

'Giving while living' alters inheritances

Updated 8/24/2007 3:53 PM

By **Mindy Fetterman**, USA TODAY



By Gary McCracken for USA TODAY

Carl Hixon, second from left, owns Georgio's Pizza in Pensacola, Fla. He wants his sons, from left, Mark, 24, Adam, 18, and Ben, 20, to understand the value of work, even if they have a trust fund.

You used to have to wait for a loved one to die before you found out how much you were going to inherit — if you were going to inherit at all.

No more. Now, if you're among the lucky minority of Americans who have received an inheritance or expect one, you're increasingly likely to get at least some of it while your relatives are still alive.

INHERITANCE TIPS: [Death's certain.](#) [Taxes?](#)

Avoidable

"Giving while living" is becoming popular as more Americans decide to spread their money around while they're still here to see its impact. They're giving to children, grandchildren and others. They're paying for college educations and providing down payments for houses. They're setting up trusts and paying for vacations.

To keep families working together and to support favorite causes, more Americans are setting up private foundations and hiring their children to run them or serve on the boards. The number of independent foundations has jumped 77% in the past 10 years to 63,059, according to the Foundation Center in New York. Nine out of 10 of them are family foundations.

It's not just the super-wealthy, mega-wealthy or the insanely wealthy, such as Bill Gates or Warren Buffett, who are doing it.

"You don't have to have millions of dollars to transfer wealth," says Michael Yoshikami of YCMNET Advisors, a wealth-management firm in Walnut Creek, Calif. "Most people assume it's just the Kennedys or Rockefellers — but it's not."

Yoshikami says he's been seeing more "regular" people interested in various types of what financial advisers call wealth transfers.

According to a USA TODAY/Gallup Poll of 1,012 people taken this month, 22% have received what they regard as a large gift of money from relatives who were still alive. (These were gifts beyond those given for special occasions, such as weddings.)

Of those who spent the money, 48% used it for a down payment on a home, 14% to buy a car and 11%

Advertisement

for a college education.

"Some people are giving everything away before they die," says Eric Green, an estate attorney with Convicer & Percy in Glastonbury, Conn. "They want to see how it turns out."

As for inheriting money *after* the death of a relative, 28% of those polled by USA TODAY expect to receive money once their relatives die; 8% expect \$1 million or more. And 26% say they've already received an inheritance from a deceased relative.

The merely affluent — people who saved and invested well, made money off modest homes they lived in for decades and then sold for several times what they paid — are among those giving *inter vivos* (Latin for "giving amid life"), wealth advisers say.

Some who saved and invested well are even helping their grown children who earn far more than the parents ever did, says Randy Carver of Carver Financial Services in Mentor, Ohio.

"One of my clients is a piano tuner who probably never made more than \$20,000 a year," Carver says. "He's got \$1 million in savings, and he's supporting his kids and grandkids."

Folks who are giving while living include people such as Tom Baker's parents, who for years have given each of their five children the maximum they can give without filing gift-tax returns to the IRS.

Currently, that's \$12,000 from each person to each recipient. (Everyone is also entitled to a lifetime gift-tax exclusion of \$1 million to give away over a lifetime. This is separate from the \$12,000 that people can give, per person, per year, without triggering the gift tax. Example: If you give someone \$13,000, only \$1,000 counts against the lifetime exclusion.)

Combined, a husband and wife could give each child \$24,000 a year without filing gift-tax forms. With five children, that's \$120,000 a year.

Baker's father, a physician, died several years ago, but his mother keeps on giving.

"Our dad's philosophy was give it to you now while you need it — no strings attached," says Baker, 52, of Highland Mills, N.Y. He and his siblings have

used the money for retirement savings, education, home improvements and "everything from septic systems to vacations."

Andy Harwood's grandfather, an orthodontist, died several years ago. When his grandmother died 18 months ago, Harwood's parents immediately began using the inheritance they received to give money to their two sons.

Harwood is using the first \$12,000 he received to buy new hardwood floors in his family room, as well as a home theater system.

"My grandparents lived within their means and planned for the future," says Harwood, 38, of Denver. He expects the additional money he will inherit from his grandparents after the death of his parents to be "substantial."

He says he was surprised when he found out how much money his grandparents had left.

