

How to Motivate Your Children with Incentive Trusts

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Studies show that 80% of the heirs of wealthy families will dissipate the family's wealth by the third generation. Experienced wealth counselors understand that the age-old concept of "shirt sleeves to shirt sleeves in three generations" still applies today. The first generation has fire in the belly and great entrepreneurial zeal, the second generation gets a business degree and maintains the wealth, and the third generation studies art history. Inordinate numbers of third generation heirs, if not studying art history, are living as golf pros, artists, ski bums, creative types, perennial students, active vacationers, or in other roles that eventually consume the family's wealth. Variations of this common pattern are seen in many of America's 7,000,000 millionaire families:

Experience teaches that families can beat the 80% of odds of wealth being wasted if they pass on their values along with the value of what they own. This process begins with clarifying values in a clear statement of family vision and mission. This statement should build upon the purpose statements of each key family member. The mission must then guide a wealth management process supported with clear character principles and shared priorities. Moreover, families must reward responsible heirs and discourage heirs who do not uphold the family's values.

Ask the family patriarch, matriarch, and heirs about the consequences of upholding the family's vision and values. In most cases, each of these people will have a very different understanding of what is most important to the family. In nearly every case, confusion abounds about what consequences will result if an heir honors or dishonors the family's values.

To unite families around clear values, and to help heirs appreciate the wisdom of honoring the family's core values, successful families hold annual meetings to ascertain which values will be rewarded. During the life of the patriarch and matriarch, these family meetings provide outstanding opportunities to affirm and reward behaviors consistent with the values that made the family successful.

A wealth counselor attending the family meetings can affirm important values and establish a process for perpetuating the family's values in future generations. Ideally, this process involves crystallizing core values into a document that clarifies which values should be encouraged and which should be discouraged. Typically, a family will have a few paragraphs about promoting education, productivity, and savings and philanthropy. Likewise, the family should maintain a document that discourages misguided consumption, self-destructive behavior, and unfocused charity.

A wealth counselor can work with the family's attorney to add paragraphs about the above topics into trust documents that will guide trustees and heirs after the patriarch and matriarch are no longer able to preside over family meetings. Unlike traditional discretionary trusts, which provide for discretionary distribution decisions pursuant to broad or narrow standards, the incentive trust uses objective and inspiring language to encourage beneficiaries to meet designated standards of desirable behavior. An incentive trust is designed specifically not just to provide funds to the beneficiary for one or more stated purposes but to cause the

beneficiary to carry on values consistent with the family's core values or the unique gifting of the beneficiary.

An incentive trust, if used improperly, can be legalistic and stifling for the beneficiaries. Wealth counselors, attorneys, and family leaders must guard against using rules rather than relationships to guide heirs. Fortunately, however, qualified wealth counselors know how to promote encouraging relationships during family meetings and then capture the essence of this encouragement in incentive trust document language.

Would you like your family members to be among the 20% of heirs who successfully carry on the values that made the family strong? To draft appropriate incentive trust language, start by clarifying appropriate provisions during family meetings.. Your wealth counselor can lead these meetings and then guide both your family members and the attorney who drafts the incentive trust language. As you work with a qualified wealth counselor, your heirs can understand your values more clearly and, just as important, see how a wealth counselor can maximize the likelihood of the incentive trust provisions inspiring heirs across the generation.