Should you tell your kids how much they'll inherit?

The Great Wealth Transfer is underway, but advisors say open dialogue within families is crucial to success.

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To tell or not to tell, that is the question facing parents with regard to the amount of their kids' inheritance.

The Great Wealth Transfer is now underway, with 15% of American adults expecting to receive an inheritance in the next decade, according to the latest findings from the New York Life Wealth Watch survey. The study shows that adults expecting an inheritance anticipate receiving an average of $738,724.23.

That's not too shabby a sum. But only if they can keep it, of course.

Unfortunately, the survey also shows that only 42% of adults who expect to receive an inheritance feel very comfortable financially handling the new wealth that will be passed down.

They are, however, feeling the impacts of inflation, as 58% of adults expecting an inheritance say inflation will have a medium-to-large impact on the sum.

"We are still in a turbulent economic environment. Inflation and higher interest rates continue to make credit card debt a challenge, compounded by unexpected expenses and a lack of emergency savings. Even those who are set to receive an inheritance in the next 10 years do not feel entirely confident managing it," Suzanne Schmitt, head of financial wellness at New York Life, said in a statement.

Among those who anticipate receiving an inheritance, 71% say it will be from their parents or guardians, followed by a spouse (21%), the study said. As for what they will be receiving, 58% expect cash, 43% expect property like a house, 28% expect investments such as stocks and bonds, 24% expect proceeds from a life insurance policy, 21% expect jewelry or other family heirlooms, and 14% expect to inherit an annuity.

As for what they intend to do with their newfound wealth, the top uses are paying off debt (37%), supplementing their retirement savings (35%), and preserving the inheritance with the intention of passing it down (26%), according to the survey.

DO YOU TELL THE KIDS?

Financial advisors and attorneys need to make sure their clients' children understand the longevity risk associated with retirement assets and inheritances, according to Thomas Kopelman, head of community at Wealth.com. If parents haven't amassed substantial wealth, their lifespan, health care expenses and overall life costs play a critical role, he said.

"A lengthier life could potentially deplete all their assets. On the other hand, individuals with higher net worth and effective planning should have appropriate insurances and assets in place to manage the risk of longevity," Kopelman said. "This enables them to pass on their wealth to their children despite living longer."

Surprisingly, only a few of Kopelman's clients openly discuss with their children what they're likely to inherit. The usual explanation is that they don't want their kids to rely on the money and neglect their own savings. They also want their children to learn the value of hard work and financial independence.

"Another intriguing aspect of inheritances is that they tend to be received when individuals need them the least, typically in their 50s or 60s. Inheritances often benefit grandchildren the most as they are usually in their 20s or 30s," Kopelman said. "Most individuals choose not to rely on the inheritance, unless it is expected to be substantial, in order to ensure they stay on track with their own financial goals, regardless of their parents' circumstances."

Rory O'Hara, founder and senior managing partner of Ausperity Private Wealth, part of Sanctuary Wealth, says his clients, who are generally in their late 50s, expect to receive inheritances, but heavily discount them, either on purpose for planning purposes or because the true value hasn't been established yet.

"Several of my clients do not know the true value of wealth that their parents have, and especially if they grew up in middle-class households," O'Hara said. "They assume their parents have a house and some money in savings, but sometimes it's significantly larger than they thought due to home values having increased greatly over the last 10 years.

"What is becoming more and more common is discussions about the purpose of their wealth and giving now when it might be more helpful to their children as opposed to at death," he added.

Along those lines, attorney David Faust, partner at Gallet Dreyer & Berkey, said informing your children that you've chosen to leave money to relatives, friends or charities can help them have a more realistic idea of what to expect from their inheritance.

“And if you’re choosing to not treat all of your children equally in your will, consider the importance of explaining your reasoning to them to dispel hurt feelings and future discord between family members,” Faust said.

Finally, Michael Nakanishi, financial advisor at Kingswood US, said his clients’ children typically do not know the exact size of the inheritance they are receiving. He encourages an open dialogue between clients and their children but remains agnostic as to the details of that dialogue. Moreover, he believes that clients should be as forthcoming as is comfortable for them and no more, with a stress on the fact that all things may change as a result of longevity risk and the possible need for assistance or elder care.

“I stress to clients that those assets are for their care first and foremost, legacy expectations should be on the lower end of reasonable with a nod to caution,” Nakanishi said. “If advances in health care let these clients live to 120, with a high quality of life to at least 100, a million dollars will be an immediate casualty.”