"They were always tight-lipped about what they had," he says, "and where they had it."

A few get the most

Inheriting money in America is a touchy subject. Everyone wants to; few do.

Fewer than one-quarter of Americans ever inherit money, according to an AARP study, and most of it goes to the wealthiest people — those with net

Advertisement

The advertisement features the USA TODAY logo at the top left. Below it, the word "AutoPilot" is written in a large, bold, black font, with a blue airplane icon to its right. Underneath, a smartphone screen displays the app's interface, showing a "USA TODAY Meeting" for Sep 21, 2009, with details for a flight from BNA to IAD, including the time 11:48 AM and the status "Landed". Other items on the screen include a weather forecast for Washington (73° Partly Cloudy) and a link to "View a Flickr gallery of Washington". To the right of the phone, the text reads "The new travel app for iPhone® and iPod touch®". Below this, it says "Presented by: Hampton" with the Hampton logo. At the bottom right, a blue button contains the text "SEE HOW IT WORKS »".

assets exceeding \$450,000.

Among the lucky few are people such as Carl Hixon of Pensacola, Fla., whose grandmother's grandfather was a partner of John D. Rockefeller, still the wealthiest American ever (adjusted for economic growth over time).

Hixon receives quarterly income from two trusts set up in 1908 and 1916. The initial fortune has been split by following generations, but it's still tossing off cash.

"It's amazing how it spreads over 100 years," he says.

Hixon's father, despite his wealth, "watched every nickel," he says. "We had to tear paper towels in half before we dried our hands, and squish little pieces of soap together to keep using them."

He didn't realize they had substantial money, Hixon says, until his mother died in 1983, and "I started seeing these checks coming in. I didn't have a clue!"

The checks were quarterly payments from the two trust funds that no family member had ever mentioned to Hixon.

The money has meant that he has never had to do a job he didn't want to do. He worked for 20 years in the restaurant industry and now owns an Italian restaurant where his three sons work.

"I'm thinking about my grandchildren," he says. "I want to do for them what my grandparents did for me. I want to make sure it continues."

Eight years ago, the Center on Wealth and Philanthropy at Boston College ignited a furor with a new economic model predicting that \$41 trillion — at a minimum — would be "transferred" among generations in the coming 55 years (1998-2052).

Of that, \$25 trillion would go to heirs, the rest to taxes and charities, the center said. The center's estimate was four times higher than earlier estimates.

The prospect of "the largest wealth transfer in history" set many debt-burdened baby boomers atwitter with hope that they'd eventually be bailed out by their more frugal parents.

But wealth analysts and groups such as AARP criticized the Boston College estimate as out of whack, saying it was too optimistic in light of rising health care costs and longer life spans.

The Wealth Center stands by the study and notes that the 55-year time frame includes the anticipated deaths of millions of baby boomers (by 2052) and their bequests to families.

Even so, the center's estimate that \$6 trillion would be donated to charities in a "Golden Age of Philanthropy" might have to be revised downward, says John Havens of the Wealth Center.

Since the study was conducted in 1998, "charitable bequests are not coming in at the level we anticipated because more people are giving while they're alive, instead of dead," he says.

In 2006, AARP further discouraged many boomers from expecting big inheritances when it issued a study titled "In Their Dreams."

You can guess its conclusion: In 2004, AARP said, only 20% of all households inherited money, and the median amount was \$50,000.

Face it, AARP said: The rich get richer. The largest chunk of bequests that exceed \$100,000 — 24% of them — go to households with a net worth of more than \$450,000.

Advertisement

USA TODAY
AutoPilot 
The new travel app for iPhone® and iPod touch®
Presented by: 
SEE HOW IT WORKS >>

"People who receive the largest inheritances are already quite well off," says John Rother, policy director for AARP.

"They don't need to be bailed out."

Passing it on before passing on

Most of the gifts that pass among family members aren't mega-transfers, but rather millions of small ones, says William Gale of the Brookings Institution.

Gale co-wrote a study on wealth transfer in 1993 that focused on "intentional" giving while living. He estimated that grandchildren receive \$5 billion a year from living relatives, second to children, who get \$33.7 billion.

Paying for education is one way that older generations are helping younger ones.

