Family Wealth Transfer Primer

Authored By:
Tim Scannell, CPA, CFP®
Keith Wolak, CPA, JD

Hightower Great Lakes

Valparaiso, IN
Traverse City, MI
Chicago, IL
Sarasota, FL
hightowergreatlakes.com

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Introduction: Welcome to Family Wealth Transfer Primer

Financial Advisors, Attorneys, and Certified Public Accounts often get asked a common question that is incredibly important to your future and the future of your heirs: "How do I protect my children from others (and themselves) when they receive their inheritance?"

And there is little wonder why! Current statistics show that over $59 trillion in wealth is set to be transferred to heirs and charity through the year 2061.[1] Although the estimate includes taxes, it is an enormous sum of money that will change hands in the next few decades.

Referred to as the greatest wealth transfer in history, these future exchanges have created a myriad of issues. Readers of this guide are likely to be among the group that is going to be transferring assets—and you likely have a few things on your mind. Do any of these points concern you?

- Kids who inherit money have a propensity to overspend—big time!
- Many kids participate in self-destructive behaviors, whether or not they inherit money.
- Some children enter into relationship with untrustworthy partners.
- Children with special needs or disabilities call for careful financial planning.

Trust us when we say we understand. You are not alone. Your worries and concerns are exactly why we decided to write this guide that outlines key issues in self-assessing the risks associated with wealth transfer. As you read the book, please note that some of the challenges will be addressed in more than one chapter. We also encourage you to consult with legal counsel in your state of residence prior to undertaking any actions referenced here. No two individuals' situations are entirely alike—so careful deliberation about factors that pertain to you and your estate should be considered. However, this manual will give you some pertinent talking points and help you frame your language as you take the next steps in protecting your estate and ensuring what is best for your children.

Congratulations on having the foreknowledge to prepare for your family's future and seek help in doing so. You trust us, and we take it to heart. Consider this primer as our gift to you as you seek the best opportunities for your loved ones.

1. *A Golden Age of Philanthropy Still Beckons: National Wealth Transfer and Potential for Philanthropy Technical Report . retrieved 9/19/2017 from http://www.bc.edu/content/dam/files/research_sites/cwp/pdf/A%20Golden%20Age%20of%20Philanthropy%20Still%20Bekons.pdf*

Lesson #1: Protecting Your Children from Their Inheritance

Most of us are taught from an early age that discussing income and personal wealth with others is simply taboo – it's tacky and it's definitely a societal faux pas. Because of this desire for confidentiality, our children may learn to silently access financial success and wealth through observations of external manifestations such as the size of our homes, the types of cars we drive, our vacation destinations, or the style of our clothing. Children pay attention – not only to neighbors, friends, and acquaintances, but to us – their parents.

Of course, appearances can be deceiving, but kids can go online to find data about home and car values, and they can glean information about the dollars spent on the clothes you wear. All of this allows them to make assumptions, and in turn, they can get a good perceived glimpse of your financial profile. In all honesty, it doesn't make a lot of sense to hide it from them.

Guiding Kids' Priorities is Difficult—Even More So When You Don't Talk

Most likely, you have looked at other people's children, and maybe even your own, and thought,

"How did children from the same family turn out so differently? They live in the same house!" Clearly, there are differences in personalities leading to varied priorities, tolerances, values, skills, beliefs, and interests. These variances in life philosophies can lead to significant debate – and that's why it is so important to have frank discussions about purpose, meaning, and wealth. When considering wealth and inheritance, we encourage you to truly examine just how little influence you may have over your children's decisions if you never broach these sensitive and important topics.

Ensuring an Inheritance Doesn't Result in Tragedy

There are several things you should keep in mind when you are contemplating how to protect your children from their inheritance and ensure it doesn't lead to their own personal ruin. Additionally, we have compiled some actionable tips that you can implement right now in order to prepare yourself to begin the important family discussions that are simply non-negotiable.

First, we understand the fundamental fears associated with conversations about money. We are not discounting what you are experiencing or facing. Many clients are reluctant to discuss their wealth with their children because they worry that the children will end up disclosing confidential information. This privacy concern is real; you have every right to keep your financial affairs private and away from public speculation and commentary.

