

# Planning Essentials

## Wealth & Values

*Preparing the next generation for the challenges of wealth*

### KEY TAKEAWAYS:

- 1. The more time you devote to communicating your financial values,** the better prepared your beneficiaries will be to make smarter financial decisions.
- 2 For blended families, careful planning and updating beneficiary designations are needed** to ensure that your assets end up in the hands of the individuals you intended.
- 3. Consider protecting your wealth for future generations using a revocable living trust, irrevocable life insurance trust, or a dynasty trust to name a few.**

If you're like most parents or grandparents, you want to leave a meaningful legacy to your loved ones. But a legacy isn't just about how much wealth you pass on, it's about imparting your financial values and preparing the next generation to be fiscally responsible, charitable, and empathetic stewards of wealth. For the most part, strong financial values and habits are learned from parents more so than anywhere else.

Despite the short-term demands of family, career, and community, it's important to find the time to start planning and preparing your loved ones for the challenges of managing wealth and implementing strategies to ensure a smooth, tax-efficient transfer of assets. Looking for a compelling reason why? You may want to consider the following sobering statistic:

**70% of estates lose their assets and family harmony following the transition of the estate.<sup>1</sup>**

Although it might feel uncomfortable or awkward, keep in mind that having honest and open financial conversations with your family can have a tremendous positive impact on how well prepared they are to take on future financial responsibilities.

### Share your financial values

Almost half of all wealthy parents (46%) have not had any sort of meaningful inheritance conversation with their loved ones.<sup>2</sup> Often, this is simply due to uncertainty surrounding questions such as:



- How much personal financial information should I share?
- Will receiving a large inheritance dampen their ambition in life?
- What strategies can I implement to help protect my beneficiaries from excess?
- Are there ways to share my financial values without being “preachy”?

Your advisor can help you address these and a host of other questions. The most important thing, however, is to initiate a conversation and be as open and transparent as possible. Talk about the financial practices and decisions (both good and bad) that have impacted your own financial life over the years, the lessons you’ve learned from others, and the things you wish someone had told you when you were just starting out. The following are just a few examples of questions that can help engage the next generation in a meaningful wealth conversation:

- Looking into the future, what are your biggest long-term financial worries?
- How does the overall idea of inheriting money make you feel? Does it somehow seem as though inherited money is worth less than money earned?
- What’s your first memory of a significant money mistake you made?
- What are some of the social and charitable causes that are most important to you and why?
- Have you ever done a good deed anonymously? Why?

### Explore the advantages of a dynasty trust

Funded with a gift up to the \$11.6 million maximum federal gift, estate, and generation-skipping transfer tax exemption (\$23.2 million for a married couple), a dynasty trust provides you with a way to pass assets not only to your children, but also to your grandchildren and subsequent generations. All future appreciation and income that the trust assets earn can be transferred between subsequent generations without being subject to estate and gift taxes.

Since those trust assets are not considered part of your beneficiaries’ estates, it affords them protection from the potential of forfeiting inherited assets as part of a divorce decree, a personal liability lawsuit, or even from them being recklessly depleted as a result of irresponsible spending behaviors. Furthermore, for families of considerable wealth, the value of the trust could potentially be amplified even more when funded with life insurance.

### Avoid accidental disinheritance

The “blended family,” where one or both spouses have children from previous marriages, has become more common. In fact, nearly one-third of Americans (approximately 100 million people) currently live as a member of one.<sup>3</sup> When it comes to multi-generational planning, however, blended families can bring with them unexpected financial complexity along with the potential for hurt feelings and deep mistrust.

Often, challenges arise when one spouse brings considerably more assets into the marriage. That spouse may desire that the bulk of their assets pass to their adult children upon their death, while at the same time ensuring that their new spouse is financially supported throughout his or her life. Without proper estate planning, this can be difficult to navigate, especially if there’s a considerable age gap between spouses.

There are a range of strategies that can be employed to help avoid disinheriting children from a previous marriage—from more complex qualified terminal interest property (QTIP) trusts, which can provide an annual income to a surviving spouse until his or her death at which point the principal passes to your children, to simpler life insurance strategies that can ensure a guaranteed inheritance for your children from a first marriage while preserving the remainder of your estate for a surviving spouse and new family.

**Periodically review beneficiary designations**

When it comes to estate planning, one of the most common mistakes wealthy individuals make is failing to keep their beneficiary designations up to date. Aside from the value of real estate holdings, most wealth is held in retirement accounts such as IRAs, 401(k)/403b plans, pensions, and annuities as well as life insurance policy death benefits. All of the latter, however, are assets which pass outside of probate during estate settlement. This means that even if your will states otherwise, the distribution of those assets will be governed by your beneficiary designations for each account.

There's no shortage of cautionary tales of single workers whose assets go to a parent because they never updated their beneficiary when they got married, to remarried widows/widowers who never

updated their beneficiary from the deceased spouse, assuming that the assets would transfer to their adult children, not realizing that in fact everything would instead go to the new spouse.

Make sure you review all of your beneficiary designations at least every couple of years or whenever any important life events (e.g., births, marriages, divorces, or deaths) occur. This is especially critical for families who have members with special needs.

<sup>1</sup> Advisor Perspectives, "Why are baby boomer wealth transfers failing," August 2019.

<sup>2</sup> Washington Post, "A how-to guide from the ultra-rich: What to tell your kids about money," June 2017.

<sup>3</sup> Pew Research Center, November 2014.

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