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How to Become a Multigenerational, Purpose-Driven Advisor

Content provided by The Advisors Forum; Edited by James W. Garrett, Esq.

Studies have shown that more than 90% of family wealth is lost by the end of the third generation. To help clients avoid this, advisors must become adept at bridging the gap between generations when it comes to the transfer of family wealth. In this issue you will learn:

- The main factors that contribute to family wealth lost over the generations.
- How to help clients overcome their reluctance to discuss their wealth with younger generations.
- What clients must communicate to younger generations to effectively transfer family wealth.
- How to build and foster multigenerational relationships.
- Using a "friendly" institutional trustee (like Legacy Fiduciary Services, PLC) to protect inheritances for generations.

If you would like to learn more about how our firm fosters multigenerational, purpose-driven advising, please call our office now to schedule a time to meet with one of our attorneys.

Why is Over 90% of Family Wealth Lost by the Third Generation?

The studies mentioned reveal that 70% of families' wealth is lost by the end of the second generation, and over 90% by the end of the third.

One might assume that lapses in financial and tax planning and investments are the main cause of wealth lost over the generations (in other words, blame it on someone else's mistakes). However, these factors account for less than 3% of lost family wealth. Instead, the largest contributing factor to generational loss of wealth (60%) is from lack of communication and trust among family members, followed by unprepared heirs (25%). [1] We believe that good estate planning using beneficiary trusts can provide the solution.

Why is there a lack of communication and trust that inevitably leads to unprepared heirs? Surveys indicate that fear is the dominant emotion that prevents clients from communicating with their heirs about their wealth:

- Fear about running out of money
- Fear about creating an "entitlement mentality" in heirs
- Fear about heirs squandering their inheritance

- Fear about outside influences overtaking heirs
- Fear about not treating heirs "equally" and creating sibling rivalry
- Fear about how disclosure now might limit choices and changes in the future

Parents who fail to communicate their financial and estate planning goals to their children risk two outcomes:

1. The children misunderstand that conditions placed upon an inheritance are designed to maximize and preserve the children's lifelong financial stability and life comfort; or
2. The children interpret a "promised" inheritance as a license to be lazy and complacent while waiting to play the "inheritance lottery."

Planning Tip: While it may not be easy to get clients to open up about their money beliefs and fears, it is essential to building meaningful, multigenerational relationships and overcoming the 90% odds that their wealth will be lost by the time their grandchildren die.

Here are some questions you can ask your clients to get them to open up and tell their "money story":

- What does money mean to you?
- What are the attitudes about money that you want to teach to your heirs?
- What have you done to help your heirs develop financial competency?
- There are only three choices for who will receive your wealth: (1) Family and Friends, (2) Charity, or (3) the IRS; what are your priorities for the control and transfer of your wealth among these three choices?
- Have you discussed these priorities with your heirs?

The answers to these questions will help your clients openly express their fears, attitudes, and goals about their wealth and how they want it to ultimately be passed down (or not passed down) to their children, grandchildren, and beyond. This will then lead to a discussion about how the client's heirs will benefit from knowing what to expect after the client is gone instead of being left in the dark.

What Must Clients Communicate to Future Generations to Facilitate Wealth Transfer?

Clients must communicate the following information to their families to ensure that they will have the information they need during a difficult time:

- Net worth statement, or, at the very minimum, a broad overview of their wealth

- Final wishes – burial or cremation, memorial services
- Estate planning documents that have been created and what purpose they serve:
  - Durable Power of Attorney, Health Care Directive, Living Will – property management; avoiding guardianship; clarifying wishes regarding life-sustaining procedures
  - Revocable Living Trust – avoiding guardianship; keeping final wishes private; avoiding probate; minimizing delays, costs and bureaucracy
    - Strongly advise clients with significant retirement accounts to have an additional stand-alone revocable trust that is especially designed to handle IRAs and other retirement accounts
  - Last Will and Testament – a catch-all for assets not transferred into the Revocable Living Trust prior to death, or the primary means to transfer family wealth if the client is not using a Revocable Living Trust
  - Irrevocable Life Insurance Trust – removing life insurance from the taxable estate; providing immediate access to cash; and providing asset protection for the policy's cash value during the life of the owner
  - Advanced Estate Planning – protecting assets from creditors, predators, outside influences and ex-spouses; charitable giving; minimizing taxes; creating dynasty trusts; and using a stand-alone revocable Retirement Plan Trust to handle retirement accounts
- Who will be in charge if the client becomes incapacitated or dies – agent named in Durable Power of Attorney and Health Care Directive; successor trustee of the Revocable Living Trust and other trusts created by the client; executor named in the will
- Benefits of lifetime discretionary trusts:
  - Fosters educational opportunities
  - Provides asset, divorce, and remarriage protection
  - Protects special needs beneficiaries (if properly drafted)
  - Allows for professional asset management
  - Minimizes estate taxes at each generation
  - Creates a lasting legacy for future generations
- Overall goals and intentions for inheritance – what the money is, and is not, to be used for (in other words, education vs. charitable work vs. vacations vs. Ferraris vs. business opportunities vs. retirement) and who should be trustee of lifetime discretionary trusts created for heirs
- Where important documents are located – this should include how to access the client's "digital" assets

- Who key advisors are and how to contact them

Planning Tip: Advisors can support clients and their families by maintaining current copies of clients' important documents and a current contact list for clients' attorneys, accountants, and other professional advisors.

How Can Advisors Foster Multigenerational Relationships?

Advisors are well-positioned to help clients discover their wealth priorities, goals, and objectives and then communicate this information to their heirs. This, in turn, will prepare the heirs to receive the family's wealth instead of being left to figure it out on their own.

Planning Tip: Advisors can assist in bridging the gap between generations by being proactive in the following:

- Facilitating initial family meetings.
- Organizing annual family retreats.
- Providing periodic updates to heirs.
- Working to bring together the client's wealth planning team (financial, legal, and tax advisors).
- Advising clients to use lifetime discretionally trusts with a "friendly" institutional trustee where you can continue to be the financial advisor for the next generation.

Introducing Legacy Fiduciary Services, PLC (LFS) – a "friendly" institutional trustee

Legacy Fiduciary Services, PLC, an affiliate of Carrell Blanton Ferris & Associates, PLC, is a law firm dedicated to serving as trustee of trusts created and governed pursuant to the laws of Virginia.

LFS does not manage the investment of trust assets but works with the client's financial advisor, who continues to manage your assets (unless you instruct us otherwise) while we administer your trust.

The attorneys at LFS are dedicated to ensuring that your careful planning is implemented. We make it our job to stay current with changing trust laws and regulations, and we work closely with financial advisors like you to help ensure that the needs of the client and beneficiaries are being met.

Advantages of Using LFS as Trustee:

- Cost. Fees charged by LFS are generally less than those charged by banks and trust companies. Although additional fees will be charged by you as financial advisor, usually these combined fees are less than the fees charged by banks and trust companies for comparable services.
- Longevity. As a law firm, LFS can manage a trust for generations.
- Expertise. LFS is served by the estate planning lawyers of Carrell Blanton Ferris & Associates, PLC, who understand the role and duties of serving as trustee.
- Objectivity. Like banks and trust companies, LFS can be objective and independent when dealing with beneficiary requests and are less swayed by demands to support frivolous desires.
- Checks and balances. Since LFS works with you, it will provide independent oversight and analysis of your execution of the investment strategy and compliance with the trust documents.
- Personal Service. LFS is a law firm where a specific attorney will work to establish a long-term relationship with you as financial advisor, your client and their beneficiaries.

Final Thoughts About Multigenerational, Purpose-Driven Planning

Getting clients to open up and discuss their fears and beliefs about money will help them to create a "road map" for transferring their wealth. This road map needs to be personalized through integration of the client's family values, family history, and ultimate goals for future generations. Future generations then need to be educated about the road map so that they can be prepared for the opportunities and challenges they will face.

We are available to answer your questions about multigenerational, purpose-driven advising and how you can make it an integral part of your practice.

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[1] Sullivan, Missy, "Lost Inheritance," The Wall Street Journal (March 8, 2013): http://online.wsj.com