Another common fear is that the kids will become complacent in their endeavors, their motivation to succeed will be minimized, and their work ethic impacted if they live with the expectation of receiving inherited wealth. And no joke with this one, other parents fear that their kids will secretly hope for the accelerated maturation of their inheritance. (Don't laugh—this is a valid concern. None of us want to entertain the thought that our children may be ready for us to pass away.)

Ultimately, there must be a middle ground that is attained—one that offers privacy, diplomacy, and frankness with your kids about money matters and the role that inherited wealth could, at some point, play in their lives.

Avoid the "Someday This Will All Be Yours" Talk—It's Counterproductive

Wealth transfer discussions should be carefully construed, administered properly, and followed up with consistent messaging. We have witnessed painful scenarios due to the absence of these valuable conversations.

Serious strife occurs in family businesses where no frank discussions about wealth ever took place with the kids. In spite of the brilliant innovations, growth, and long-term thinking of corporate founders who think that they are setting a virtuous example for the next generation, some offspring are left floundering at the helm. Often, the only bit of advice offered to the child who was being groomed to take over the operation was an off-the-cuff remark: "Son/Daughter, guess what? Someday, this will all be yours."

Unfortunately, although this may have been said with the best intentions, the message of that off-hand comment was in direct conflict with the existing succession plan the founder implemented—one involving their spouse and business advisors. This plan provided for shared ownership and management authority among multiple family members after the founder's death, but that was not explained to properly to the children. The result is family turmoil.

Remember, one errant comment can undermine and overshadow a lifetime of grooming, so care must be taken in this discussion process.

Use Clear and Precise Language—Avoid Ambiguity

Using precise language is key. Parents need to keep in mind that generic language in messaging might get lost in translation or offer different meanings to their heirs. For example, children have a widespread misconception that "fair" means "equal." Be prepared to help your children understand the nuanced meanings in those words for proper interpretation.

Parents also need to decide what they are willing to disclose honestly, while avoiding being vague. If you want to be ambiguous about certain subject matter, then it's probably best to avoid the topic entirely. Only discuss those matters that you are willing to be honest and forthright about, even in the face of tough or uncomfortable follow-up questions.

Your To-Do List: 5 Recommendations for Transparency

1. Talk to your children about wealth and wealth management. Treat the discussion in the same way that you approach other parenting issues. Let your children know that you are trying to ensure that their future wealth will be protected. These conversations can shape your children's futures in a big way.

2. Confront the fear associated with conversations about money. Keep in mind that you are trying to ensure that inheritance does not lead to personal ruin.

3. Make it clear to your children that you trust them and expect complete confidentiality in terms of wealth and wealth management. Let them know that you want to keep your financial affairs private and free from public speculation and commentary.

4. Address your fear that your children may become complacent about their endeavors, in their motivation to succeed, and in their work ethic if they live with

the expectation of receiving inherited wealth. Some people actually have nagging thoughts that their children may want to expedite the inheritance process. Do your best to address these misconceptions.

5. Assess your children. Identify which children, if any, are spendthrifts, malingerers, substance abusers, philanderers, or philanthropists. Plan appropriately and be ready to discuss these different spending personality.

Lesson #1 Wrap Up

When parents are effectively prepared with what they are honestly willing to disclose regarding wealth and inheritance issues, they can intentionally formulate the message they want to deliver. Communication with family members can be challenging, but it doesn't have to be overwhelming.

Just remember: if you are not "all in" to being open and frank, you may want to reflect on what is blocking you and wait until you are ready to be transparent.

In order to verify that you are ready for this step, consider scheduling a meeting with your Financial Advisor or Attorney. They can serve as a great resource and advisor as you solidify your thoughts, intent, and motivation as you prepare to talk to your kids about such a sensitive topic.

In the next chapter, we will offer tips and advice for specifically framing certain parts of your discussion. Our goal is to help you achieve greater financial and emotional wellness, so that you are prepared to best serve your family.

