MONEY

OUTSTANDING CREDIT OF HOUSEHOLDS AND BUSINESSES IN DECEMBER 2024
€215bn
QUARTERLY INCREASE OF €500M

MEDIAN BANK-HELD MORTGAGE INTEREST RATE IN MARCH 2025
3.75%
DOWN FROM 3.95% IN DECEMBER

SOURCE: CENTRAL BANK OF IRELAND

Five ways bad estate planning leaves families up the creek

Ninety per cent of wealthy dynasties lose their fortune by the third generation. *Kieran O'Daly* explores reasons why

We've read the books and seen the films and TV shows – *The Magnificent Ambersons*, *Schitt's Creek*, *Arrested Development* and even *Wuthering Heights* – the rags-to-riches-to-rags stories played out against a backdrop of bitter family feuds as toxic parent-child or sibling relationships conspire to reduce years of hard graft to nothing.

It may sound like the preserve of fiction but, unfortunately, it happens in real life, too, and more often than you might think. Just ask the Vanderbilts, the Hartfords, the Astors and countless others.

A 2002 study by the US wealth consultancy Williams Group revealed that 70 per cent of well-to-do families lost their wealth by the second generation. This rose to 90 per cent by the third.

The "third-generation curse" can be attributed to various interlinked factors. We've boiled them down to five big ones.

BAD PLANNING

The stereotype of family wealth is that the first generation works hard to create it, the second tries to add to it but ultimately does the opposite, then the third comes and spends what is left over.

While there may be some truth in that, it does not tell the whole story. Much of the focus for the dissipation of wealth between generations is traditionally focused on the heirs, but the seeds of calamity are often sown by the first generation through bad planning.

"Long-term planning is critical in maximising the value of family assets as they are being passed down," Hugh Lambert of Integral Financial Planning says. "It's crucial for benefactors to have a simple, clear plan in place with full disclosure of all relevant assets ... This will make the transition as seamless as possible.

"It's also important from the point of view of minimising tax liability for all parties, which is central to all good estate management strategies. Families with major assets should make inheritance plans at least 15 to 20 years in advance to offset potential tax bills for their heirs."

It is also important that benefactors are attuned to the circumstances and aspirations of individual beneficiaries, Lambert adds. "Some inheritances can be a millstone, so it is important to consider the beneficiary's circumstances before making a bequest," he says. "For instance, in some cases it might be better to sell a family business rather than leave it to a child who doesn't want to run it."

Jonathan Sheahan of Compass Wealth agrees that the first generation has a crucial role to play in protecting family wealth for successors. "My advice is to make a will and keep things simple by streamlining all accounts and assets where possible," he says.

"Too much complexity will just create problems and lead to mistakes and bad decisions going forward. It's also important to have an enduring power of attorney in place who can make decisions should the benefactor become incapacitated."

Sheahan believes poor tax planning is the biggest drain on family wealth as it is passed down. "A lot of estate value is wasted paying unnecessary taxes," he says. "Again, it comes down to poor planning and the responsibility for this lies with the first generation. Benefactors need to take full advantage of the group A, B and C inheritance tax exemption thresholds of €400,000, €40,000 and €20,000 respectively. They also need to consider taking out whole-of-life section 72 insurance policies to pay off any inheritance tax liabilities their heirs might incur."

Gifts are another useful option. With a tax-exempt threshold of €3,000 annually, they are a good way of passing on small sums regularly to family and friends without liability. This can provide a boost to their financial wellbeing at a relatively young age as, for example, parents can give €3,000 each to both their child and their child's spouse, which adds up to a healthy €12,000 per annum.

Gifts can also be supplemented by a section 73 insurance policy to offset future gift tax liability. Section 73 policies are flexible as they can be given tax-free to a third party after eight years of regular contributions on condition that the receiver is liable for gift tax within the same 12-month period of receipt.

