



Flossbach von Storch
RESEARCH INSTITUTE

SOCIETY & FINANCE 16/10/2023

Inheritance as a process - from emotional ballast to conscious wealth management

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Summary

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Abstract

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Introduction

It is difficult to prepare for the death of a loved one. Whether unexpectedly or at the end of a long illness, saying goodbye to a loved one triggers grief. If the bereavement is linked to an inheritance, there may also be feelings of guilt due to the new wealth that has been gained but not earned. It is difficult to make well-considered decisions in such an exceptional situation.

Heirs and bequeathers should therefore seek an exchange on the transfer of assets at an early stage. A dialogue illuminates expectations, prevents a feeling of ignorance and excessive demands on the part of the heirs and helps testators to know that their legacy is in good hands. In this way, inheritance does not remain a singular event, but becomes a process.

The starting position

In Germany, around 600,000 intergenerational inheritances take place each year. One third each is accounted for by assets under 25,000 euros, between 25,000 and 150,000 thousand euros and more than 150,000 euros. Since every third euro inherited is accounted for by the two percent largest inheritances, an average of around 180,000 euros is bequeathed to the individual heir.¹

The use here differs from other one-off payments such as lottery winnings. The savings rates are significantly higher. This is because the feelings of guilt already mentioned inhibit a purely consumption-oriented approach to the inheritance. Consumption shame after a bereavement, postponing the decision on the use or also a "washing clean" of the inheritance through "sensible" use are expressions of this behaviour.²

Feelings of guilt thus protect the individual from overly wasteful consumption. However, acting in a permanently passive manner and based solely on moral justification can hardly be satisfying in the long term. The long-term goal of an heir should be to overcome his or her own feelings of guilt and to deal with the inheritance in a (self-)conscious way.

¹ Deutsches Institut für Altersvorsorge: [Analyse Erben in Deutschland 2015-24](#) and Flossbach von Storch Research Institut: [Plötzlich vermögend - und dann?](#)

² Flossbach von Storch Research Institut: [Suddenly wealthy - and then?](#)



Emotional challenges

The source of the guilt triggered in heirs is aptly described by the American social scientist Paul G. Schervish:

"The great American sin is having advantage without earning it."³

In addition to the "sin" of not gaining an advantage for oneself, the loss of a loved one must be dealt with at the same time. To deal with both, heirs go through six stages in succession, according to author Ann Perry. These are closely related to psychiatrist Elizabeth Kubler-Ross' five stages of grief:⁴

1. Disbelief: the rejection of what has happened. In the case of the death of the parents, the heir tries to hold on to his status as a child.
2. Anger: the feeling of being left alone. In the case of insufficient communication in the run-up to the inheritance, the lack of clarity about the testator's ideas intensifies the feeling.
3. Euphoria: Discovery of new financial possibilities. Sometimes excessive spending of the inheritance because, for example, one wants to treat oneself after years of caring for a relative. Sometimes there is no development beyond this phase and the inheritance is completely "consumed".
4. Guilt: The inheritance feels "unearned". The additional wealth was not earned by the inheritance itself. In order to obtain it, another person had to die. When decisions are made, the focus is on whether the testator would have approved of them.
5. Paralysis: Due to lack of clarity about the wishes of the testator and the fear of doing something "wrong", often nothing is done with the inheritance for years. Cash remains in a money market account; holiday homes are no longer used and fall into disrepair.
6. "Heirworthy" (the feeling of being worthy of the inheritance): Grief ebbs away and gratitude to the deceased takes centre stage. The central realisation of the heir is that the inherited assets may have been meaningful to the deceased, but do not necessarily meet their own needs or those of the next generation. If necessary, the realisation is used to actively re-structure the estate. One goes from being a passive heir to being an active creator of the estate.

An heir's goal should always be to leave grief and guilt behind and reach the stage where he or she feels worthy of the inheritance. Once there, one has developed a healthy relationship to one's new living conditions and looks

³ Ann Perry: *The Wise Inheritor*, Crown Currency, 2003; page 98.

⁴ Ann Perry: *The Wise Inheritor*, Crown Currency, 2003 and Elizabeth Kübler-Ross: *On Death and Dying*, Simon & Schuster, 1969.



optimistically to the future. One has emancipated oneself from the "sin" of not earning one's own wealth.

Worries of the testators

The greatest concern of testators - in their view - is the existing deficits of the heirs in dealing responsibly with the estate. According to a Bank of America survey of high net worth individuals⁵, only four out of ten parents trust their children to handle the family assets responsibly. They are even less convinced of their grandchildren. Only one in five trust their grandchildren to handle their assets well.⁶

In principle, people deal very sensibly with inheritances.⁷ However, insofar as a business is inherited, the fear of the testators cannot be dismissed: A study on American family businesses from 1987 shows that only 30 percent of the businesses survive the second generation and only 13 percent the third generation of the owner families. In the fourth, the figure is only 3 percent.⁸ The main reason cited is a lack of planning. This explicitly includes a lack of strategy for handing over the business to the next generation. It fits the picture that preserving the status quo is seen in other studies as one of the reasons for failure of family businesses.⁹ The above-mentioned paralysis, which ensures the preservation of assets in the case of real estate or cash inheritances, often leads to a standstill when a business is taken over, which threatens the existence of the business.

Other reasons for the failure of generational transition are that family relationships make doing business difficult and that the pool of leadership talent is limited to the family circle. Both are valid individual arguments in their own right. However, they could also be attributed to a lack of communication between the generations. It fits in with this that only 64 percent of respondents in 2016 stated that they had talked to their descendants about their wealth situation.¹⁰

Despite all concerns, leaving an inheritance remains important for three out of four respondents in their seventies (Silent Generation)¹¹. They plan to leave 8.5 out of ten dollars to their families.

