Retaining the Family Assets after Wealth Transfer

By Diane K. Doolin and Carol A. Sherman

The great wealth transfer is well underway. Boston College Center on Wealth and Philanthropy conservatively estimates that $1 trillion will pass from one party to another each year during the next 50 years (Schervish and Havens 2001). This is good news for financial advisors because more wealth holders will seek advice about how to share wealth with loved ones. But even the best investment strategy cannot ensure a successful wealth transfer—a transfer that benefits those that receive it—or guarantee that the kids (and the assets) will remain with the parents' advisors.

Family dynamics—how family members interact with each other and the family as a whole—have a far greater impact on wealth transfer than previously understood. When family dynamics are ignored in the wealth management process, assets frequently pass to individuals unprepared for all that inheritance encompasses. This is often the case in the transfer of family businesses from one generation to the next when control is left to less-capable family members. Ultimately, the advisor's good work to prepare the assets for transfer unravels because the heirs were not as well-prepared as the assets.

Successful Wealth Transfer Is Not All about the Money

Forward-thinking advisors have long sensed that wealth transfers are problematic, but they have not known why or how to address this with clients. Studies tell us that wealth holders want their children and other heirs to thrive and be charitable. A U.S. Trust (2013) survey found that two-thirds of wealthy parents say they would rather their children grow up to be charitable than wealthy.[1] The survey also found that only two in five wealthy parents agree strongly that their children were/will be well-prepared to handle inheritance. This is where advisors can make a difference by educating themselves and client families about the impact of family dynamics on wealth transfer and the risks of parents not involving their children in the estate-planning process.

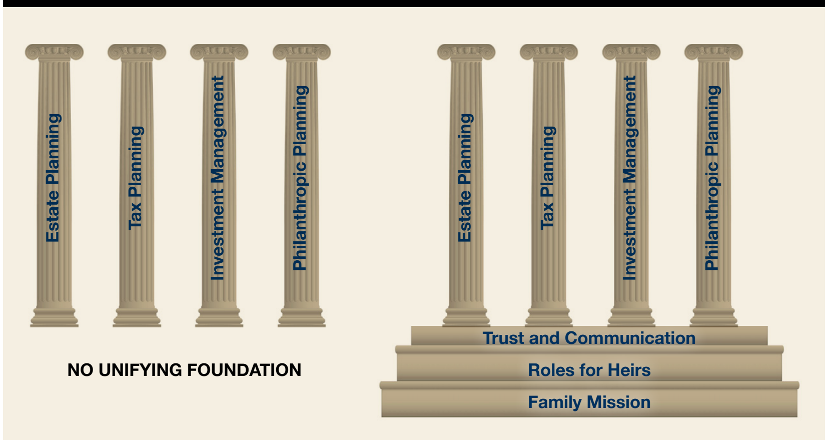
Shift in the Services Clients Require

The way advisors have done business in the past has to change. No longer is it enough for wealth management teams to provide thoughtful solutions to growing and preparing the assets for the eventual transfer to heirs. What's missing from this approach is a unifying foundation to make sure that once the assets are transferred to the next generation, family cohesion remains intact.

The forward-thinking advisor needs to take the traditional wealth management model (estate planning, tax planning, investment management, and philanthropic planning) and the services they provide one step further—and offer the missing link to estate planning, e.g., prepare heirs to successfully receive and manage assets (see figure 1).

To do this, advisors must learn how to broaden their role as trusted advisors without becoming therapists. Simply raising the family's awareness of the impact of family dynamics on wealth transfer has an impact. Once a family (and advisor) understands the factors that contribute to a successful transfer (as well as those that derail one), they can begin to focus attention and resources to effect change. Having a new conversation with families to increase awareness in and of itself is the important first step. Clients are creative—give them the tools and see what happens. They will remember you as different from other advisors because

FIGURE 1: MISSING LINK TO ESTATE PLANNING



you introduced the topic and gave them a pathway.

Get the Kids Involved

According to the PriceWaterhouse-Coopers Global Private Banking and Wealth Management Survey (2011), less than 50 percent of children keep an inheritance with the parents' financial advisors. For most advisors, meeting your best clients' children after dads' (or moms') passing is too late. Advisors should ask their best clients, "What have you done to involve your children in the estate-planning process?" Be prepared to tell them why it's important to include the children (and spouses), at least to some degree, in the management of the family assets; and how a charitable family giving program can teach even the youngest of heirs to responsibly manage money. One advisor even persuaded a client family to have the parents specify their needs while living, and then let the children draw up the parent's estate plan. It proved to be a wonderful way to introduce the heirs-to-be to the family advisors, and to avoid post-transition squabbles that could have erupted into litigation. The parents were present to answer questions as they arose and provide unifying support.

How to Get Started

We suggest that advisors follow these 10 "knowledge checks" as a baseline for the fundamentals needed to start the new conversation with clients that goes beyond the money. Can you, as a professional advisor, answer "yes" to each of these "knowledge checks?"

