June 2023

Preserving Family Values and Client Legacies

Your financial road is forever long and winding, lined with constant twists and turns. It’s not a journey expansive in clarity not ease, whether wealth is self-made or part of an established legacy.

Many factors impact wealth planning, ranging from structure, tax, education, the family business, and the psychological. Preserving your wealth arguably stands more important than how it was first earned. What does this mean for you? The unfortunate global maxim on wealth preservation states that ‘wealth’ does not last three generations, and much of it is lost during the second generation.

Yet more than 70% of heirs are likely to terminate or change financial advisors upon inheriting their wealth, according to Cerulli Associates. Further, over 70 trillion USD is set to transfer between generations within the next 25 years in the United States alone, providing both a problem and an opportunity for wealth managers.

They bear the burden, mantle, and responsibility of looking forward for the next generation. It’s their task to embody trust and vision.

Building Trust

According to a Forbes survey, roughly

75%

of inheritors already have different, trusted financial advisors. In other words, the advisors of their parents did not establish compatible, trusting relationships with the broader family.

A key detail we noted is that

60%

said they don’t know their parents’ advisors. Some respondents described legacy wealth managers as ‘out of touch’ or ‘unlikeable’, underscoring the generational disconnect.

It’s clear that ‘business as usual practices’ employed by wealth managers no longer suffice with inheritors. Wealth managers must adapt to the next generation's priorities with open ears, while bringing to the family table the capacity to build a multigenerational vision.

Our Vision, Your Vision

All family members are unique, with differing visions for the future and widely varying personal motivations. It's the advisor's role to support the client's vision across their portfolios, estate, and legacy. Within the umbrella term 'vision', there are several factors we will address: motivation, time, potential, and early planning.

Your Motivation

The psychology and individual story that motivates you will differ depending on the generation you are currently in. For example, if you are a self-made individual who strived to provide a better future , you will see the world in a much different light than your heirs.

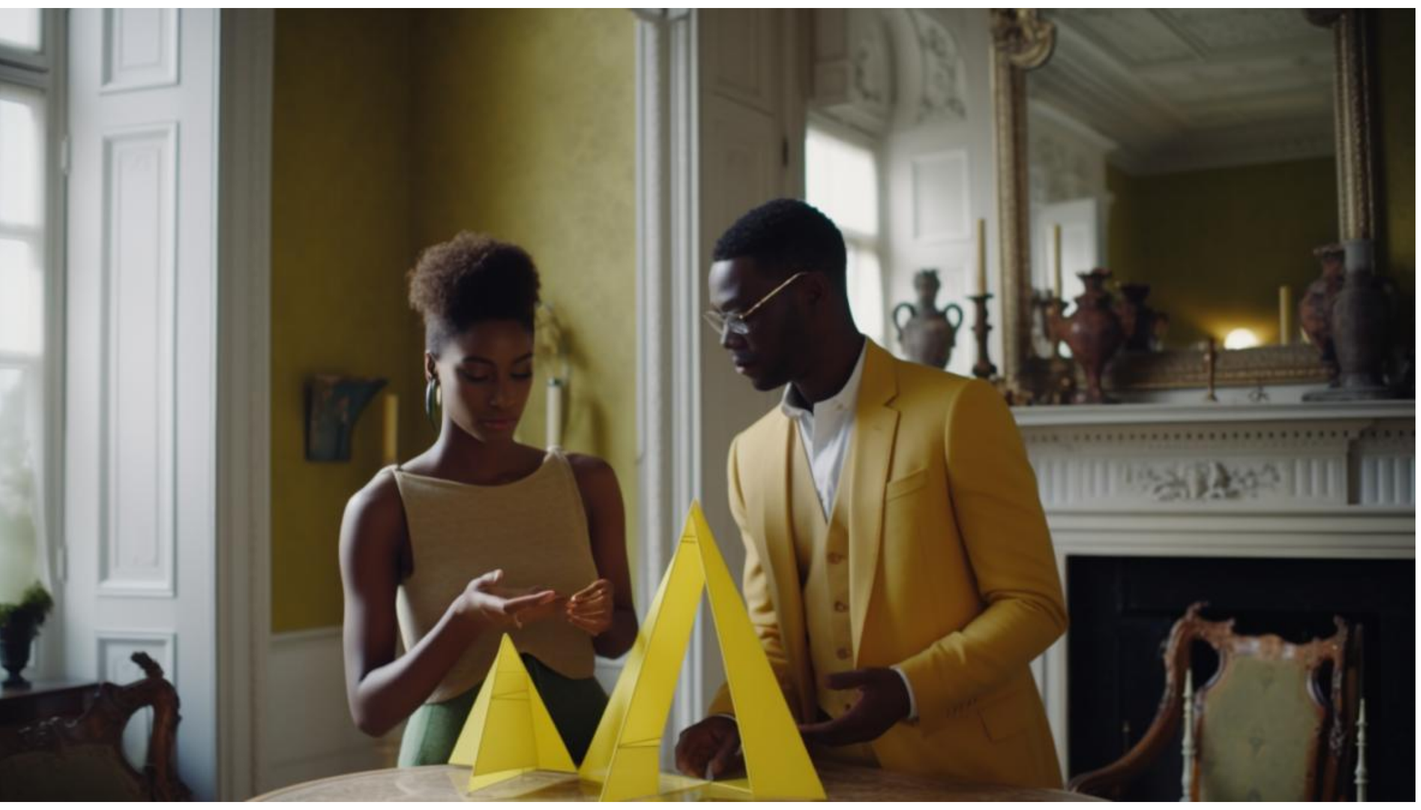
You, the self-made individual, is concerned with survival, growth, and preservation, using the tools and technologies available to you. By contrast, your heir may have new priorities, tools, and technologies, and therefore a different perspective. They may be inclined to academia, arts, or independent entrepreneurship, possibly charting another course away from your existing f amily traditions or expectations.

