

Maturity Markers: A New Paradigm for Trust Distribution Models and Gifting Strategies

Abstract

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Editor's Abstract: Written as a paper reflecting the integrated perspectives of two child psychologists and two values-based estate planners (who are husband and wife and work in different firms), this article will define five markers of maturity that herald the ability to manage responsibly and also provide a benchmark of maturity for each of the five dimensions. Using these five dimensions, family advisors can fine tune their insights and judgments as to the readiness of an individual heir to assume a responsible position in stewardship of the family wealth and business.

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Professionals advising families in wealth transfer lack guidelines for determining if young adult heirs will manage family wealth and/or take on positions of responsibility in family businesses effectively or will falter. Advisors look to maturity to determine readiness for transfer of wealth and responsibility but professionals know well that chronological age alone does not determine maturity as it needs to be defined to determine readiness to assume responsibility in stewardship of family wealth or family business. This article will define five markers of maturity that herald the ability to manage responsibly and also provide a benchmark of maturity for each of the five dimensions. Using these five dimensions, family advisors can fine tune their insights and judgments as to the readiness of an individual heir to assume a responsible position in stewardship of the family wealth and business.

As parents work with advisors in constructing plans for transferring wealth to the next generation, new demographic research findings indicates there are significant differences between generations. Young adults are reaching milestones of maturity at much later ages today than was true a generation or two ago (Arnett 2004). Some estimate the delay to lie between six to eight years and in some cases, finding one's way into adulthood these days lasts well into an individual's thirties. Hence the saying, "Today's Thirties are Yesterday's Twenties." So while the markers of adulthood are shifting later by societal influences, the conventional age-based or event-based trust or estate distribution patterns are staying the same. Chronological age, and specifically age twenty one, has traditionally been built into wealth transfer planning as an age marker of maturity. This article suggests replacing age-based markers and introduces tools to assess social and emotional maturity.

Emerging Adulthood

A generation ago, when college was complete, young people rarely moved back home. More typically they married, found jobs and started families. Today young adults are reaching maturity six-to-eight years later and the number who move back in with their parents has doubled since the 1970s. While many trace the roots of this trend to overindulgence and pampering, that is not what research suggests. Rather attainment of maturity has been lengthened and due to multiple determinants a new stage of development added labeled "emerging adult" (Arnett 2004).

What are these determinants?

(1) Today a BA degree not only holds little promise of a job, but if a job is found, the young adult is likely to earn the same as a high school graduate. In addition, many of these students who earned BA degrees will later carry somewhere between \$10,000 and \$100,000 in student loan debt. Thirty years ago, students received financial aid in the form of grants, teaching and research assistantships but today those sources are replaced by loans.

(2) Marriage is postponed or forgotten altogether. The median age for marriage has increased by six years and one-fourth of those in their thirties have never married (Semuels 2004). When young adults do marry, in this day and age, both partners often must work to earn enough to support a family. Thus, seeing little to be gained by marrying or beginning a career, many finish college today and view their twenties as a time of exploration in all matters: relationships, jobs, travel, and humanitarian service. Having grown up in an era of immediate gratification, constant sensory input from

cell phones, ipods, video games and role models consisting of rock idols and athletes, work frankly seems rather dull, unengaging and financially unrewarding. What's to be gained by beginning adulthood at twenty one?

Age is no longer the primary definer of adulthood; rather psychological milestones are used by the young people today. Most report feeling "adult" when they can:

1. Accept responsibility for their actions
2. Make independent decisions
3. Be financially independent

Will these young people eventually move into their own definition of adulthood? Yes, is what demographers have found but not until they believe it is timely for them. During their twenties, most rate other adventures as more worthwhile.

What does this shifting trend mean for those serving as advisors to families? Do conventional aged-based or event-based transfers of wealth continue to best serve these young adults or do we need new tools to measure social and emotional maturity?

