

Keeping it in the family

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As difficult as it can be to amass wealth, it can be just as hard to pass it down through the generations. Strong communication and flexibility are key.

People tend to have straightforward goals when bequeathing their wealth to future generations. Typically, they want their heirs to have fiscal responsibility, philanthropic instincts and an understanding of the toil and sacrifice that went into earning that wealth.

Though this is simple in theory, a variety of hurdles can get in the way. The most obvious is poor planning, which can involve insufficient financial literacy, inadequate estate planning or a reluctance to divulge sensitive financial details to family members.

Beyond that, there's the risk of children having no interest in financial matters or failing to take proper care of the assets earned by an earlier generation. Some parents worry that successive generations could take their blessings for granted or even develop a sense of entitlement. Mix in normal family dynamics, and maintaining intergenerational wealth can be difficult.

These pitfalls are so universal, in fact, that different cultures have coined aphorisms for what might colloquially be dubbed the third-generation curse.

“The father buys, the son builds, the grandchild sells, and his son begs,” say the Scottish. The Chinese equivalent: “Wealth does not last more than three generations.” In the U.S., it’s the equally pithy “Shirtsleeves to shirtsleeves in three generations.”

Over the next 25 years, a sizable amount of wealth is projected to be transferred to heirs and charities — a collective \$68.4 trillion, according to Cerulli Associates — underscoring the importance of avoiding unforced errors. To help families navigate such transitions, Capital Group Private Client Services assists with many facets of intergenerational wealth planning. Private Wealth Advisors can help clients articulate goals, create financial plans, educate younger family members and facilitate all-important intrafamily discussions.

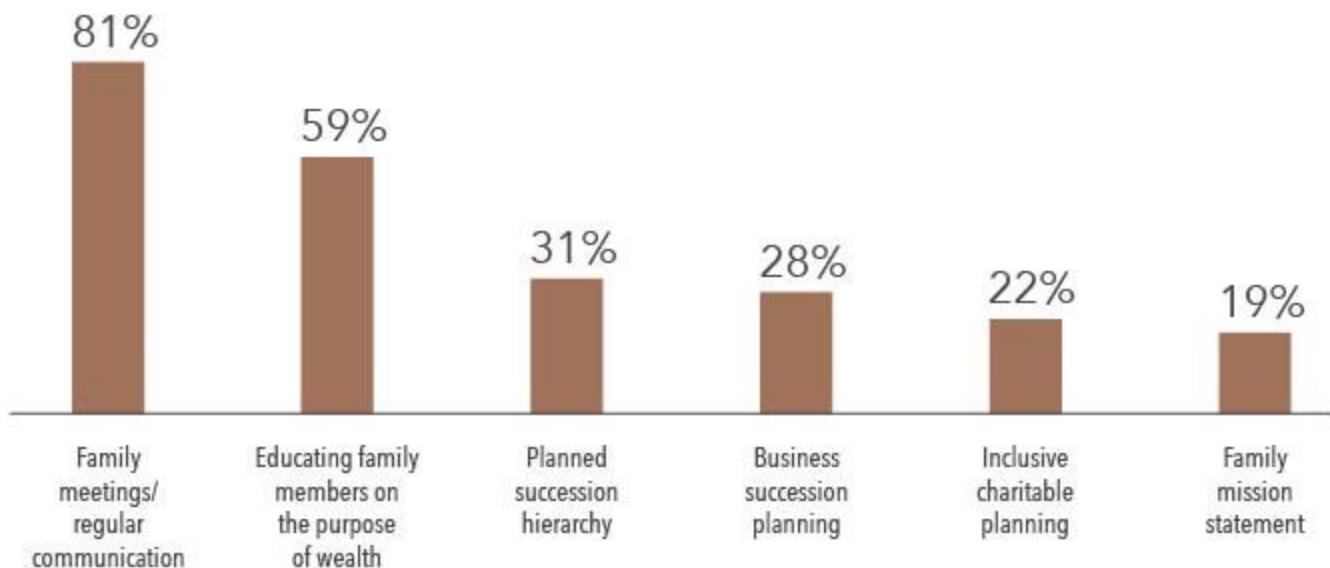
“As an advisor and investment manager for intergenerational wealth, we seek to protect and prudently grow that wealth within a plan aligned with a client’s goals,” says Anne Gifford Ewing, a senior trust and estate specialist. “There’s a balance to be struck, and it’s a little different for each family and situation.”

