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Do you plan to give inheritance money to your kids?

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It was in early 2019 when the Alags received an unexpected call from their uncle, a retired doctor and a widower in his 80s, who expressed his desire to gift the family a three-bedroom house in one of the capital cities in north India. Living in rented accommodations all their life, the Alags, a family of two college-going children, a grandparent, and two working parents in their late forties, were elated. “It meant uprooting ourselves from our base in Delhi and moving to Chandigarh, but we were happy doing it. Both my children had left for colleges in different states anyway, and my husband was looking to relocate his business. So, we were happy making the move,” says Manveen Kaur Alag.

Had Manveen’s uncle put off this decision to bequeath the property until after his death, the Alags might not have appreciated the gift as much as they are doing today. “This inheritance came at an apt time. Relocating to our own house helped saved a substantial amount that was being spent on rent. Our living expenses also have significantly reduced in this city, which has given us some wriggle room with mounting education and medical expenses of children and mother-in-law,” adds Manveen.

Herein lies the benefits of giving away wealth when children need it the most. But should everyone exercise this choice? How much should be doled out and how much should be saved for emergency use?

Transfer of wealth from parents to children and loved ones is an age-old tradition followed across cultures and countries globally. And while a typical way of thinking about inheritances revolves around the well-being of heirs, there are several other factors that often dictate the choices people make.

Rising longevity and medical expenses

Take the average age of people when receiving inheritance, for instance. It is between 51 and 61 years in many developed countries. This means, some people receive it in their 40s, while some acquire parents' assets when they are in their 70s or later. This age group is likely to shift further in coming years with increasing longevities and growing retirement lifespans.

According to the Fidelity Retiree Health Care Cost Estimate, an average retired couple aged 65 in 2021 may need approximately $300,000 to cover healthcare expenses in retirement. Now these estimates are for the US but are indicative of the substantial chunk of money that can go in funding good health or medical expenses in sunset years.

"We suggest people to avoid transfer of wealth during their lifetime to beneficiaries. What if you end up having long-term care needs because of an illness that might require you to spend a disproportionately larger sum. And if you have already transferred majority of your assets to someone else, which may have been used for important investments such as buying a house, or educating a child, it will be very difficult to regain access to it. Our belief is, unless you are very wealthy, you're better off creating succession planning tools to come into effect post death, rather than during your lifetime. If you want to give small gifts, etc, that's fine," says Vishal Dhawan, CEO, Plan Ahead.

A small survey of parents in various age groups reveal different choices. Fatima D., a longtime resident of Dubai and a senior manager at a private firm, is in her 50s. Both husband and wife are working. Their son is settling in well in the UK with a career in finance industry. "As much as we want to help our son and give him our wealth, he is not interested at the moment. He is independent and hasn't taken a penny from us since he left the UAE for his studies. But whenever he needs financial help, we will happily support. Meanwhile, my husband and I are planning to transfer our property in India in his name soon. He can choose to do whatever he wants with it," says Fatima.

Shirley Mac Gregor, mother of two and a senior manager with a private firm in Dubai, is in her 40s. "My elder daughter will be moving to the Netherlands this year for her under-graduation. We are clear we will fund her education as long as she does well. If she drops out or fails, she will be on her own. I expect my children to be independent and not look forward to some windfall from parents anytime soon. We will always be there to help, if needed, but they should be responsible for their own well-being. We have not invested in any property, neither in Dubai nor in South Africa, my home country. We have savings and investments through which we will fund our girls' education."

Parents who are retired and older are a bit more circumspect on this front and avoid talking about passing on their wealth while they are alive. Many a time, the central concern of parents and grandparents is that mere presence of a large inheritance will destroy the motivation of heirs to work.

Set the expectations right

The reason behind such doubts is the lack of communication, suggest financial planners. Parents can avoid becoming their children's banks if they set the expectations right. "While it is a taboo subject for many, I believe money should be spoken about more freely between parents and children. The most successful transition of wealth from one generation to the next is gradual. Parents should teach their children from a young age about the value of money and the responsibility it represents," says Stuart Porter, a chartered financial planner based in Dubai.

Besides, frank and honest discussions around inheritance can prevent problems later. If the kids are prepared, they can be good stewards of the family wealth, and if they are not, endless court squabbles could eat up a lot of their share.

Bill Perkins, author of Die with Zero, is a strong advocate of doling away wealth to children when they are young. He proposes that people between 26 and 35 years are typically old enough to be responsible with money and young enough for it to do them a lot of good. "If you have the means to give your children financial support, I recommend that you do it when they're in their 20s and 30s, when they most need it: to make bolder career moves, to make a down payment on a house, or to start a family with less financial stress. Or, if you think another age is better, give then. But be deliberate about the time of the gift and the amount. You can't do either if you wait until you're gone," he writes.

Whatever time you choose, be aware of the importance of succession planning. "The pandemic has made people realise the importance of succession planning. A lot more people are wanting to be sure that they either have a succession plan in place, or if they don't have one, or if they have one, that is updated," says Dhawan.