Markers of Adulthood

As markers of adulthood are pushed out by societal influences, the timing of transferring wealth through gifts, trusts, estates or family business succession is better served by defining readiness for transfer by dimensions of maturity. The following five dimensions are proposed as guidelines in transition planning:

1. Financial self-sufficiency

The young adult who has reached this benchmark demonstrates the capacity to live within a budget and to be financially responsible. Essentially he or she is self-supporting and living independently from parents. While money may be paid out to them from trusts, they are not dependent on additional gifts. They are in control of their own financial well-being. They may still have student loans to be paid but they have created a plan for this obligation and for seeing it through. Overall, they demonstrate competence in earning and managing money.

2. Pursuing work, career, education and/or self-advancement

Reasonable progress is being made toward one or more of these goals. To reach this benchmark, a young adult has demonstrated that he or she can delay gratification in favor of attaining a long range goal. They may be gradually taking on increased responsibility in the family business, working for another company to gain experience or pursuing graduate education. Whatever the endeavor, there is clear purpose in evidence and a defined long-range goal to be attained.

3. Reasonably free of problematic behaviors

Problematic behaviors include substance abuse, gambling, indulgent over spending, abusive or destructive relationships and cults. These are areas of life that most young people encounter and must learn to negotiate through in one way or another. Some are enticed into a worrisome life style and never recover; some need outside help to recover, while others briefly indulge in these behaviors but they lose their appeal over time. The key in defining a young person as reasonably free of problematic behaviors is that such indulgences are not infringing on the ability to pursue other spheres of functioning. They are demonstrating reasonable judgment in limiting such behaviors.

4. Social and emotional involvement

Humans are inherently social and build connections to others. This capacity defines one of the primary determinants of happiness. At the end of life, most report that relationships were what mattered most in their lifetime. Those who report satisfaction with their lives are connected to others in some meaningful fashion. It may be that the individual is community minded, a social activist, charitable or passionately involved in a cause for the betterment of others. The pursuit may be recreational, religious or spiritual more than charitable but the key here is that the individual demonstrates meaningful connections to others and has the capacity for intimacy with family, friends or community.

5. Social emotional maturity

The individual's description of his or her own well-being and level of functioning matches the consensual reality of others. In other words, the individual does not grossly over inflate or under inflate his or her capabilities and accomplishments. There is evidence of a capacity to admit to one's own mistakes and to work toward correcting them. Anger, frustration, stress and disappointment are felt but do not completely derail the individual from pursuing goals. Relationships are not destroyed by expressions of emotion that are so strong as to be abusive or deleterious to the continuation of the relationship. Competition is viewed as invigorating but not as a means for demolishing or demoralizing another. Losing competitively does not distract from self-worth or self-esteem. The primary benchmark is that self-reflection is evident, responsibility for weaknesses is demonstrated and the capacity to accept help or self-define a corrective strategy is within the individual's reach.

These five dimensions of maturity are visually displayed on the following chart. Each dimension ranges from low functioning on the left to high functioning on the right. Each benchmark, as defined above, is demarcated by a dotted vertical line that is placed at approximately two thirds of the distance to the right along each dimension. The closer an individual is to the benchmark or exceeds the benchmark, the greater the readiness for handling wealth transfers. The

family advisor can thus use this as a tool for identifying one or more areas that may perhaps need a corrective program or strategy. Similarly, a family business could potentially use these dimensions to define the maturity desired in an employee.

Dimensions of Maturity

Low

High

Financial self sufficiency
 Living within a budget
 Demonstrating financial responsibility
 Stewardship of money
 Putting in some personal effort (not passively dissipating)
 Pursuing work, career, education and/or self advancement
 Making reasonable progress toward one or more of these goals
 Currently has a goal
 Past history of follow through with long range goals
 Reasonably free of problematic behavior

 Including:
 Chronic substance abuse
 Gambling
 Indulgent over-spending
 Cults
 Repeated offenses
 Abusive or destructive relationships
 Social and emotional involvement
 Friends and/or family
 Community
 Charity
 Spiritual
 Recreational interest
 Social emotional maturity
 Self correcting of past mistakes
 Handling of anger, disappointment, frustration and stress
 Interpersonal awareness
 Self awareness

Dimensions of Maturity Chart: © Copyright, 2008 Mitchell Baris, Carla Garrity, Carol Warnick and John A. Warnick

Suggestions for Parents and Grandparents

Emerging Adulthood, as well as other influences, suggests that wealth transfer plans need to become more individualized. Instead of using various ages as the determinants of when large portions of assets are distributed from a trust, parents can and should be more creative.

