Your Financial Legacy: More than Dollars and Cents

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We want our children to think well of us—both while we're here and after we're gone. Sometimes, despite our best intentions, we leave our finances in a situation no one else can understand. That keeps us forefront in our children's minds—but perhaps not in the way we'd like. Over the course of several decades, you've probably unintentionally created a haphazard financial profile—scattered accounts, uncoordinated payout provisions, incomplete documentation. Other things got in the way, and it's all perfectly understandable.

Realize that at some point, the younger generation will have to pick up the pieces. It may be when they are settling your estate, but more and more, adult children take responsibility for their parents' finances while those parents are still alive. It is in your best interest to make this as simple and transparent for them as possible. Doing so comes down to simplicity, documentation, and communication.

Simplify. First, consolidate your accounts so there is one point of contact. Most banks are affiliated with brokerage firms. Conversely, most brokerage firms have a cash management feature that acts as a bank substitute. Either way, your financial accounts should all be consolidated at one institution.

Scattered accounts get lost. Often, children only learn of their parents' accounts when the tax reporting statements arrive. In this low-interest rate era, many accounts don't produce enough income for that; your family may never know about smaller accounts.

All of your financial assets should be in that brokerage account. Stock certificates can get lost, and in any event reregistration is cumbersome. If you don't keep up with corporate actions (mergers, divisions, spin offs), working through that process later is time consuming. Similarly, holding securities with a transfer agent can create bureaucratic nightmares after you have passed away. If everything is held in a brokerage account, that institution takes care of the administrative headaches.

It's also simplest if all of your Social Security, pension, and any other regular deposits all go to the same account. Some couples choose to keep their funds separate. That's fine. Linking accounts electronically, so that funds can be transferred without appearing in person, makes managing all of this much simpler—both for you and for those who come after you.

Likewise, when you retire or leave a job, roll out those 401ks. Employers don't want to keep track of retirees and handle regular payouts; having all retirement assets in a single account makes taking required distributions simpler as well.

Simplifying also means safely disposing of outdated financial paperwork. Imagine your children dealing with your financial files and paperwork cold turkey—could they quickly find what they need? If not, begin by weeding out what's unnecessary. You should hold onto copies of tax returns you've filed forever. Most supporting documentation can be shredded three years after filing. Chances are, your financial professional can always retrieve old statements and 1099s for you—ask, and then shred your copies. Likewise, you don't need to hold onto receipts and trade confirmations once you've received the monthly statement on which they appear. You should hold onto information verifying the cost basis in your home and other non-publicly tradeable assets until three years after filing the tax return on which you report the sale. You likely only need the most recent declarations page from any insurance policy—health, life, or property. The bottom line is that you have too much paper; most of it can go.

Document. Should something happen to you, your family will need to reach several advisors—your attorney, your accountant, your investment advisor, your insurance agent. They'd need to locate your will, your power of attorney, your medical directive, your insurance policies. Again—if your children simply walked in your front door, could they find that information? Keep a document with your financial information—accounts, contacts, logins and passwords, values, location of critical documents, and so forth. Here is a link to Point View's financial organizer, but many exist.

Documenting also entails ensuring that what you've got works together. Many assets aren't governed by your will—retirement plans, life insurance, anything owned as joint tenants with right of survivorship or as tenants by the entirety. Double check to ensure that what you own is working together. If you intend for some of these assets to go to persons not named in your will, chat with your estate planner about tax implications. Also discuss retitling assets—especially those owned jointly or as beneficiary accounts—so that the will does govern them.

Communicate. Your children are going to learn about your last wishes and estate planning eventually. It shouldn't be a surprise, especially if they're also dealing with your health issues. You don't need to tell your family exactly how much money you have, but your adult children should know the general parameters of your estate plan. They should understand your wishes as to how you want your matters managed during your life, should you become unable to do so. Ideally, they should learn this from you, in a positive, comfortable setting.

If the prospect of this conversion is unnerving, consider enlisting a third party—your investment advisor, attorney, or accountant—to facilitate the process. If nothing else, that person likely has a string of worst case scenario stories to motivate family members to open up with each other.

The conversation can—and should—cover a broad range of topics. What legacy do you want to leave your family; how do you want to be remembered? What are your health care wishes? Do you or your children have specific wishes for specific assets, from family jewelry to that vacation home? Much of this matters more than money. Of course, you should be honest with your children about that—at least as far as whether or not you may need their financial support. It is far, far better to communicate and agree when all is well than in the midst of a crisis.

Above all, remember that this is a process. Don't expect a one and done, and don't be discouraged if there is miscommunication along with the communication. Good will and good intentions can keep the conversation going over time.