In a 2006 survey of 828 people who had grandchildren under age 21, 55% said they contribute in some way to their grandchildren's education, according to the MetLife Mature Market Institute, the research arm of the insurance and financial services firm.

"They see the family as needing help now, and they want to help them now," says Sandra Timmerman, director of the institute.

Grandparents are helping fund 529 plans or prepaid college plans that allow money to grow tax-free; the withdrawals are tax-free when used for school expenses.

The amount invested in 529 plans doubled in just the past three years to \$104.9 billion, and it's expected to more than double again by 2011, the Financial Research Corp. says.

It's unclear just how much of that money is coming from grandparents. But wealth managers and financial planners say they're seeing more clients using the plans to transfer wealth.

Grandparents also are paying tuition outright.

"There's nothing to say you can't just drop \$50,000 directly to Harvard," says estate attorney Green. (You can pay for medical and education expenses for anyone without filing gift-tax returns, as long as

you pay the institution directly.)

Some young people today are enjoying the fruits of their parents' and grandparents' savings habits.

Julie Glissman, 26, of the Detroit area, has been given a huge boost by her grandfather. Throughout her life, he gave her stock in companies such as PepsiCo at Christmas and other holidays.

"I didn't want it at the time; I was 12 years old," she says. "But I'm so glad he did."

Years later, she sold her stock and used the money to buy a condo. Her grandfather also set up an education trust fund for her college expenses. Her grandfather, who worked his way up in an insurance brokerage company to become its president, died this month.

"My grandfather was a farm boy who had nothing growing up," Glissman says. "He milked cows and didn't have enough money to go to college."

Glissman's dad told her recently that when her grandmother passes away, she'll inherit a huge chunk.

"Our reaction is just overwhelming," Glissman says. "We had no idea how much money he had."

Charity begins at home

When Microsoft ([MSFT](#)) founder Bill Gates and his

Advertisement

Mom Dilemma #36:
Your daughter insists on wearing her princess costume to the grocery store. Allow it or not?

YES, at least she's dressed!

NO, I have some rules!

momslike.me.com
where Local moms meet

wife set up the Bill and Melinda Gates Foundation in 1994, it was an example of a family foundation "born large," says Sara Engelhardt, president of the Foundation Center, which backs the creation of charitable foundations.

During the next five years, the Gateses gave \$30 billion to the fund. Then Gates' friend and fellow billionaire Buffett pledged another \$30 billion. It's now the largest private foundation in the world.

The Gates Foundation "goes back to the days of the Rockefeller and Carnegie foundations in the early part of the century when people had the kind of money that could endow a huge philanthropic foundation," Engelhardt says.

But the vast majority of family foundations in America don't have megamillion-dollar endowments; only 3,000 of the more than 60,000 foundations are big enough to have even one full-time staff member.

The wealthy and not-so-wealthy are increasingly setting up family foundations because "it's a non-T hanks-giving reason for families to get together," says Karen Fahrner of Bryn Mawr Trust Wealth Management in Philadelphia.

"You have these multigenerational meetings, and the discussion around the table is whether the money goes to help the environment or education or to individuals still suffering in New Orleans. It's a nice way to pull families together."

James Kehrer's father, a retired bank CEO, died in 1996, but the value of his investments kept growing.

"He made more money after he died than when he was alive," Kehrer says.

His mother has given money to her two sons through the years and set up trusts for her grandchildren. About 10 years ago, Kehrer says, the family realized they could create a non-profit foundation and "save as much in taxes as we put into the foundation."

Their foundation donates about \$30,000 a year. It's given money for college scholarships in the family's hometown of Watertown, Wis., and to food banks in towns where the sons have lived. Now, they're buying a door for a local church.

"We get to give money away," says Kehrer, of Pullman, Wash. "It's a lot of fun to give money away."

It has been, he says, the best inheritance of all.

issues, including an interview with money expert Dave Ramsey

Watch ABC's Good Morning America Weekend and World News Saturday for more on inheritance issues, including an interview with money expert Dave Ramsey.

Advertisement

Mom Dilemma #36:
Your daughter insists on wearing her princess costume to the grocery store. Allow it or not?

YES, at least she's dressed!

NO, I have some rules!

momslime.com
where Local moms meet