In the early to mid 1990's "incentive trusts" became quite popular. Our personal observations, which are based largely on anecdotal evidence, suggest that even if incentive trusts accomplish their intended purpose(s), that they often produce unintended negative consequences. Discretionary trusts which support and encourage trustees to work closely with beneficiaries may offer a better alternative. For example, the grantor of a trust can require a trustee to measure the beneficiary against the five dimensions of maturity suggested in this article. The trustee could also be encouraged to be more liberal in making distributions as a beneficiary demonstrates competence in managing his or her distributions. The trustee could be warned about falling into a pattern of predictable discretionary distributions that might impede a beneficiary's progress towards self-sufficiency and self-advancement. Likewise, the trustee guidelines might suggest that large distributions, other than those needed for the purchase of a home or getting started in a career or business, should be delayed until the beneficiary has made significant progress in a majority or perhaps all of the benchmarks of maturity.

These suggestions are going to place far greater responsibilities on the shoulders of trustees and call for trustees who are highly interactive and willing to utilize experts, as needed, to assist them in evaluating and encouraging a beneficiary's progress. Many professional fiduciaries may be reticent to put themselves in a position to make such determinations. Grantors may need to consider utilizing an administrative trustee (the professional fiduciary) and a distribution trustee/advisor (a family member, trusted family advisor or friend). The distribution trustee/advisor would have the responsibility for making all determinations regarding the frequency, amount and type of distributions and the administrative trustee would handle the investment and administrative matters.

Trusts that are structured around a distribution model that is either directly tied to or influenced by these markers of maturity will require much greater effort in terms of discretionary guidelines. The role of the trustee and the fiduciary powers may be defined so as to encourage or require that the distribution trustee either function as a life coach or allow beneficiaries to engage, at the trust's expense, life coaches and other consultants to assist them in their getting launched

into adulthood. It may be helpful for the grantor to write a letter to the distribution trustee explaining the grantor's wishes and desires for each child. Such a letter is not legally binding on the trustee, but could be extremely helpful in assisting the distribution trustee in determining when the appropriate benchmarks are met. Often, such letters could be shared with the child, hopefully providing an opportunity for collaboration and the forging of a meaningful mentoring relationship between the distribution trustee and the child. Failure to explicitly address the need for guidelines to the trustee or a letter of instructions to both trustee and beneficiary may result in the beneficiary resenting and/or challenging the authority of the trustee.

In considering this type of trust, the grantor should be mindful of utilizing the right person for the role of distribution trustee. Ideally, such a trustee should be someone who will be genuinely interested in the beneficiaries of the trust and become truly involved in their lives. Such a trustee should be non-judgmental and a patient mentor who can assist the beneficiaries as they strive to meet the benchmarks of maturity. And most importantly, such a trustee should model the traits of trustworthiness and integrity. Without such a trustee, this model for distributions will likely not succeed and could set up a difficult situation for both beneficiaries and trustee.

Many grantors mistakenly think that the best trustee is one who can manage money well, but often the human and life skills possessed by the trustee will be more important in facilitating the trustee's ability to work effectively with the beneficiary. Ideally, the best wealth transfer plans should be protective of the beneficiary before emotional maturity is reached and empowering of the beneficiary after social, emotional and financial maturity milestones are reached.

If the grantor isn't comfortable with the type of trust described above, other ideas might be multiple trusts or staged distributions within one trust. These trusts have no way to control for the risk that the beneficiary won't be ready for a distribution at a certain age, but at least not all of the inheritance is on the line at any one age of distribution.

Lifetime transfers of lesser amounts or some form of financial apprenticeship are other ideas to consider. Such transfers will give the parents some idea of how the child will do with the money and can assist the parent in determining how to make the rest of the transfers. In the last few years we are seeing more and more parents and grandparents using some form of family investment entity or family bank to work with emerging adults.

Clearly issues related to transferring money to the younger generation today are very different from what they were even twenty years ago. Lawyers and professional advisors who work with families need to be aware of these substantial changes in order to be effective and responsible in the advice they provide to families.

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Dimensions of Maturity

Low

High

Benchmark

