

## GIVING WISELY

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How to Foster Flourishing Over Entitlement



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# Giving Wisely

## How to Foster Flourishing Over Entitlement

### Giving

Gifts are the lifeblood of family. Parents give their children nurturing, education, housing, clothes, and so much more. Children, in turn, give their parents everything from home-made birthday cards to daily care when their parents are elderly. In families with significant wealth, gifts often take the form of annual exclusion gifts, gifts of tuition, trust interests, and bequests. These gifts may play a role in whether children go on to live happy, fulfilled lives or whether they lead lives of subsidy, dependency, and entitlement.

Giving wisely is the focus of a recent book by James Hughes and his associates titled, *The Cycle of the Gift: Family Wealth and Wisdom* (Bloomberg, 2013).<sup>1</sup> Written for parents and grandparents who want to give wisely, the authors argue that gifts can produce good results rather than feelings of entitlement. With forethought and care, we have seen in many cases that giving well brings families together and strengthens the bonds between generations. These are not only matters of accounting or law. Giving and receiving well offer opportunities to develop character and exhibit human excellence. They are key not just to living, but to living well.

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, to provide a beautiful place to live and raise a family, or to remind the recipient of the love of a living or deceased relative. True gifts promote the growth and freedom of both the giver and recipient. Everyone feels better as the result of a thoughtful gift.

Transfers, on the other hand, lack spirit when they merely move assets from one balance sheet to another. Transfers may leave both giver and recipient feeling that "strings are attached." Repeated over time, transfers can weaken the recipient's identity, undermine independence, and lead to entitlement, including expectations of a lifestyle subsidy.

If you look at your giving practices and see a host of transfers, there is no need for despair. Many gifts start out as transfers, but can be transformed into gifts. In this paper we will summarize some best practices that can help you make that transformation or, better yet, launch true gifts right from the start.

### Clarify Your Intentions

Making gifts with spirit starts with asking the right questions. When most people think about giving, they start with *what* they want to give (cash, stocks, bonds, a car, the vacation house, etc.). Or they move quickly to asking *how* they should give (outright, in trust, through loans, etc.). These are the two sets of questions that occupy much of estate planning.

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Many of these planning conversations focus on reducing taxes. This is a fine goal, but it does not touch upon the ultimate purpose and the consequences of the gift. Focusing just on saving taxes can result in what looks momentarily like a win feeling like a long-term loss.

In our work with families, we find that the most important question to begin with is not *what* or *how* but *who*? Start with the people rather than the property or the process. In particular, we recommend starting with yourself, the giver: who are you?

“Know thyself” is the maxim that Hughes et. al.<sup>2</sup> recommend givers adopt. Some questions to help you clarify your goals and intentions include:

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

It is simple to pose these questions but often challenging to think them through. Give yourself the time and space to express, reflect on, and understand your motivations for giving. After all, if you don't know where you want to go, how will you get there?

Sometimes we feel remorse after making gifts. “What have I done?” is an exclamation often heard from a giver—sometimes moments after signing planning documents, sometimes months or even years down the road.

This “grantor's remorse” can be painful, but we can also learn from it. Take the example of an entrepreneurial couple in their mid-40s. Thanks to some astute planning and the sudden success of their business, they managed to pass an eight-figure sum to trusts benefiting their children, who were all still under the age of 10. We congratulated them on this outcome and asked them how they felt about their children becoming multi-millionaires. Their faces immediately fell. They feared they had set their children up for aimless lives of entitlement.

Luckily, this couple had time. With help, they used the next decade to prepare their children to receive this gift well. The feeling of remorse gave them a wake-up call to take action.

Another feeling givers may wish to attend to is guilt. Many gifts come from love, but they can also come

from guilt. Perhaps the givers feel they didn't give the recipients enough time or affection. Perhaps they want to make up for past hurts. You don't need to judge these feelings, but it is crucial to surface and address them. Gifts made out of guilt leave neither the giver nor the recipient feeling good, and they are the most likely to provoke grantor's remorse.

## Understand the Recipient

The next “who” to consider in the cycle of the gift is the recipient. Frankly, most discussions of giving overlook the recipient. Recipients are seen as passive, not the ones “doing” anything in the process. They may be young and still developing their unique character and personal goals. They may not even be born. But for giving to work well, recipients require attention. Giving is like a game of catch: how can you know whether to throw hard or soft, long or short, if you have no idea who's on the other end of your throw?

This consideration is one of the main images Hughes and his associates use in talking about the cycle of the gift.<sup>3</sup> Every gift is like a meteor flying from the giver to the recipient. These meteor-gifts enter the recipient's atmosphere and have an impact. The question is what your meteor contains. Is it love? Is it guilt? Is it freedom or control? The answer to those questions will make a huge difference as to whether or not your recipients are able to successfully integrate the meteor into their lives.

### What is in Your Meteor Now?

Just as we suggest that givers reflect on themselves, so too we recommend reflecting on your recipients, with such questions as:

- What is the recipient's age and stage of development?
- What is his or her temperament?
- What about character—is the recipient's character formed or still developing?
- Do you trust him or her to use good judgment?