1) I am aware that the vast majority of estates fail to transfer successfully to the next generation.

The chances of your client families having a successful wealth transfer are much lower than you might think. Loss of family cohesion and/or control of assets are more likely. Family dynamics, not your strategies or planning, are to blame. Over 20 years of interviewing families post-wealth transfer, The Williams Group identified the following underlying causes behind unsuccessful wealth transition:[2]

- 60 percent were caused by an internal breakdown of trust and communication with the family
- 25 percent were caused by a failure to prepare heirs
- 10 percent were due to a lack of an agreed-upon mission for the family wealth
- 5 percent were due to other causes such as failures to file, signing, incorrect interpretation of tax law, etc.

> "Helping clients prepare assets for heirs will not be enough; advisors need to begin preparing heirs for assets."

2) I am aware that we are experiencing the greatest wealth transfer in history and that the majority of heirs change advisors upon receiving an inheritance.

Helping clients prepare assets for heirs will not be enough; advisors need to begin preparing heirs for assets. To do this, advisors must position themselves to connect with the entire family and bring a new perspective on wealth beyond the money in order to retain assets under management and ensure the longevity of their own businesses. The U.S. Trust survey found that more than 75 percent of parents have a professional advisor who has not formed a relationship with their children.

3) I am aware that my best client families are more concerned about the impact wealth will have on their children, rather than the amount of wealth that will be transferred.

Boston College Center on Wealth and Philanthropy reports in its survey of the ultra wealthy—people with fortunes in excess of $25 million (Wood 2011). The study, called "The Joys and Dilemmas of Wealth," revealed that wealthy parents are genuinely concerned with being good parents and raising children to lead meaningful lives.[3] Responses included: "My ultimate goal for my children is that they grow up to be self-confident, engaged citizens leading meaningful lives," and "I would hope our children would live in ways that make the world a better place, that they would be concerned with others and the larger world and live in ways beyond their own personal concerns."[4]

In a similar survey, the Survey of Affluent American XIX (U.S. Trust 2000), the most-frequent concerns were about the impacts of wealth on children, not the amount of money that would be inherited.

4) I am comfortable starting the conversation about family dynamics and wealth transfer with my clients and prospective clients.

The Institute for Preparing Heirs offers several helpful conversation-starter tools for advisors and families. The Family Wealth Conversations Checklist presents 10 questions to engage the client in a discussion about sharing the family's legacy, values, and priorities, maximizing the role of the trusted advisor, developing a family wealth mission statement, understanding communication and trust among family members, and exploring roles for heirs.[5] The client, in turn, can share the checklist with other family members. To begin deeper family discussions at family meetings, we offer the Guidebook To Family

Wealth Conversations.[6] This resource includes 10 wealth conversation topics with guidelines for the family. It's designed for the family to use on its own or with the guidance of the advisor. Topics include:

- Sharing the family's legacy
- Discussing family values and priorities
- Holding a family meeting
- The role of the trusted advisor
- Developing a family wealth mission
- Identifying roles for family members
- Aligning family values and wealth through giving
- Encouraging family financial education
- Understanding open communication
- Understanding trust among family members

5) I know my best clients' entire families: grandparents, parents, children, grandchildren, and their spouses.

The first step in building a relationship with the entire family is to know who they are. Remember your clients' priority, most often, is being good parents. Know who their kids are and talk to them about their kids. This benefits advisors by creating a higher probability of retaining the heirs as clients after wealth transfer. Begin by creating a data base (and a client family tree) that includes the first and last names (if married) for all children, grandchildren, and spouses. Ask clients if they would like their children involved in a financial education program and, to some degree, in managing the family assets. Be prepared to tell them why it's important to include everyone, even spouses. Always remember, your client is not only Mr. Jones, but also Mrs. Jones and the entire Jones family.

6) I know how to introduce the benefits of family meetings.

When properly conducted, family meetings are forums for family members to learn to listen, and to better understand the needs, concerns, and priorities of other family members in support of the family's mission. The underlying purpose of the family meeting is to encourage transparency, thus building communication and trust among family members. Family meetings are not forums for airing gripes or settling disputes. And, they are not all about the money. Family meetings are a time to talk about family assets in broader terms than investments and cash. Family wealth, as defined by the Institute for Preparing Heirs, includes: "Assets in all forms: cash, bonds, equity, ownership interests, real property … even the family name, knowledge, health, spirituality, family unity, and support of community." This broader definition of wealth can guide families toward conversations that focus on all aspects of the family's wealth.

7) I am familiar with actions a family can take and know the proper resources to refer.