Your financial advisor must discuss the core of your vision and how they want to preserve your legacy . What motivates you, and what motivates your children? How can the potential of each of your heirs be supported, while ensuring your wealth continues to grow?

Time

Most families prepare heirs for inheritance after young adulthood or 21 years. For others, that conversation may even be held into the 30s or 40s. The timing of inheritance planning reverts back to your family's vision.

For example, if independence, resourcefulness, and individual passion are the priorities for the heads of family, then naturally, conversations on transferring wealth may never occur. This sets your heirs at a disadvantage and opens them up to would-be wolves who desire their wealth upon bequeathing.



Financial advisors keen on preserving wealth should opt for a much more engaged approach. Young adults deserve to learn the value of money early, alongside the cost of debt, the benefit of honouring commitments, and the vital art of budgeting – even if planned gifts do not occur until their late middle age.

The advisor's essential objective is to help identify the best possible time to hold the conversation on transferring wealth, and when to do just that. Your heir's independence and potential can be preserved by openly naming certain objectives or virtues the family must preserve.

Potential

While the most popular option, equally splitting inheritances may not be the best route for your f amily. Coming to common ground on differing ambitions and hopes is essential to maintaining both legacy and wealth.

For example, if one heir decides to continue in the family business and another desires a life within academia, then not all assets are the same.

Assets and property relevant to the family business may be best suited to the former, whereas directed financial support would greatly support the latter.

A basic example, but one which highlights the answer to 'Who gets what?' lies within early preparation. Us, your advisor's role, is to pinpoint the best financial structures and tax incentives for supporting security, education, or interests of the heirs.

Early Planning

70%

of wealth transfers fail.*

** According to The Williams Group*

Through a study of ***3,250 families*** over a period of ***20 years***, they discovered that wealth was regarded with far too much contention.

With no post-transition planning, heirs receive psychologically new sums of money without the preparation nor support necessary for effectively managing them.

Before transfer, parents fear the effects on children if they become aware of the actual size of their inheritance. An easy solution is to revert to the family's vision and discuss what is paramount regarding humility, growth, and philanthropy.

The Burden and Freedom of Wealth

Money means different things to different people. It signals success and freedom to some, and burden and fear to others. Some heirs may regard their newfound freedom with fear.

This is perfectly natural. Too many opportunities at once can cause a paralytic standstill. To avoid this and the ultimate disappearance of wealth within three generations, let's look at two factors: support and independence.

Support

'Dumping' a large sum of money onto a heir can result in adverse side effects. However, withholding support at critical junctures can also pose challenges.

The middle ground for perfect support lies within the constant and stable approach. Financial success again reverts to a psychological base, making it all the more vital to familiarise heirs with money from a young age.

At the early ages before 12, your heirs will benefit most from understanding the value of money, the value of effort, and what it means to save. Children can see the importance of saving and the opportunities it brings by learning that money comes from a combination of sincere striving and strategic planning.

