Family Legacy Protection Planner

HOW TO CREATE A SUCCESSFUL, MULTIGENERATIONAL WEALTH TRANSFER PLAN

Studies have shown that 70% of family wealth is lost by the end of the second generation and 90% by the end of the third. Don't let your loved ones become part of these statistics. You need to understand, and work to overcome, the disconnect that occurs between generations regarding the transfer of wealth. In this issue you will learn:

- The main factors that contribute to family wealth loss over the generations.
- How you can overcome your reluctance to discuss your wealth with your loved ones.
- What you must communicate to your family to effectively transfer your wealth.
- How your key advisors can help you bridge the gap among the generations of your family.

If you would like to learn more about multigenerational wealth transfer planning, please call our office now.

Why is Over 90% of Family Wealth Lost by the Third Generation?
You could assume that *errors 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, studies have shown that 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]

Why is there a lack of communication and trust that inevitably leads to unprepared heirs? Surveys have shown that *fear* is the dominant emotion that prevents people 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 of a wealth transfer plan now might limit choices and changes to it 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 on 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 open up to your children about your money beliefs and fears, it is essential to overcoming the 90% odds that most of your wealth will be lost by the time your grandchildren die.

Here are some questions you should ask yourself in order to enable you to share openly your "money story" with your loved ones:

- What does money mean to me?
- What are the attitudes about money that I want to teach to my heirs?
- What can I do to help my heirs develop financial competency?
- There are only three choices for who will receive my wealth after I'm gone: (1) Family and Friends, (2) Charity, or (3) the IRS; what are my priorities for the control and transfer of my wealth among these three choices?
- What is the best way for me to convey these priorities to my heirs?

The answers to these questions will help you express your fears, attitudes, and goals about your wealth and how you want to ultimately pass it down (or not pass it down) to your children, grandchildren, and beyond. In addition, discussing your "money story" with your heirs will allow them to know what to expect after you're gone instead of being left in the dark.

What Must You Communicate to Future Generations to Facilitate Wealth Transfer?
You must communicate the following information to your family 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 your 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
    - Last Will and Testament – a catch-all for assets not transferred into your Revocable Living Trust prior to death, or the primary means to transfer your wealth if you are not using a Revocable Living Trust
    - Irrevocable Life Insurance Trust – removing life insurance from your taxable estate; providing immediate access to cash
    - Advanced Estate Planning – protecting assets from creditors, predators, outside influences, and ex-spouses; charitable giving; minimizing taxes; creating dynasty trusts
- Who will be in charge if you become incapacitated or die – agent named in your Durable Power of Attorney and Health Care Directive; successor trustee of your Revocable Living Trust and other trusts you've created; personal representative named in your will
- Benefits of lifetime discretionary trusts created for your heirs:
    - 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 will be trustee of lifetime discretionary trusts created for your heirs and why you've selected them
- Where important documents are located – this should include how to access your "digital" assets
- Who your key advisors are and how to contact them

Planning Tip: Work with one of your key advisors to create and maintain a location list (where are your important documents being stored and who has copies?) and a contact list for your professional advisors (financial advisor, accountant, attorney, banker, insurance agent).

How Can Your Professional Advisors Help You Create and Maintain a Successful, Multigenerational Wealth Transfer Plan?
Your professional advisors are well-positioned to help you discover your wealth priorities, goals, and objectives and then communicate this information to your heirs. This, in turn, will prepare your heirs to receive your wealth instead of being left to figure it out on their own.

Planning Tip: Work with your key advisors to organize and hold annual family retreats that are designed to educate and update your heirs about your wealth transfer goals and plans that have been put in place to achieve these goals.

Final Thoughts About Successful, Multigenerational Wealth Transfer Planning
Opening up and discussing your fears and beliefs about money will help you to create a "road map" for transferring your wealth. Your road map needs to be personalized through integration of your family values, family history, and ultimate goals for future generations. Your loved ones need to be educated about your road map so that they can be prepared for the opportunities and challenges they will face after you're gone.

We are available to assist you with figuring out your "money story" and creating and maintaining a successful, multigenerational wealth transfer plan.

---

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

BROUGHT TO YOU BY:

LAW OFFICE OF MATTHEW J. TULLER

275 BATTERY STREET
13TH FLOOR
SAN FRANCISCO, CA 94111

With an emphasis on developing and maintaining relationships with our clients and allied professionals, our

firm collaboratively provides comprehensive estate planning and administration solutions to every client. Our firm provides the full spectrum of estate planning solutions. This includes creating and implementing a comprehensive estate plan, maintaining that plan through life, and administering the plan in the most effective and efficient manner.