Advisors who become a knowledgeable resource for a client family requesting further assistance differentiate themselves from their peers. Suggest actions a family can take with the advisor's guidance, including setting aside a half-day for family members to meet its professional advisors:

- Set an agenda with topics to discuss now—set future meetings
- Request a tailored financial education program for the entire family
- Involve heirs in a giving program where they can take an active role
- Establish a joint investment account with the children that can be used for learning

Know the proper resources to refer for families who would like a facilitator for family meetings or families requesting further specialized assistance. Just as an advisor will refer to an estate-planning attorney, a CPA, or other professional, an advisor can develop resources to refer a facilitator or family coach.

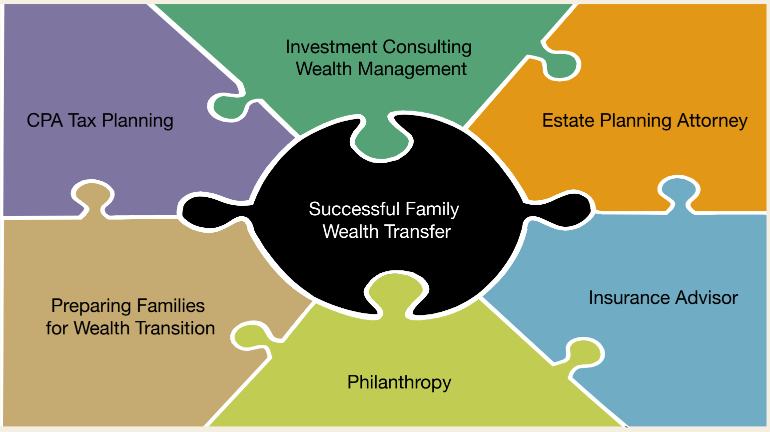
8) I have a business plan for my practice that includes attracting, engaging, and retaining multigenerational families of wealth.

Does your business plan include goals and objectives that align with the three-step process developed by the Institute for Preparing Heirs to foster a successful wealth transfer?

Awareness for advisors: Understanding the advisor's need for a new conversation with their client families—beyond money

Awareness for families: Understanding the family's need for a new conversation with their heirs—beyond money

FIGURE 2: SUCCESSFUL FAMILY WEALTH TRANSFER



Actions: Offering tools that help families begin these important conversations

Be sure to budget resources for further professional development training on the topic to continue to keep pace with new developments, research, and tools available to advisors who have embraced the paradigm shift in new services clients require—preparing heirs for assets.

9) My network of centers of influence regularly refers affluent families who are planning their wealth transfer.

Begin by positioning your practice as a resource for family dynamics and wealth-transfer learning (see figure 2). Meet with your centers of influence (COI) and introduce them to the topic. Share an article, whitepaper, or book. Offer to co-host a private briefing on the topic for your clients and your COI's best client families. You'll be amazed by the positive response and genuine appreciation you will receive for introducing a topic that will help affluent families prosper into the next generation.

10) I have in place a business development plan (and related tools) to increase the number of affluent families I have as clients.

Does your business development plan include the topic? Do you have ongoing communications (e.g., newsletters) to share articles and whitepapers about successful wealth transfer? Do you introduce the topic with prospective clients? You also may want to revisit your mission statement so it clearly tells affluent families that you care beyond their money. An advisor's mission statement is an important differentiator. Consider the following sample advisor mission statement:

> *To thoroughly understand you, your family, and your assets, and then to craft a plan to competently manage all assets you entrust to us—with the long-term goal of helping your family thrive and prosper, from one generation to the next.*

Summary

If you engage parents in these important conversations, they will engage their children, and then their children will engage you as their trusted advisor. Affluent clients need your help to begin the process of preparing what is most precious to them—their children.

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Endnotes

1 See U.S. Trust survey (Insights on Wealth and Worth, 2013). This is one of the most in-depth studies of its kind to explore the attitudes, preferences, goals, and needs of the high-net-worth and ultra-high-net-worth in the United States. U.S. Trust commissioned an independent, nationwide study of 711 adults with at least $3 million in investable assets, including 33 percent with $3 million–$5 million, 33 percent with $5 million–$10 million, and 34 percent with more than $10 million.

2 Based upon The Williams Group interviews and field work with approximately 2,500 families during 1975 and 2001. The study was referenced and cited in Williams and Preisser (2003, 167–174, Appendix 1).

3 The objective of the study was to uncover the attitudes, practices, and personal philosophies of ultra-high-net-worth households regarding wealth and philanthropy. The study was funded by the Bill and Melinda Gates Foundation, Calibre, Inc., Templeton Foundation, and the Aspen Institute. For more information, visit http://www.bc.edu/dam/files/research_sites/cwp/ssi/vol13.html#article1.bg1.

4 According to Robert A. Kenny Ed.D's presentation, "The Joys and Dilemmas of Wealth" at the Institute for Preparing Heirs' *The Great Wealth Transfer* professional development program held at the Villa Graziadio Executive Center, Malibu, California, April 8, 2013.

5 To obtain a copy, e-mail contact@preparing-heirs.com.

6 To obtain a copy, e-mail contact@preparing heirs.com.

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