How Much Should You Leave to Your Heirs?

By: Kelley Manchester, CFP®, Private Client Advisor

It's no secret generations of Americans have spent most of their adult lives earning, saving, investing — and stockpiling — impressive sums of money. In fact, recent data from the Federal Reserve shows that as of March 31, 2021, the net worth of Americans age 70 and older was nearly $35 trillion. That's 27% of all U.S. wealth — and equal to 157% of U.S. gross domestic product.[1]

For many Baby Boomers and older generations, their accumulation of wealth is closely tied to the cultural tradition of transferring the assets to their heirs and favorite charities — a practice often referred to as "the great wealth transfer" — that's been going on for decades.

'The Great Wealth Transfer' Expected to Soar Through 2045

One of the most significant factors affecting wealthy and ultra-wealthy families over the next few decades is the impact of their multigenerational wealth transfer to heirs and charities. According to the latest report from Cerulli Associates, the research firm is projecting wealth transfers of more than $84 trillion over the next 23 years – more than $72 trillion in assets to heirs and nearly $12 trillion to philanthropic donations.[2]

Through the years, an inheritance has generally been considered more of a gift than an obligation on the part of parents to take care of their children and grandchildren — but not something to be taken for granted by their heirs.

But how much is too much?

How Much Others Are Giving

With Baby Boomers and older Americans, it's not uncommon to approach wealth planning based on what their parents left them. That's why it is important to understand the reasoning behind how they are handling their transfer of wealth as well as how much money they are giving.

In a recent survey to learn more about how high-net-worth (HNW) individuals are approaching wealth transfer to their heirs, here are a few of the key findings:[3]

- The wealthiest 1% of Americans inherit an average amount of $719,000. (Only 2% of inheritances are more than a million dollars.)
- One-third of HNW individuals plan on leaving at least 50% of their assets to heirs.
- Of those surveyed, 76% plan to leave an inheritance, 67% worry about leaving too much of their wealth to heirs, and 56% have concerns an inheritance would result in lazy heirs.
- Over two-thirds (68%) of HNW individuals plan to require heirs to meet certain conditions in order to access funds.

Additionally, the most common concern of HNW individuals surveyed was that money passed along to heirs would be used irresponsibly, or their offspring would not be prepared or know how to handle a large inheritance.

To Leave or Not to Leave?

Perhaps that's the real question to ponder. As time rolls by, it's no surprise that statistics show American households are growing older — and often wealthier. However, in spite of the great wealth transfer that's been going on for decades, the school of thought on inheritance seems to be changing.

Individuals across all wealth classes are living longer — and with inflation, health care expenses, and the rising cost of living they may not have saved enough to maintain their current lifestyle through retirement, let alone pass along an inheritance. Others question whether their gifts to heirs will be used wisely and are concerned that too much money could spoil their kids or ruin their lives. They worry their children may never have the incentive to find a job and build a career they're passionate about or figure out how to make it through life on their own.

Opinions about how much — and what — to leave for an inheritance vary greatly too. If wealth has been passed down through the family from one generation to another, chances are good the parents will try to carry on the tradition. For ambitious entrepreneurs who started at the bottom and worked their way up fortune's ladder, the legacy they pass on to their children could look entirely different from a traditional inheritance of real estate, stocks, bonds, and cash.

For example, it's been well publicized that Mark Zuckerberg, Warren Buffett, and Kevin O'Leary don't plan to leave their children much — or any — money at all. Buffett's famous philosophy on the subject is this: "A very rich person should leave his kids enough to do anything, but not enough to do nothing."[4] His quote has inspired and guided parents for more than 30 years.

In fact, many famous individuals and ultra-wealthy moguls believe in donating the majority of their wealth to causes that make our society and world a better place instead of passing it on to their children.

Consider What — and How Much — to Leave Your Heirs

In general, everyone does agree on one point: There's no formula to calculate how much to leave your heirs — and no set cutoff for how much is too much.

Determining what and how much to pass on to your offspring is a very private and personal decision that should include guidance from your advisor, tax, and legal professionals. These six tips may help you work through the initial stages of the process:

- Put your own needs first — be realistic about what it will cost to maintain your current lifestyle through retirement.
- Determine how much financial wealth you can afford to leave to your heirs — not just how much you want to pass along.

- Consider other ways to share your wealth with your children and grandchildren while you are still living: pay for their education, help them set up a business of their own, purchase a vacation home where the family can spend quality time together and build memories, or assist family members with buying homes or property of their own.
- Find ways to spend time with your children and grandchildren — share your values, work ethic, family history, life skills, hobbies, and culture.
- Decide the charities you wish to support with your estate — involve your heirs in those decisions so they can carry on your philanthropy work.
- Carefully consider how your inheritance gifts will affect and change the lives of your loved ones, then determine the amount you want to leave accordingly. Plan how you can help prepare your family members to handle their inheritance responsibly once they receive it.

Carefully Consider All Your Estate Planning Options

Preserving your assets can be as challenging as building your wealth. Estate planning decisions should be weighed carefully in the context of your unique financial, family and life situation, and it's important to get advice you can trust.

Contact Commerce Financial Advisors today to learn how our team of professionals can help you transfer your assets according to your wishes and distribute them privately and expeditiously when the time comes.

[1] Ben Eisen and Anne Tergesen, The Wall Street Journal, "Older Americans Stockpiled a Record $35 Trillion. The Time Has Come to Give It Away." https://www.wsj.com/articles/older-americans-35-trillion-wealth-giving-away-heirs-philanthropy-11625234216, July 2, 2021.

[2] Cerulli Associates, Boston Press Release, "Cerulli Anticipates $84 Trillion in Wealth Transfers Through 2045," https://www.cerulli.com/about-us/press-releases, January 20, 2022.

[3] Jack Caporal, The Motley Fool, "Kevin O'Leary Is Concerned About Leaving Too Large an Inheritance – So Are Two-Thirds of High-Net-Worth Individuals", https://www.fool.com/research/high-net-worth-inheritance/, October 12, 2021.

[4] Warren Buffett, Fortune interview, September 29, 1986.

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Kelley Manchester, CFP®

Assistant Vice President, Private Client Advisor

Kelley is a private client advisor for Commerce Trust Company. She serves as a consultant and relationship manager providing clients with personalized objective advice and oversight across all our services, including trust administration, financial advisory services, private banking, and investment management. Kelley facilitates all aspects of relationship management for the client team, including administering complex trusts, maintaining client communication, and coordinating with internal and external partners to deliver a superior client experience. Prior to joining the Private Client Services group, Kelley worked in our Financial Advisory Services group preparing long-term financial projections and recommendations to help her clients achieve their goals and objectives. Kelley attended Indiana University where she received her bachelor's degree as well as Webster University where she received her masters of business administration degree. She holds the CERTIFIED FINANCIAL PLANNER™ designation and is a member of the Estate Planning Council. Kelley volunteers with Habitat for Humanity, Food Outreach and Forest ReLeaf.

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