Trust & Estate Planning Professionals' presentation that I attended: *"I have been writing estate plans and trusts for many years and have learned that I cannot write an estate plan that 'fixes' your kids."*

The answer will not be found in broadening the skills and responsibilities of estate planners and advisors. Lawyers, accountants and estate planners were never trained to be psychotherapists, counselors or clinical diagnosticians. Admittedly, many professionals have developed counseling skills through years of experience with difficult clients or in explaining changes in tax law. However we found that most professionals saw the issue of "heir readiness" as a potential "minefield" with respect to their relationships with their client patriarchs/ matriarchs. Even asking questions about the readiness of the heirs (to receive and manage wealth responsibly) leaves that group of professionals reaching for their Rolodexes.

Clearly, the answer for professionals must lie in partnering with outside specialists who have a credible track record in dealing with issues of heir readiness. Just as professionals have done with other specialty areas, the key is knowing when and whom to invite to help your clients. That brings up a new breed of estate planning professional, the family coach.

Family coaches as a resource for professional advisors

Family coaches work *with* professional estate advisors. Their objective is to ready the entire family to work with the advisory professionals by having the family meet and agree upon a mission for the family's wealth. This is not only mom's or dad's mission, but also a multigenerational mission.

Once a mission is agreed upon, the family can move on to work with the family's advisors to determine the **roles** that need to be filled (in the post-transition estate), to agree on the **qualifications** for those roles, and finally to set the observable and measurable **standards** that must be met to be allowed to continue operating (on behalf of the family) in those roles. During this process, which is facilitated by a qualified family coach, the family learns how to communicate and deal with issues of trust within the family. These latter skills are essential to making decisions on the roles that will have to be filled (from within the family or with outside professionals) during the post-transition era. In short, the new professional will not only work with the heirs in developing estate documents, the professional is much more likely to retain the heir families as clients following the estate transition.

Summary

Our extensive research into family estate planning issues shows that seven out of ten estates fail following the transition of estates to heirs and their families. Research clearly shows that the missing element is **preparing the heirs for the**

assets. The losses that occur during the estate's post-transition period are driven by unprepared heirs, the lack of a family agreement on the mission of the estate, and the family's fundamental inability to trust and communicate internally. Family coaches are a valuable source of professional assistance in preparing heirs and retaining family clients.

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This article was contributed by Vic Preisser and Roy Williams of The Institute for Preparing Heirs, located in Pasadena, California. The Institute, which trains advisors and provides support services to advisors and families, does no investment management, offers no tax or estate planning advice, and sells no insurance or financial products.