Honest conversations are critical.

Given that money can be a difficult subject to broach and that donors’ goals sometimes aren’t in sync with beneficiaries’ expectations, it can be instrumental to lay out priorities and arrive at a consensus. And it’s usually preferable to begin disclosing financial details to beneficiaries sooner rather than later.

“Very often, I find a client’s first instinct is to not share very much with younger generations about their wealth generally or about a particular trust,” Gifford Ewing says. “While it may feel hard to identify the right time to start sharing the information, the problems that can result from waiting too long can be dire and difficult to reverse.”

Most effective wealth transfer planning strategies



Source: Cerulli Associates – The Cerulli Report: U.S. High-Net-Worth and Ultra-High-Net-Worth Markets 2021: Evolving Wealth Demographics. Respondents chose up to three options to the question, “Which of the following actions have been most effective in developing multigenerational wealth transfer plans for your clients?”

To aid communication, Private Wealth Advisors often moderate meetings between clients and younger family members or speak one-on-one with beneficiaries. Some clients ask Private Wealth Advisors to teach financial literacy to younger family members to position them to steward the assets they'll eventually receive.

Atlanta-based Regional Director Sandra Morelli works with a family that has made a point of involving younger generations in its philanthropic interests at early ages. Every year, the family gathers to discuss its foundation's achievements and plans. The fifth generation includes young children at play in the same room as their parents, where they're exposed to the family's collective values and the importance placed on supporting one's community. As with previous generations, once those children become teenagers, they will be encouraged to direct a portion of the foundation's annual charitable distributions to causes of their choice. “It's a family reunion with a purpose,” Morelli says.

Leave room to shift gears if circumstances require it.

Often, families set up trusts to pass assets from one generation to the next. Trusts can take many forms and have a variety of characteristics. Your Private Wealth Advisor, in concert with your legal counsel, can help you understand suitable options for your family and its objectives.

Some clients intentionally build flexibility into trusts to allow room for adjustments if a situation changes over time. One way to do that is to appoint what's known as a trust protector in addition to a trustee. The trust protector can be given various powers that the trustee often does not have. For example, a trust protector might be given leeway to alter monetary distribution provisions if unforeseen circumstances arise and the terms of the trust allow such a change.

"It can be very tempting to set up a lot of restrictions and requirements, and that's not necessarily inappropriate when you're dealing with a large amount of money," Gifford Ewing says. "But it is often wise to balance those guardrails in an irrevocable trust with flexibility because there's just so much you can't anticipate or predict. Over the years, there are bound to be changes you hadn't imagined, either in the laws or in your beneficiaries' lives."

For intergenerational planning, appointing trusted family members or friends as trustees may not be the best option, as a trust may outlive individuals. Therefore, many clients opt for a corporate trustee, such as Capital Bank and Trust Company, that can stay in place long-term.

A less stringent way to pursue flexibility while capturing the donor's intent is to write a letter of wishes to beneficiaries, trustees or both. These letters — also commonly known as ethical wills or legacy letters — are neither legal documents nor legally binding. However, they're commonly used to profess love, impart life lessons or underscore ethical values. "They're a way of

creating some moral and philosophical accountability by clearly defining for the family what a donor considers appropriate and inappropriate uses for the inheritance,” Morelli says.

In a best-case scenario, clients and their beneficiaries share a common vision and ideals.

“My experience has been that the next generation looks at their family’s capital as a responsibility,” says Scott Sandler, a Personal Wealth Advisor based in the West Los Angeles office. “At the end of the day, they understand that they’re able to pursue things they otherwise wouldn’t because of the family legacy. They want to make sure they’re able to protect and preserve it so that their children and ultimately their grandchildren are able to benefit as well.”