The comedy series Schitt's Creek, starring Dan Levy, Catherine O'Hara ,Eugene Levy and Annie Murphy, follows a wealthy family who end up penniless

COMMUNICATION FAILURE

This is a common problem for families everywhere, regardless of financial status. The shroud of secrecy and uncertainty created by the failure of benefactors to discuss family finances and inheritance can be hugely damaging. Poor parent-child or sibling-sibling communication can cause significant issues around trust and motivation that often divides families for generations.

"People are afraid to talk about money," Lambert says. "Throw death into the mix and they definitely don't want to have that conversation, even though it's hugely important.

"Open communication is critical in ensuring that there are no surprises. Everyone knows what to expect and, in turn, what is expected of them. This can go a long way towards protecting and maintaining strong family bonds into the next generation."

POOR FINANCIAL EDUCATION

Many second and third-generation heirs of wealthy estates lack the financial skills to manage complex legacies. This can, in part, be attributed to a lack of engagement and poor financial education.

"This comes back to communication and the importance of including beneficiaries, particularly children, in the inheritance conversation from the outset," Sheahan says. "They need to be engaged and invested in the estate and learn how to manage it properly. This will make them more willing and able to take on responsibility when the time comes. They also need to learn basic financial lessons about the value of money, budgeting, investment risk and tax."

Sheahan believes that the timing of this conversation is critical. "If you have it too early, the heir might lose their appetite for work," he adds. "Leave it too late and they might already be disillusioned or disengaged. There is a lot of emotion involved in these decisions and every family and person is different."

LACK OF VISION

Many heirs feel daunted and struggle to follow in the footsteps of previous generations. This can be even more challenging in difficult economic times and when the estate has already been diluted through division among multiple heirs over one or more generations.

Many opt to diversify in an attempt to create new income streams, often with disastrous effects. In such cases, a trust to protect the family estate or business coupled with long-term strategic investments to secure regular returns is useful.

FOLLOWING BAD ADVICE

Many once-wealthy estates are decimated by risky investment choices on the foot of bad advice. These are often the result of flaws in the original inheritance plan, poor family relations and a lack of financial nous. However, much of this can be avoided by having the right structures and advice in place to begin with.

"Picking suitable executors and getting proper professional advice is critical in avoiding bad investment decisions or anything else that might needlessly reduce the value of an estate," Sheahan says. "Executors should be reviewed on a regular basis as needs change, while professional advice should go beyond just finance to include legal, tax and investment expertise as well to get a full and balanced picture of circumstances."

€? QUESTION OF MONEY

I'm 33 and just became eligible to join my company's health insurance scheme, which my employer will pay in full for my entire family. I'm in quite good health and have never taken out private health insurance before, though my wife is expecting our first child so I'm keen to take up this benefit. Do I have to go with the insurer and plan that my employer offers staff or can I upgrade and still have my employer foot the bill? And will my family and I be immediately covered once I sign up? Will I need to pay tax on this benefit?

Anon

You should get health insurance before you turn 35 to avoid loading, which is calculated at 2 per cent of your premium a year for each year over the age of 34. The older you are when you first buy health insurance, the more expensive it will be. And because you carry the loading for ten years, it's worth avoiding even if your employer is paying for the moment.

Your employer's offer to pay for health insurance in full is worth thousands of euros, so this is not a chance to be missed. However, you will need to pay benefit in kind (BIK) tax, which will be deducted from your salary like normal taxes. You're entitled to tax relief on your private health cover, which will offset some of your BIK tax. This tax relief is up to 20 per cent on the first €1,000 gross premium for adults and the first €500 for children. As your employer is paying for the policy, you probably have to claim this relief yourself.

There are typically waiting periods when taking out health insurance for the first time. These are 26 weeks for new conditions (after taking out cover), five years for pre-existing conditions (issues you had before taking out cover) and 52 weeks for maternity cover. This means your wife would ordinarily need health insurance for at least a year before she can claim maternity benefits.

However, many employer-paid schemes negotiate waivers on all waiting periods, in which case you and your family would be covered immediately. So, it's important to check with your employer, if any waiting periods have been waived.