Lesson #2: For Richer or Poorer—When There is More to Marriage Than Love Alone

One of the most exciting parts of being young is the ability to fall deeply, madly, passionately in love. Additionally, another wonderful aspect of youth is the resolute dedication and commitment that drives people to reach and exceed their goals. Therefore, when your adult children fall in love and decide they are ready to get married, of course, there's no stopping them. At the same time, their choice is out of your hands—and you do not have a say in whether they have truly made a worthy match. For financial planning matters, specifically, your opinion of the future spouse is irrelevant. However, there are still important financial matters that need to be addressed.

Regardless of the appropriateness of your child's choice in a marital partner, there is one thing you'll want to convey. A premarital agreement is important—and necessary.

There is More to a Marriage than Wedding Planning

It's true that planning a wedding is an exciting time for any family. There is a whirlwind of activity that usually last months, and this alone can offer a wonderful opportunity to bring a family together as you prepare for one of the largest celebrations of your collective lives.

Planning a marriage, however, is something entirely different. This type of strategizing and organizing looks far beyond the wedding day and long into the future. It asks the future spouses—as well as their families—to imagine unpleasant scenarios and subsequently protect against negative outcomes.

Planning for marriage takes on an additional dimension when a person has assets they wish to protect from the potential of an equal division if


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MARRIED

a divorce occurs. The issue also exists when the person who is getting married is expecting to receive a future inheritance. That inheritance should be protected if the couple decides to split in the future.

The first method of protection that can be implemented by the adult child who may inherit assets would be through a premarital agreement. The second method of protection is one implemented by the parents who are leaving assets to an adult child who is about to be married—this matter will be discussed later in this guide.

Addressing the Inheritance in the Premarital Agreement

For families who have a high net worth, divorce happens to be one of the five major risks to the overall family wealth.[2] No, this isn't something to be celebrated or happy about, nor is it an easy topic to broach with your daughter or son. It's likely that the last thing they are thinking of as a future bride or groom is the idea of their union ending in divorce. But, we have to be realistic here. Nearly half of all marriages fail—and your adult child must have their interests protected.[3]

For the purposes of this discussion, our only concern in the premarital agreement is allowing our client's adult child to avoid the potential equal division of their inheritance with their spouse in the event of a divorce. With inheritance matters and estate planning, we're not concerned with the following segments of a premarital agreement:

- The division of their assets or income
- The provision of temporary maintenance or alimony from one spouse to the other
- The determination of child custody
- Tax elections

These issues should be referred to legal counsel. A trusted attorney needs to offer recommendations and advice on the implication of their residence in a common law or community property law state.

The Challenge: Getting the Future Spouses on Board

The first challenge you will face as a parent is getting your son or daughter and their future spouse on board with the idea of a premarital agreement. Ultimately, it has to be the couple who will execute this agreement—and if you receive pushback, then, that's an issue.

Unlike most things we do for our children when they are minors, the adult child must know about the premarital agreement, and in this case, actually be a willing participant in the execution of the agreement. This can seem like an insurmountable obstacle to many parents, especially when you start considering the emotions of the adult child. However, do not fear - it is not necessarily as difficult as it may seem.

At the end of the day, like most things discussed in this manual, it all starts with a conversation. Unfortunately, there's never an ideal time to bring up the subject of premarital contracts. A good suggestion may be to have the parents' attorney, with or without the parents present, make the suggestion to the child. At least then this may look like it's coming from an unbiased third-party who is thinking business alone. The success of this discussion will depend on the degree to which the issue is emotionally charged, and the sensitivity and persuasiveness of the attorney.

2. *U.S. Trust Cites Top 5 Risks to Family Wealth. Retrieved 9/20/17 from https://www.forbes.com/sites/ashleaebeling/2014/06/20/u-s-trust-cites-top-5-risks-to-family-wealth/*
3. *Divorce Statistics: Over 115 Studies Facts and Rates for 2018. Retrieved 7/14/20 from https://www.wf-lawyers.com/divorce-statistics-and-facts/*

The Next Hurdle: Deciding on Disclosure

The second challenge the parents face is what disclosures will be made to the child in an effort to convince them that the premarital agreement is both necessary and in their best interest. Such disclosures may frame the issue for the adult child in a more positive light and there will be a greater chance that they recognize their responsibility to protect their inheritance for themselves and their future children.

