

From One Generation to Another

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“Say not you know another entirely till you have divided an inheritance with him.”

Johann Kaspar Lavater

Our valuable clients may work and plan for their whole lives, creating and building a financial legacy, to pass it on to future generations. This quarter, we are focused on legacy planning. There is a lot involved in mapping out a legacy plan. A wealth management team is assembled, made up of estate attorneys, tax strategists, charitable advisors and accountants. Documents are prepared by trusted advisors and carried out by the heads of families. In preparation for the passing of the elder family member, the transfer of wealth has been carefully planned. But has it really?

Heads of families may have neglected the most integral part of planning a successful transfer of wealth: the inclusion and education of the next generation of the family. If future generations are not educated on the mission or values that shaped their parents' careful decision-making, they may be left trying to interpret their wishes from the text of legal documents. It is very important to remember that generating financial wealth requires one set of skills, while transferring that wealth successfully to the next generation requires another. As Gregg Ballew pointed out in this quarter's On My Bookshelf column, there are many best practices to help families manage a long-term legacy.

In the next several decades, those born prior to 1964 will be transferring approximately \$30 trillion in assets to those born after 1964. It can be dismaying to compare how much effort is spent on preparing for the transfer of financial assets with how little is spent on preparing the beneficiaries to receive the assets, manage the wealth and carry on the family legacy. Often families paying highly skilled professionals for their advice and planning develop a false sense of security in the wealth transfer process. While tax, legal and financial planning is essential, this is an incomplete strategy for achieving success in estate transitions.

Two-thirds of all wealth transfers are from first-generation wealth creators, so there is usually not a well-considered, documented plan to include or educate future generations in the process. However, including the beneficiaries of wealth is essential if a family founder wants the fruits of their hard work to last long after their passing. Studies have shown that wealth transfers have a remarkable failure rate in just a few short generations. With such a failure rate, this generational shortcoming related to the preservation of the founder's assets is the norm, not the exception.

Sadly, industry surveys have shown that 75 percent of clients said their children had never even met their financial advisors. The greatest threat to a successful wealth transfer lies within a poorly prepared family. Studies have shown that less than 5 percent of failed wealth-transition plans are attributable to issues like poor estate planning, bad tax advice or incorrect document preparation. While tax, legal and financial planning is essential, this is a short-sighted strategy for achieving success in wealth transfers. The roots of failure in wealth transfer arise from poor communication, inadequate education on family missions and values, and lack of trust between surviving family members.

As part of a complete wealth management relationship and plan, Westwood encourages the inclusion of future beneficiaries and family members in all planning and wealth advisor meetings and updates. We can share with you the best practices that we have observed and, if appropriate, help you create some new family traditions. Further, as you'll see in Michael Meadow's piece in our Philanthropically Speaking column, we can help you consider the benefits of creating a family foundation, if that is what makes sense for your family. It is never too early to plan for the transfer of your important mission and legacy to future generations.