

THE LEGACY SPECTRUM



Legacy Plan Letter To Children

Date: _____

MM/DD/YYYY

Dear Children:

We recently updated our estate planning documents. Although we are in excellent health and hope to live for many years to come, life is unpredictable. While our documents explain “how” our assets are to be distributed, this letter explains “why” we structured our estate plan in the manner we did.

Parents teach their children throughout their lifetimes by both their words and actions. Our estate planning and other documents will be our last “lesson.” We want them to reflect our values.

This letter is not a legal document and does not supersede our will or trusts. Where there appears to be inconsistencies, the legal documents control. We write this merely as a means to explain our intent.

In “broad brush” terms, our estate plans leave our assets upon our deaths to each other. Only upon the death of the second spouse will assets pass to you. While you will each receive an equal share, it will be a specific dollar amount (with an inflation provision). The balance will pass to our charitable foundation.

While our parents met all of our needs as children, when we finished our schooling it was made clear we were on our own to make our way in the world. When we had our first child, your mother decided she wanted to stay at home until you all were in school. Since she had a good job and I had just started working, that choice put a financial strain on us. Business was quite slow in the early years and we had little discretionary income as our family grew. But we had each other. Our friends were in a similar situation and we had fun making do with the little we had. When our last child went off to school, your mother went back to work. Money was tight when you were young, but we have no regrets. We are very pleased with how each of you has turned out.

The primary goal of my estate plan is to make certain your mother has absolute financial security for the remainder of her life. Because I have complete confidence in her judgment, my trust documents provide significant latitude to her while still being tax-efficient and providing protection from creditors and predators.

One of the wonderful gifts our parents gave each of us was a college education. We didn’t have a true appreciation of this until we had multiple children in college at the same time. It was only then we realized the financial sacrifice our parents had made.

(If you have taken steps to finance your grandchildren’s educations, consider the following explanation.)

While we helped you through college, we also want to help your children, our grandchildren. We have set aside a certain sum of money for our grandchildren’s college tuition. We do not know how many will go to college or how much college will cost. We feel reasonably confident we have accumulated enough to pay four years of in-state tuition, plus room and board for each grandchild. Your children may take more than four years, may go to private or out-of-state schools. You will still need to save for their schooling. However, we are confident we have provided them a significant head start. (In a separate letter, we have spelled out in more detail our educational fund.)

Perhaps the greatest gift our parents left us was the example of hard work and living within their means. We were given the freedom to fail and the opportunity to make it on our own.

Over the years, we have witnessed the impact of inherited wealth on beneficiaries. Some children are able to handle the wealth wisely. We've found this particularly true if the inherited asset is a family-owned business. However, when the wealth is cash or securities, more often than not, the impact can be detrimental. The recipient often has low self-esteem and tends to over compensate by buying big homes, fancy cars, jewelry, and living an extravagant lifestyle.

On many occasions we were tempted to give you money (for graduate school, a car, a down payment on a house, etc.), but we knew that doing so might bring us joy in the short run, but would be detrimental to your growth in the long run. For this reason we made a conscious decision not to give you large cash gifts while we are alive.

It is statistically likely that one or both of us may live a long time. You could be near retirement age before you receive an inheritance. For those of you who didn't accumulate enough money for a comfortable retirement, we will be your ultimate safety net. Those of you who were more adept at accumulating wealth can pass your inheritance on to your children and grandchildren or give to charity.

(If you have set up a trust, consider the following explanation.)

While you are already mature adults, you might be surprised to learn we have left the money in trust for you. We want to explain our logic.

Trusts provide a number of valuable features.

- **Creditor Protection:** We live in a litigious society and people with wealth are often sued. A trust will protect the assets for your benefit.
- **Privacy:** A trust provides a certain amount of protection from those who would prey on people coming into sudden wealth.
- **Management:** Comingling your assets, at least initially, will give you economies of scale. Furthermore, trustees are held to a "fiduciary" standard and must professionally manage the assets for your benefit.
- **Insurance:** A good portion of your inheritance will be life insurance proceeds. Having life insurance owned by an irrevocable trust is particularly tax-efficient.
- **Multi-Generational:** For those of you who choose to pass all or a portion of your inheritance to your children or grandchildren, these trusts allow you to do so without having to pay additional estate taxes.
- **Flexibility:** These trusts have been drafted to provide you both protection and the flexibility to meet your individual needs.

(If you have set up a donor advised fund or private foundation, consider the following explanation.)

Upon our deaths, a sizeable portion of our estate will be left to charity. Specifically, it will be left to our existing Donor Advised Fund at our local community foundation. We have given this considerable thought and our rationale is as follows:

- We have been active in our community. During our careers, we have served on numerous non-profit boards, often serving in leadership positions. We believe in their missions. We gave to them while alive and intend to continue to support them after our deaths.
- It is our intention to let you begin to make small gifts out of our Donor Advised Fund now. We believe it builds good citizenship, lets us gain insight into what each of you is passionate about and creates a forum for us to interact as a family for a common purpose. If you show an interest and aptitude for giving money away effectively, we ultimately would like to have you direct some of the funds in

our Donor Advised Fund after our deaths. We believe it could be an excellent way for you to meet annually as a family and teach your children the joy of giving.

- Under current tax law, charitable giving is tax-efficient. Incorporating philanthropy into our planning not only allows us to achieve the benefits above, but to pass our entire estate with little or no shrinkage due to income or estate tax.

In conclusion, we hope this letter sheds light on what is important to us and why we have chosen to distribute our assets in the manner we have.

- We value education as an opportunity to broaden our minds and add value to society.
- We believe in hard work, self-discipline and the self-esteem that comes from making it on your own.
- Through judicious use of trusts, we feel we have provided you both protection and flexibility.
- By providing you a predetermined amount of inheritance, we believe we have left a strong safety net, yet enough incentive to do your very best.
- We have purposefully delayed your inheritance to provide us maximum lifetime financial security and provide you the opportunity to make your own way in the world on your own terms.
- We believe in giving back to those less fortunate and to use shared philanthropy as a method to build stronger family ties.

We realize our plan is not perfect. No doubt we have failed to anticipate certain actions or circumstances. Please accept the mistakes we may have made with the knowledge that we have done the best we can with the tools we have. The ultimate test of success will be if this plan allows you to reach your full potential and is not a detriment to your personal growth.

Living a life that matters doesn't happen by accident. It is not a matter of circumstance, but of choice. It is our sincere hope that you choose to live lives that matter and our Legacy Plan will help you to achieve that end.

With love,

Mom & Dad