When your baby is born, you can add your newborn to your policy free of charge until your next renewal. Be sure to do so in the first 13 weeks of your child's birth to avoid the usual waiting periods for cover.

Whether you have to go with a set plan offered by your employer or can opt for another one is a question you should ask your employer. Employers usually pick a single health insurance provider and plan when providing a company scheme, though they may allow some flexibility to change plan and provider.

Patrick Brennan is vice-president of health and wellbeing with NFP Ireland

Send your personal finance or consumer-related questions to money@sunday-times.ie

Eoghan Gavigan

EuroMillions winners, see me for a guide to happiness

I wrote a column here last summer about the "hedonic treadmill" – the human tendency to revert to a prior level of happiness despite experiencing significant positive or negative events. It's a concept that is relevant to personal finance. The dopamine hit we get from buying new things is generally short-lived. And, like a drug user who needs progressively bigger hits to get high, we become desensitised to the stimulus of acquisition and need progressively larger purchases – like a new car – to achieve the same happiness effect.

On a recent trip to Amsterdam I visited Body Worlds, a museum of human anatomy using bodies donated to medical science. Happiness and its effect on life expectancy is a theme in the museum, which made me reflect on the work I do as a financial planner.

My job is basically to help people engineer their finances to achieve their life objectives, which are based on what they believe will make them happy. Over time I have found myself wondering more about the happiness part, though.

My Body Worlds visit came soon after news broke that someone in Co Cork had won the €250 million EuroMillions jackpot. What would you do with a win like that? And would it make you happy?

If the winner booked a meeting with me, one of my first recommendations would be to visit Body Worlds to get a handle on the latter question. Each floor of the museum deals with different aspects of the body – the skeleton, muscles, central nervous system and so on – and the influence that happiness has on each of them. The objective is to show the route to a happy, and therefore long and healthy, life.

One exhibit illustrates that pleasure is a reward system that spurs evolution by encouraging us to repeat actions that are good for survival and reproduction. Humankind, however, has found ways to short-circuit this system with cigarettes, alcohol and recreational drugs such as heroin and cocaine, putting us on that hedonic treadmill. Even everyday things like television, video games and junk food have the same effect, except at lower pleasure levels, with no survival benefit and possible negative effects. You can see where this is going. Right now you may be thinking that I must be great fun at parties, but stay with me.

> **A windfall of EuroMillions size can remove the need to work and affect relationships**

What really caught my eye, though, was an exhibit detailing what factors influence happiness. It turns out genetics are responsible for 50 per cent, circumstances for 10 per cent and intentional activities – your attitude and how you handle adversity – make up the remaining 40 per cent. This is known in psychology as the 50-10-40 formula.

I was surprised that circumstances, such as wealth, health and occupation, were pegged at just 10 per cent as it is commonly believed that wealthy people live longer and a great many people certainly believe that rich people are happier. While not wishing to differ with the science, I think that while wealth may not be the most important factor, planning your finances to ensure you have the resources to meet the cost of your life objectives and the freedom to make choices is very important.

Putting wealth at 10 per cent seems to me a bit like a meteorologist saying that it will be -2C outside today but it will feel like -10C due to wind chill. Minus two may be factually correct, but I need to know how heavy a coat to wear.

Towards the end of the tour a display quotes the poet and politician Joseph Addison, who said: "Three grand essentials to happiness in this life are something to do, something to love, and something to hope for." A windfall of EuroMillions proportions can remove the need to work, affect relationships and, in a peculiar way, can make it seem like hope for a better future is lost – how can it get any better than today?

My favourite saying on the subject is that happiness is like a bank robbery: if it's really going to work, it has to be an inside job. It's possible that the winner of EuroMillions may not be any happier as a result of their windfall, so let's hope that they are already happy and that they make good choices. A certain budget airline is selling seats to Amsterdam for only €24.99. I'll pick up the tab for the lucky winner.

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