Young adults must then develop an understanding of the benefits and pitfalls of owning money. Work experience coupled with reinforcement of family values – of why the family preserves money and how it uses it – prepares young adults for a career and how to handle larger sums of inherited wealth.

In early adulthood, it becomes increasingly relevant to introduce complex financial topics, such as taxes or portfolio management, or to schedule an educational visit with the family's advisor. It's also prudent to educate heirs on estate and inheritance planning as well as understanding the structure that surrounds their inheritance.

Independence

As universities demand critical thinking from new adults, they must determine their personal values, interests, and career aspirations. The commonality beneath these three points is individual passion.

Young adults must establish their values, passions, and aspirations as they come into their own. In other words, what do they care about? What do they see themselves doing, and why?

Cultivating a sense of care and urgency about their day-to-day brings a healthy sense of pride and determination. Moreover, it fosters the realisation that they are ultimately their source of support and may someday have dependents. There is arguably no better way to preserve the family's legacy than by conjuring an early sense of empowerment and responsibility.

Upholding Family Values

The William Group's study demonstrates why upholding family values is the most important factor to a successful and preserved estate. Heirs establishing new values and identifying greater causes remains vital for the family's legacy, but these values and causes must resonate with the family's existing traditions as well.

Shifting early family discussions away from dollars and cents to higher-level concepts serves two critical purposes: reinforcing the value of money and reaffirming family values. Values are at the heart of wealth management, and so establishing shared values, and honouring and upholding them is critical to legacy wealth management.

Putting It Together

Your overall vision guides the legacy you leave and champions the long-term success of the estate. It's far more psychological than financial. Your wealth manager is responsible for engaging and establishing trust with all relevant family members. This provides the foundation for your inter-generational discussions, estate plans, and for measured success beyond grandchildren.

In the same spirit, children should trust the family values guided by the long-term vision of the estate. If wealth might be squandered, then it remains perfectly valid to withhold until the value of money becomes apparent.

But if the values lend to self-starting ambition and growth, early, inclusive discussions with financial advisors create opportunities for compounding wealth. Further, advisors help prepare for and consider future situations to preserve the family legacy.

In the post-pandemic era, there are three critical elements of a successful strategy that adequately serves both donors and heirs: tailored wealth management, comprehensive estate planning, and omnichannel service.

Tailored Wealth Management

An automated portfolio or a long-term '60-40' strategy (60% stocks, 40% bonds) both belong to the realm of robo-advisory. In the latter years of the last decade, the fear amidst private banking conferences spoke of robo-advisors replacing human advisors en masse. That has not happened.

But what will happen is the advent of artificial intelligence and machine learning taking over time-intensive administrative tasks that can free up senior advisors from rummaging through file folders or their 'clouds'. More importantly, there are three essential avenues through which AI complements a human approach.

First, today's individualised service requires a data-fluent core that proactively gives suggestions in line with client preferences alongside their investing history and the current investing or tax climate. Second, AI facilitates a twenty-four-seven open line of communication. And third, cash management and forecasting is no longer a purely manual process.