The good news is that the parents' assets do not need to be disclosed in the premarital agreement. The language simply can offer that "any inheritance" will be considered separate property at all times before, during, and after the marriage.

The Final Test: Getting the Timing Right

There might not be an ideal time to talk to your adult child about the need for a premarital agreement—and their responsibility in ensuring this is executed—but there's no arguing that the absolute worst time is in the frantic, emotionally-charged, and rushed days before the ceremony is about to begin!

Therefore, the third test you face in this endeavor is getting the timing right. It makes no sense to confront such an issue at the wrong time, and have the document be considered invalid if the circumstances in which it was executed are challenged later. A premarital agreement should not be signed at the back of the church. It needs to be negotiated and involve both future spouses having their own separate legal counsel. Moreover, it should be signed and notarized well before the marriage (or a last-minute elopement) takes place.

A Last Word of Warning

There is one final note of caution that we need to make sure you are aware of—and that revolves around certain faiths and their view of premarital agreements. Indeed, some religions heavily disfavor and sometimes will not allow this sort of legal agreement to be executed. You should fully investigate this issue and how it pertains to your situation prior to making an adult child aware of it. If the execution of a premarital agreement is in direct conflict with the religion by which a marriage ceremony will take place, then different options need to be explored. Don't worry—and please keep reading—there are other options at your disposal.

Lesson #3: The Reality of Controlled Distributions: How to Plan for Them

It's very normal for families to struggle with conversations about money—and it's common for these discussions to be approached with obvious levels of awkwardness. However, in the scheme of things, rich families are even worse at handling these discussions—and the level of clumsiness is amplified, if it is approached at all. In fact, a startling 90% of wealthy parents don't tell their kids about family finances at all.[4]

Failing to have "the conversation" with your children presents significant challenges when creating a sound financial plan. What's more is that neglecting to talk about family finances openly and honestly can cause all sorts of misunderstandings and disputes as time passes. As we have discussed thus far in this guide, there are situations that can foil even the best of intentions when it comes to planning outwardly for transferring wealth

4. *Bloom, Ester. The Unexpected Reasons 90% of Wealthy Parents don't Tell Their Kids What They'll Inherit. Retrieved11/ 14/2017 from https://www.cnbc.com/amp/2017/06/26/90-percent-of-wealthy-parents-dont-tell-their-kids-what-theyll-inherit.html*

and protecting an inheritance. If you are at the point where discussions have turned unproductive and a premarital agreement has been taken off the table, it is possible to turn the planning process inward. Let us explain.

The Traditional Planning Process: An Inward Approach

What does an "inward" planning process look like? To answer that we only have to look back in time and see how wealth has been traditionally managed.

Your assets belong to you, and thanks to ever more generous state trust laws, your ability to control those assets, even beyond your own death, continues to expand. If speaking with your children about their inheritance is the "new" way to manage wealth transfer, restrictive trusts are definitely the "old" way associated with handling this process.

However, the old and the new ways of managing family wealth don't have to be mutually exclusive. For the purpose of this section, though, let's assume you have received no satisfaction from planning alongside your children. Here is how you can plan for them without receiving their input.

Controlled Distributions 101

The basic tool for administering distributions to your children will be through a trust. There are three basic types of trusts:

1. Testamentary Trusts: A type of trust that is created at your death by your Last Will in probate.
2. Revocable or Grantor Trusts: Trust vehicles such as these can be modified during your life.
3. Irrevocable Trusts: These trusts are completed gifts when they are created before your death and, to a great extent, are beyond your control.

Of course, as you ponder trusts, you may be wondering about tax implications. As we focus on the distribution of assets to our lineal descendants, it's important to keep in mind that there are income and federal estate tax implications to these transfers. It's likely you would be pleasantly surprised by the tax planning opportunities present—even within trusts—but for the purpose of this discussion, let's set those concerns aside at the moment. Let's instead focus on how we control distributions for your family—the tax "tail" shouldn't be wagging the estate planning "dog."