The answers to these questions allow you to start thinking through the secondary questions of what, when, and how to give.

The value in using the image of a meteor is that it makes an impact. How well recipients are prepared for that impact will largely determine whether the gift

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leads to flourishing or to entitlement. A critical factor is whether or not the recipient has the resilience to receive the meteor. Wise families take the time and devote the energy to preparing recipients by building their resilience. Even if you have already put assets in trust (and are perhaps worried that you've transferred too much), if your recipients are young, you can take this time to help them build their resilience.

### How Much is Enough? Fair versus Equal?

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

"How much?" depends upon both the giver and the recipient.<sup>4</sup> First, it may be helpful to ask, "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? Unless you tell your children to expect differently, your choices (such as the cars you drive or the homes you live in) will shape their hopes.

After reflecting on your own needs and wishes, then ask, "How much?" for children or grandchildren, using the questions about recipients that were shared above. There can be "too much." For example, Alexander the Great once gave a friend an entire city. His friend protested that such a gift would curse him with other people's envy and hatred. "It may be too much for you to receive, but it is right for me to give," replied the conqueror, who seemed more motivated by his pride rather than the good of his friend.<sup>5</sup>

Equality is another 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. That is only natural. But when it comes to money or property, unequal giving can easily lead to hurt feelings, resentment, and even conflict, which can affect individual children and the family as a whole. Unless special circumstances demand otherwise, we generally recommend that parents follow the path of equality in their financial gifts.

In particular cases, such as those involving a child's disability or other special need, there may be good reason for deviating from equality. In such cases, it is

all the more important to communicate your reasons early and clearly, so that there are no surprises down the road. In the absence of proactive communication, children may be left with speculation about the reasons for their parents' decisions. Unfortunately, good intentions are seldom the presumed reason.

### Communication and Control

Once you have gained some clarity about yourself and your recipients, perhaps the most important factor in giving wisely is communication. Gifts can't speak for themselves. The philosopher Seneca wrote, "A gift will be received in the spirit in which it is given."<sup>6</sup> That spirit requires communication to give it voice.

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, people wait too long and share too little, out of the fear of doing harm. Waiting is only natural, as we all want to do the best for our children or at least not make mistakes.

Despite these concerns, we recommend that parents communicate more rather than less, sooner rather than later. The fact is that most adolescents or young adults know more than their parents would like to admit. Waiting and keeping secrets carries a hefty opportunity cost. Sharing some information can be a chance to listen and to learn from your recipients' responses.<sup>7</sup>

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 happen 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, with the key terms highlighted. 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 an actual communication plan. Giving well is hard. Talking about your gifts with your recipients may be even harder. 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 right time, in the right way, with the recipients. A good plan covers the content, the tone, and the process of communication.

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## Steps to Giving Wisely<sup>8</sup>

### Clarify Your Intentions

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

### Understand Your Recipients

- Where are they in their ages and stages of individual development?
- What is their temperament?
- What is their character?
- Do they have the resilience to receive your gift well?

### Communicate More Rather than Less

- Assume your recipients know more than you think
- Seek to learn through listening
- “To discuss is not to decide or delegate”

### Accept Your Limits and Let Go

- Giving well is challenging and difficult
- Focus on what you can do
- Forgive yourself for what you cannot control

The communication plan doesn't need to be in place before the gift is finalized, but knowing that you have a resource to help you create that plan may help defuse any misgivings you have even before they arise.

Communication is one of the areas of giving that will bring you face-to-face with the issue of control. Control is an important issue for most givers. As one patriarch told us, “My children tell me that I am trying to control them from the grave. I tell them they're right!” 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 the 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.

Always remember that to discuss a matter is not the same as deciding it. We often recommend that parents share their thinking with adult children about prospective gifts, 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 appropriate for the recipients.

### Letting Go

Even if you take all of these steps, it's natural to worry about making a significant gift. Gifts are powerful. We never know what the consequences will be. Part of giving wisely 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 structure your gifts and then let go, which will in turn help insulate you from grantor's remorse. Remember that the greatest control comes from having the confidence that, come what may, you can handle it.

### Endnotes

<sup>1</sup> Hughes, Jay, Massenzio, Susan, and Whitaker, Keith. *The Cycle of the Gift: Family Wealth and Wisdom*. New York: Bloomberg, 2013.

<sup>2</sup> Ibid.

<sup>3</sup> Ibid.

<sup>4</sup> Collier, Charles W. *Wealth in Families, 2nd Edition*. Harvard University, 2008.

<sup>5</sup> Hughes, Jay, Massenzio, Susan, and Whitaker, Keith. *The Cycle of the Gift: Wealth and Wisdom*. New York: Bloomberg, 2013.

<sup>6</sup> Ibid.

<sup>7</sup> Armstrong, Pat, Boudewyn, Arne, and Shipley, Jill. *What, When, and How to Talk to Heirs About Wealth*. Abbot Downing, 2015.

<sup>8</sup> Hughes, Jay, Massenzio, Susan, and Whitaker, Keith. *The Cycle of the Gift: Wealth and Wisdom*. New York: Bloomberg, 2013.



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