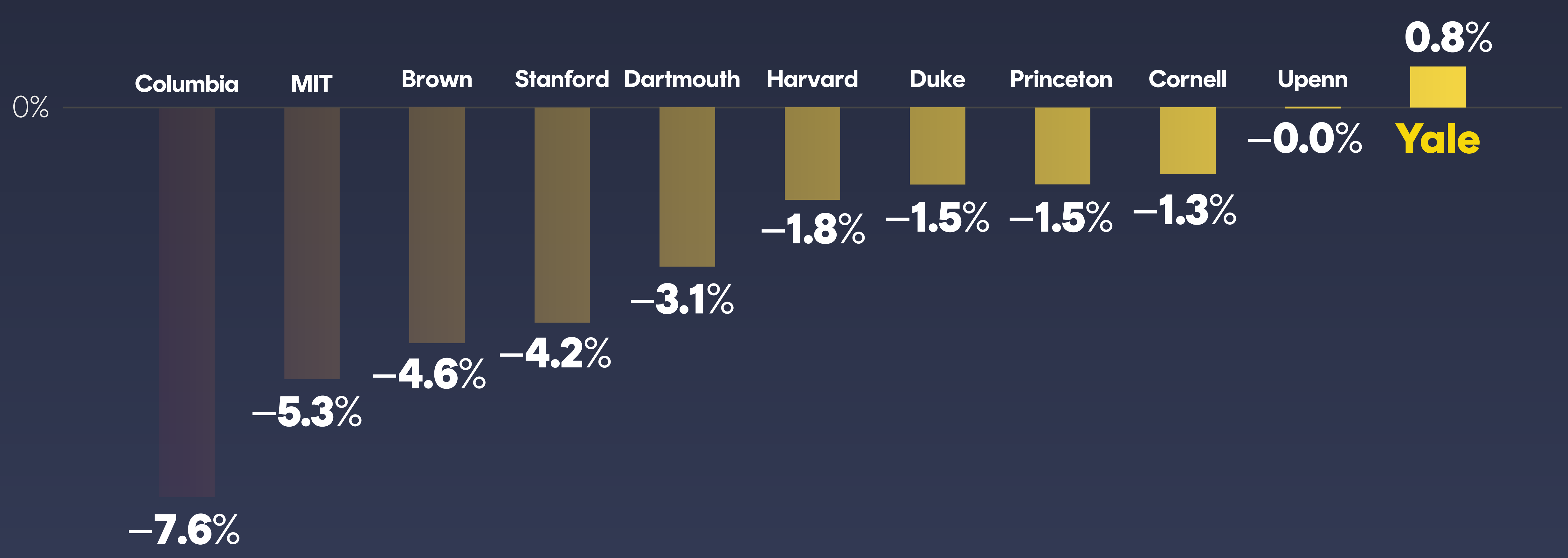
Yet the word 'tailored' still requires a human centre, somewhat similar to how a tailor must measure you in person for the perfect suit. A more expensive, but personalised approach.

Always Prioritise Trust

The primary advantage of the hand-picked portfolio is trust. The client can trust the attention and detail placed on their long-term portfolios—for they must generally include exposures to alternative asset classes best positioned to handle longer time horizons and staggered investment objectives.

For example, Yale's endowment fund provides a leading model for the benefits of investing in alternative assets, distinguished from the conventional 60-40. In its fiscal year ending June 2022, it earned a return of 1%, well exceeding the S&P 500's 16% loss. In the year ending June 2021, it earned a 40% return.

ENDOWMENT RETURNS, FISCAL YEAR 2022



Yale publicly documents its gradual veering away from traditional asset classes, favouring alternative methods that leverage buyouts, venture capital investments, and absolute return strategies. Domestic equity, on the other hand, remains a much lower priority.

And Yale is not alone. Kansas State and the University of Michigan also represent top performers in one of the worst years for retail investors. It boils down to how endowment portfolios think differently and think ahead. Done well, this increases risk-adjusted returns.

Intergenerational Estate Planning

Inclusive of tax expertise, insurance, philanthropy, trusts, wills, foundations, and similar structures, the duty of the successful estate planner is to address all corners of the proverbial house. A comprehensive plan, aligned with your family’s values and vision, ensures your legacy ’s success.

There are four essential pillars to the grounded inter-generational plan: wills, gifts, structures, and philanthropy. The earlier the discussions, both with an advisor and with heirs, the more details can be included and the better the organisation. Further, unintended consequences of small decisions could be foreseen and elegantly removed.

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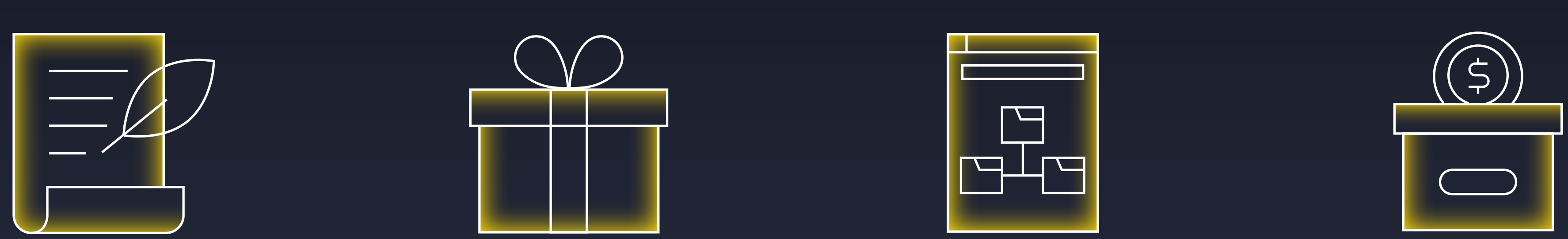

WILLS | GIFTS | STRUCTURES | PHILANTHROPY

Wills

A well-made will clearly defines a succession plan for key assets. It addresses all questions and should be made after informal or formal family discussions. It should keep in mind the well-being of three or more generations.