The Flexibility of Trusts: Realizing Your Individual Needs and Desires

A trust could be set up to be as liberal as a distribution of all inheritance to your children at your death in a lump sum. Alternatively, it is possible to create a trust that never distributes the principal to the next generation at all, only allowing them to have an income stream during their lives, with the principal of the account being paid to their children, or subsequent generations.

A restrictive trust such as this would be called a Dynasty Trust—these are usually used by the ultra-rich as the trust has the capability of creating a lasting dynasty for the family. The rule against perpetuities has long limited the duration of these trusts, but little by little states are allowing longer lifespans for trusts to operate. In fact, some states allow trusts to exist for 1,000 years.

Regardless of what steps or what states you would have to visit to accomplish your goals, the point is that as the owner of the assets, you can be in control of the asset distribution today, tomorrow, and well into the future.

Protecting Yourself from Third-Party Intrusions

Spendthrift provisions in a trust prevent third parties from reaching the corpus of

the trust that is intended or available for a beneficiary. These provisions usually remain in place until the time where the beneficiary has an unrestricted right to the distribution.

Provisions can protect a beneficiary's inheritance from creditors, including a spouse who refused to sign a premarital agreement, as long as the assets are held in trust. The more discretion the trustee has to withhold distribution, the more protection that is afforded from the beneficiary's creditors.

However, these limits are constantly being tested by divorce courts around the country, and even where the court cannot reach the beneficiary's inheritance in trust, they can allocate the beneficiary's own marital assets more generously to the spouse to compensate for what the trust beneficiary "will" receive in the future from his or her parents.

Ideally, a parent concerned about this issue would have both a premarital agreement for their beneficiary child and a spendthrift trust for their child; the spendthrift trust is a critical backstop in situations where the premarital agreement does not exist.

Built-In Incentives: The Possibilities Presented by Trusts

Your ability to control distributions goes beyond simply withholding income and/or principal. Trusts can be drafted to incentivize certain activities—and there are many examples of this. Consider the following:

- Distributions can be crafted that reward for good grades, following positive health habits, or any other desired criteria.
- Unmotivated beneficiaries can be rewarded by matching their earned income with a multiple distribution of income and/or principal from the trust.
- Business endeavors or home purchases may be incentivized by authorizing the loan or distribution of funds for these purposes.

Truly, your imagination is the limit with this approach—however, we would caution you to focus on things that are easily measurable by a third-party trustee. Your trustee can very easily request grade transcripts, for instance, but they can't follow your beneficiary around 24 hours a day to make sure they exercise or adhere to a healthy diet.

Disincentives are Possible, Too

Just as one can incentivize, it's also possible to disincentive behavior. Many people like to threaten termination of benefits if the beneficiary uses tobacco products. Again, though, just like exercising, smoking is impossible to monitor on a 24-hour per day basis. Quarterly or annual blood tests may allow the beneficiary to both violate the terms of the trust and receive their distributions, which might be self-defeating for all parties. However, being subject to random testing may keep the issue in mind for the beneficiary, which may turn into a "win" for the parent—and one that they would be happy to attain.

The point here is this. Craft your trust with quantifiable and easy-to-ascertain measurements in mind. Couple this with the development of reasonable enforcement mechanisms that allow you to achieve your end goals. Also, be advised that any provision that attempts to restrict someone from getting married would typically be considered void in most jurisdictions.

Authorizing Distributions: HEMS

A very common standard for authorizing distributions is called HEMS—Health, Education, Maintenance, and Support. This standard is considered ascertainable by the IRS. These distributions typically reflect provisions for needs defined during trust creator's lifetime.

Again, the trustee would be the arbitrator of these issues, subject to judicial review for abuse at their discretion. Because a trustee's discretion can be a point of conflict for family members who are beneficiaries, one may want to consider using a professional third-party trustee to remove the emotional component from these judgments.