⁵ More than \$3 million in investable assets (primary residence not included)

⁶ U.S. Trust Bank of America Private Wealth Management: [2017 U.S. Trust Insights on Wealth and Worth](#)

⁷ Flossbach von Storch Research Institut: [Suddenly wealthy - and then?](#)

⁸ John L. Ward: Keeping the Family Business Healthy, Springer, 2011.

⁹ Thomas Zellweger et al.: [From Longevity of Firms to Transgenerational Entrepreneurship of Families: Introducing Family Entrepreneurial Orientation](#)

¹⁰ [Poor little rich kids: Most kids from wealthy families squander their inheritance | Toronto Sun](#)

¹¹ Over 70 years of age at the time of the survey - cohorts up to 1945



Two paths - two commonalities

Two examples show how differently one can organise the transfer of wealth to the next generation: Bernard Arnault, the majority owner of the luxury goods group LVMH, took his daughter Delphine with him when he visited shops of his Dior brand at the age of 10. Today, all five children work in different positions in the company. Even if the father never forced the children to join the company, today's situation is probably largely due to his influence. Or as his son Frédéric says:

"He found a way to make me want to give my life to the family business like he did."¹²

Investor Warren Buffett has a different approach for his children:

"I've seen people try to steer their children, and the worst thing you could do is use money to induce given behaviour with kids,"¹³

And further:

"I told my kids they don't have to do anything ... finish college, become doctors or lawyers. ... I told them to use their talents in whatever form they think will create the greatest net benefit to society."¹⁴

As a consequence, one son is a musician and author and the other a farmer. His daughter works mainly as a philanthropist. At the same time, he does not intend to pass on his entire fortune to his children:

"You should leave your children enough so they can do anything, but not enough so they can do nothing".¹⁵

He wants to leave the rest of his fortune to Bill Gates' foundation, which is also known to his children.

These two quite different concepts have two things in common: Firstly, the open confrontation with one's own financial situation and secondly, the passing on of values, i.e. an inheritance that goes beyond the financial.

¹² [LVMH's Bernard Arnault Is the King of Luxury, but Who Is Next to the Throne? - The New York Times \(nytimes.com\)](https://www.nytimes.com/2018/01/15/business/bernard-arnault-lvmh.html)

¹³ [Warren Buffett's Advice On How To Raise Well-Adjusted Heirs \(forbes.com\)](https://www.forbes.com/2017/08/08/warren-buffett-advice-raise-children.html)

¹⁴ [Warren Buffett's Advice On How To Raise Well-Adjusted Heirs \(forbes.com\)](https://www.forbes.com/2017/08/08/warren-buffett-advice-raise-children.html)

¹⁵ [Warren Buffett's Advice On How To Raise Well-Adjusted Heirs \(forbes.com\)](https://www.forbes.com/2017/08/08/warren-buffett-advice-raise-children.html)



Advisors on estate planning support this behaviour.¹⁶ For all those who have something to bequeath and all those who expect an inheritance, the following applies: talk to each other early on. Inheritance should be a process and not a singular event. This creates clarity about the thoughts, motives and possible wishes of the bequeather. The feeling of guilt on the part of the heirs is reduced. The inheritance does not come to them out of the blue and they are clear about the intentions involved.

The succession

As we have seen, it is advisable to discuss mutual expectations in good time. For the day when you really are the heir, there are recognised rules of conduct among experts:

1. Do not rush into big decisions: Decisions that potentially affect the next 10 to 15 years should not be made within a few days or even hours. Especially not if third parties are pushing you to do so. This applies to financial matters just as much as to the workplace and place of residence.
2. Resist the temptation to give away parts of the inheritance because of feelings of guilt: Donations to charitable organisations can be a good use of inheritances. However, if this is done reflexively (see also 1.) to assuage one's own feelings of guilt, there is a great danger of regretting one's generosity later.
3. Ensure that real estate and physical heirlooms are insured or safely stored. This gives the necessary peace of mind to be clear about their use.
4. Take time to process the grief. One avoids emotional overreactions.
5. Allowing oneself something from the inheritance: Using a fixed budget of between five and ten per cent of the inheritance selfishly serves as an outlet against uncontrolled consumerism, which threatens when one attempts complete hedonic renunciation.
6. Consult experts. Complex inheritances in particular should be discussed with tax advisors, appraisers and financial advisors. Paying for good advice often makes sense. However, one should always question whether the price for the service used is appropriate.
7. Addressing your own estate planning: With the new financial possibilities comes a need for regulation. A well thought-out estate is a gift in itself.

¹⁶ See e.g. Ann Perry: *The Wise Inheritor*, Crown Currency, 2003 or [Considerations for Family Legacy Planning | U.S. Bank \(usbank.com\)](#).



Conclusion

An inheritance is a one-time event. Inheritance, however, ideally begins long before the day of the inheritance. The more unprepared we are for an inheritance, the greater the risk of falling into a state of shock and being overcome by feelings of guilt. One should therefore talk about the (intergenerational) transfer of assets early on.

Testators should be aware that an estate is more than just financial assets. It is connected with values and views of life. It is particularly helpful for one's own children to be aware of the ideas and expectations of their parents. It is easier to build on an understanding of the bequest. And for the parents, it gives them the reassuring feeling that they are bequeathing more than "just" money and that the legacy is in good hands.

Once the inheritance has occurred, the most important rule is "keep calm". Until you have your complex emotions under control, it is best not to make any fundamental decisions. Doubtful investments or large donations in particular are quickly made and even more quickly regretted. In addition to the assets, this also includes one's own life circumstances such as place of residence and professional activity.



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