Keeping a will up to date is vital as family dynamics often change. If privacy is a concern, it's possible to draft a letter of wishes and provide detailed instructions for executors and trustees. A letter of wishes is not a public document, serving instead to ensure your vision is carried out.

Gifts

Countries and jurisdictions treat gifting differently from a tax perspective. For example, the United States has a 'gift tax exclusion' (17,000 USD in 2023) and a lifetime gift or estate tax exclusion of

12.92M $

per individual (25.84 USD million per married couple in 2023). The United Kingdom by comparison does not charge inheritance tax on gifts made from 'excess' income or income not otherwise required to maintain your standard of living.

Continuous gifting over lifetimes remains a standard, simple, and accessible way for transferring wealth while supporting the endeavours of your children—particularly if they have academic, artistic, or entrepreneurial ambitions.

However, certain gifts made within temporal proximity to death may incur taxes. The vantage point of the state may be to conceptually include them alongside be-quests. Gifting early to support the career aspirations of your heirs is the best option.

Structures

'Structures' refers to a vast array of options for passing down wealth in an organised and seamless manner that conforms to your f amily values and long-term visions. For example, living trusts permit donors (grantors) to identify the assets they wish to transfer to the trust and appoint trustees to manage those assets in accordance with the best interests or wishes of the chosen benefi-ciaries. A 'living' trust comes into effect while the donor lives, unlike probate.

Trusts can be revocable or irrevocable, affecting their tax treatment. Furthermore, there are marital trusts, charitable trusts, life insurance trusts, purpose trusts, special need trusts, and more. It's also possible to estab-lish private family foundations that often serve philan-thropic aims.

The domain of structures benefits the most from expertise, experience, and the compassionate, human touch. It performs the legwork of instilling and optimising family values for all foreseeable generations and avoids the need for lengthy probate formalities.

Philanthropy

Giving is a deeply personal enterprise. It's a way for one to 'leave their mark' or support the generation that follows.

At the same time, it gives meaning to and reinforces family values. It deters wasteful spending or extravagant behaviour by refocusing the conversation upon helping those less fortunate or by highlighting the importance of rigour and determination for the benefit of others.

Philanthropic activities are best executed in an organised manner through a charitable foundation where all donations can be well documented and the tax benefits made clear.

Omni channel Service

‘Omnichannel’ refers to the advent of the digital and its role in connecting an ecosystem of services. It refers to complementing personalised service with digital channels. In a post-pandemic era, much of the world is racing towards omnichannel, while wealth management has historically been called by PwC one of the most tech-illiterate industries in the world.

Put another way: what is the global, inclusive potential of introducing twenty-four-seven contact? How much greater can a wealth manager’s success be, if AI supports personalised recommendations? These questions — and infinitely more — are vital to the next generation of estate planning.

The average age of global advisors worldwide is over 50 while millennials and baby boomers are all seeking much more digital inclusion. The fortunate irony is that we have the tools already in place for executing a transformational estate plan that incorporates an omnichannel approach.

What also needs further investment is digital service itself. Proven to be an effective tool, robo-advisors can augment services but cannot replace the core human element. AI tools can supplement it with automated portfolios and machine learning, both helpful if used correctly, but not as a direct replacement for human interaction, empathy, and strategic planning.

> It comes down to communication. Digital touch points should reinforce trust rather than hinder it. This is the ultimate goal and chief responsibility of any firm advertising within the estate planning sphere.

Preserving Your Legacy

We spoke of three central considerations your estate plan must include: vision, the inheritor, and the donor. Specifically, we touched on the importance of values, independence, and early communication. The donor's vision helps shape family values, which the inheritor should uphold as a proactive cure for the three-generation dilemma.

Any respectable intergenerational estate plan must have three core components: tailored wealth management, comprehensive estate planning, and omnichannel service. All three are built upon trust, expertise, and compassion laying the groundwork for transforming heirs into clients.

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info@deltecbank.com

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Deltec House, Lyford Cay
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