Benefit from the Many Tools Available Today

If you have discussed wealth transfer with your family, you may have a feel for how restrictive your trust needs to be to accomplish your goals. If you were unable to have such a family discussion, you can use careful drafting to create a document that allows your trustee to carry on your judgment and execute your wishes when you become incapacitated or die.

The legal tools to help you achieve your goals are numerous, and growing in power, so if controlling distribution is part of your estate planning strategy, you live in very fruitful times. And controlling distributions leads us to our next topic—where you look to control distributions to benefit your heir and protect them from losing their entitled benefits.

Lesson #4: Financial Planning for Children with Special Needs

As a parent, it's normal and natural to worry about your children's futures and what will happen to them when you are no longer around to protect their interests. But when you are the parent of a child with special needs, additional worries present themselves. Often, concerns about their welfare are intensified. Ultimately, adult children who live with one or more disabilities and who receive U.S. government benefits require careful consideration during the estate planning process. If this is not handled appropriately, your child's inheritance could stand to disqualify them from receiving needs-based government benefits and may impact their ability to receive basic financial support or medical care.

Restricting Distributions: Wants vs. Needs

When your adult child with a disability relies on certain social services for financial support, you'll need to control the inheritance. In this case, however, it's not a case of "wanting" to control the distributions, as we've previously discussed. Rather, it's a case of "needing" to control the distributions so that your adult child doesn't lose services because of income requirements. This is often the case when someone with a disability is dependent on needs-based government assistance to cover the cost of basic expenses like medical care, housing, or even food. If those benefits are "means tested," your child will lose those benefits if they inherit more than just a few thousand dollars.

As you well know, loss of those benefits could be very disruptive to your child's basic existence. Even if their inheritance covers those needs, that money could run out down the road. And if that were to happen, your child would have to requalify for benefits. In the end, he or she could face a long waiting list or even worse, be denied benefits.

Is Your Child's Inheritance Less than $250,000?

For the wealthiest among us, the care that can be privately provided is greater, more consistent, and more comprehensive than any government benefit. As such, attempting to maintain "means tested" benefits for the child must be weighed against the value of those benefits. However, for many other people, and where the inheritance may be less than $250,000, there are some considerable differences.

If your child's inheritance falls below the quarter of a million-dollar mark, it is probably increasingly beneficial for government benefits to continue without interruption. It's also better for the inherited funds to be used for "supplemental or special needs" faced by the child throughout their lifetime. Thankfully, Congress agrees.

The Third-Party Special Needs Trust

Congress created an exemption to the "means tested" disqualification standard. It's called the "Third-Party Special Needs Trust" and parents who intend to leave an inheritance to an adult child with special needs or disabilities should know about it and how it applies to them.

This type of trust is created by someone other than the individual with the special needs; in this case, it's you, the parent(s). Assets can also come from family members, as well as friends or other relatives, but they cannot originate from the individual.

Because the third party has no legal obligation to leave any assets for the individual with the disability, Congress agreed that if provisions were made through this trust, the beneficiary with the special needs would not be penalized.

So, what can the funds be used for? The trust corpus and income can be used for supplemental needs such as the following:

- Clothing
- Entertainment
- Transportation
- Travel
- Recreation
- Uncovered medical treatments
- Gaps in government benefit coverage—as well as items and/or services that are considered beneficial to the individual

Cash should not be distributed, so only distribution in-kind is allowed. This is important if you want your beneficiary to avoid income tax attribution and loss of benefits.

The Self-Settled Trust

For a child who receives a settlement for a personal injury that was the cause of a disability or which occurred because of a disability, the Self-Settled Trust could be an option.

This type of trust exists under the same rules, but with one exception. Upon the death of a child with a disability, the remaining assets must be used to pay back the government agencies that provided services during the child's lifetime.

This is actually one very important difference between the Self-Settled Trust and the Third-Party Special Needs Trust. There is no such pay back with a Third-Party Special Needs Trust. Parents are free to leave the remaining balance of a Third-Party Special Needs trust to anyone they wish.

The ABLE Account

The Special Needs Trust was expanded in 2014 when Congress added the ABLE account, which stands for Achieve a Better Living Experience. Under this provision, parents can contribute up to $14,000 per child per year into an account that would grow, income tax-free. There is no tax deduction, however.

ABLE accounts are designed to function like 529 College Savings accounts. However, instead of using the funds for college, the ABLE account would cover supplemental needs like those described above. Amounts accumulated in excess of $100,000 would be counted as a resource for the child. The account

and use of the funds would not disqualify the child from "means tested" benefits.

Necessary Items to Include in Your Estate Planning Toolkit

In your journey through the estate planning process, you'll find that supplemental and special needs trusts are not the norm. But that doesn't mean they're not very important tools for parents who are facing special circumstances related to providing for their children.

In fact, it's quite often the case that even those who have no use for this type of trust know someone who could benefit from this planning. It's a very useful tool to control asset distribution for people who face circumstances that are unique and that are coupled with special concerns. Thanks to the Third-Party Special Needs Trust, families no longer need to worry about limited options when it comes to providing for children with special needs.

More options, combined with helpful advice from a professional financial advisor who is well-versed in wealth management nuances such as this, point to a brighter future and better care for all your loved ones.

Lesson #5: Downsizing for Retirement: 5 Points to Remember

A Reflection by Tim Scannell—Managing Director & Partner of Hightower Great Lakes

We focus so much of our efforts on planning for wealth transfer to our children, but we also must carefully consider how we plan for next chapter in our own lives. I would like to share with you a bit of my own experience.

The Merriam-Webster Dictionary defines "downsize" as "to make smaller" or "reduce in size." When it comes to everyday living, downsizing seems easy—especially if you are trying to get rid of that old VHS video collection or only make dinner for two instead of an army.

But how do you downsize your entire home—and ultimately, your life?

The prevailing logic for retirees is that downsizing is the first step on the road that leads to carefree living as well as plenty of freed up cash. You know what we are talking about— get rid of everything, sell the big house, and downsize into a tidy cottage or condo that fulfills your dreams in the next phase of your life.

But for most people, the major sticking point is that very first step: getting rid of stuff. And no two people go about that task in the same way, with the same mindset, or even the same goals and values.

Here are five tips to help you when downsizing for retirement:

1. Goals, like people, are personal.

Downsizing means different things to different people, including your spouse and children. Consider the following experience—what my wife Nancy and I faced when I youngest child left for college and got his own apartment in Chicago. We decided to launch our own downsizing plan—and we had some very concrete expectations. Those expectations turned into five goals:

- Simplify life.
- Lower monthly expenses.
- Reduce maintenance and upkeep.
- Create more time for visiting family.
- Remain in Valparaiso, Indiana, because we love our community, cherish our friendships, and support charities and a great university.

It's possible that you may recognize that some of these goals mirror your own. Your own list may be shorter or longer, but whatever your hopes and dreams entail, you'll need to start purging your possessions first.

2. Be prepared for considerable decision making and many trips down Memory Lane.

As much as Nancy and I loved our home, we were excited about living a more care-free life, one that was free from the duties of yardwork and extensive upkeep. Our biggest obstacle was the accumulation of items that come with 31 years of marriage and 21 years in the same home. With five children living in the house, those walls forced that home to become Command Central for seven people for a long time.

Nancy and I were pretty sure we could cope with the emotional side of moving, but we had no idea that we had so much stuff! Now, please know, Nancy is not a pack-rat, and she prided herself on clearing things out over the years. No matter, we still found ourselves swimming in decisions about what to keep, what to donate, and what to toss.

How could we create a simpler life without sacrificing boxes and boxes of cherished memories? With all five kids living out of state, how were we to sift through their treasures that they gathered during their formative years? When the kids moved out, did they forget their clothes, knick-knacks, trophies, pictures, and other items that helped define their identities and tell the story of their pasts, or did they not take this stuff with them for a reason? Did the kids want us to save their things for them? Do they care? Should we take this change slowly or tear the band-aid off quickly?

3. It helps to have a list.

I generally need a list for any task, so I researched and discovered that most of the good downsizing lists are published by senior care communities. Shockingly I wondered, have I become their target audience? A common theme in the various articles was to sort everything into four categories:

- **Items you need:** Documents, photos, files, and beloved possessions.
- **Items you'd like to keep:** My Bavarian beer mug collection got demoted to the basement storage space when Nancy and I married in 1985. I'd like to keep the collection but...well, you know how this is going to go. The list I was working with included things we enjoy but aren't essential or sentimental. I had several items move from need, to like, and back again.
- **Items to donate:** Then there are items that we thought our kids would want like their 2nd grade YMCA basketball trophies—however, we were wrong. It turns out they didn't want any of those treasures, and we donated many boxes to local charities.
- **Items to toss:** Some things appear to be treasures but end up in the garbage. We realized we don't need the ticket stubs to great concerts, and we recycled stage bills to many fantastic plays – including Billy Elliott, The Phantom of the Opera, and Les Misérables.

4. It's important to keep your eyes on the prize.

Once we committed ourselves to downsizing, the search for a new home, condo, or townhome began. Both Nancy and I found this to be incredibly motivating during the weekly task of cleaning out closets. Imagining our cute, tidy townhome or our new cottage kept us motivated to make tough decisions about our belongings.

Online property details, photos, videos, and even drone movies made the initial search much easier than when we last house hunted in 1995. After searching for over a year we decided to buy a "tear down" and build a simple, smaller home with features that required low maintenance. Once again, the Internet was full of floor plans that fit our lot size and allowed us to tweak with variations and customized basics. Once we selected the house plan, our awesome builder worked with us to create a vision complete with colors, lighting, cross ventilation, patio, beautiful flooring and other details.

It turned out to be a lot easier and more fun than we anticipated. We feared the project would entail too many decisions, and after sorting through our six-bedroom home, we wanted freedom from trying to be Solomon. The house building process turned out to be a breeze, and it connected us as we collaborated on planning for this new phase of our lives.

5. Don't go it alone.

Nancy and I couldn't have moved this far into the process without talking to friends and clients who have gone through it already. I hope that by sharing our experience, you can avoid some of our mistakes.

As Nancy likes to say, "Let me tell you what not to do because we made that mistake." We also could not have navigated the process without the support and advice from professional realtors, movers, and contractors. I am an entrepreneur and love working with and supporting others.

Conclusion

In closing, preparing for the next phase of your life doesn't have to be scary. The key is to think ahead and plan:

- Do your due diligence.
- Put necessary protections in place that will effectively and seamlessly transfer the wealth you have built over the course of your life.
- Remain methodical and analytical as you consider your next move.
- Consult with trusted professionals along the way.
- Enjoy fulfillment and life-long learning in your Golden Years.

Most people don't have all the answers, and that's okay. I encourage you to talk to others and to seek the expert advice and insight you need to make the decisions that are best for you.

Hightower Great Lakes: Informed, Knowledgeable, and Experienced

When managing wealth for clients and preparing plans to protect and grow that wealth for future generations and favored charities, we carefully consider your values and life choices. We know your decisions will impact your future. We help you evaluate cost, determine access to networks of friends and family, ensure availability of healthcare, promote desired lifestyle, and pursuit of your overall happiness in the choices you have made.

Our team knows that your goals and dreams change. However, financial products do not. Clients make the important decision to work with us because we don't sell products—we create customized plans based on each client's personal goals, and we continuously reevaluate these plans to ensure they are aligned with evolving needs. Our clients rely on us to protect their futures, and we take their trust to heart. With over 35 years of financial planning experience, we are confident that we can help you and invite you to reach out to Hightower Great Lakes Group today to take the first step on the road to security, prosperity, and financial wellness.

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Great Lakes

15 N. Franklin Street, Suite 100, Valparaiso, IN
10850 E. Traverse Highway, Suite 3350, Traverse City, MI
200 W. Madison, Suite 2500, Chicago, IL
1680 Fruitville Road, Suite 231 | Sarasota, FL
hightowergreatlakes.com