

Generational Planning

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Our Financial Planning content for this month features a spotlight on Generational Planning and encourages family wealth education — beyond basic financial literacy — as a tool to increase the likelihood of wealth spanning generations.

Here is the challenge: As much as 70% of wealth is lost in the transfer from the first generation to the second generation — and as much as 90% by the end of the third generation. This means that if the first generation accumulates \$50 million in assets, only about \$5 million of that will be available for the fourth generation's benefit.

On one hand, this highlights the importance of creating (or foregoing) an advisory team that is adept at utilizing the most efficient wealth transfer strategies. But it also speaks to the inherent risk in not passing proper money principles that leads to sustaining wealth.

Therefore, it is incumbent on wealth generators, in partnership with their respective advisors, to look beyond the quantitative parts of their wealth and deeper into the qualitative portions — financial goals, financial aspirations and values around money. Once assessed, devise a plan to impart those values to the next generation.

Families that tend to succeed in creating, growing (or sustaining) and ultimately, efficiently transferring wealth, tend to be intentional about these three things:

1. Defining the Purpose of Family Wealth

Defining the purpose of wealth might look like this:

- Identifying what financial independence means to you
- Deciding if you want to contribute to the pursuit of heirs' higher education
- Gauging how important a philanthropic legacy is to you, if at all

2. Empowering Heirs Through Skillful Communication and Financial Education

Far too often, families avoid the “money conversation” altogether. This is a missed opportunity to teach the next generation any real concept of money/wealth. It also risks losing the values that led to the first generation creating and sustaining it. Both are likely counterintuitive to most family's goals.

Studies show that whether your method is to give substantial financial support or limit financial support, *what's most important is communicating the rationale behind your actions.*

3. Give Collaboratively and With a Purpose

Without collaboratively deciding on the amount, and/or beneficiary, of a philanthropic gift, something very powerful can be reduced to a single transaction. Families who are successful at intergenerational wealth transfer use philanthropy as a sort of glue to maintain their family's tradition and give value to their wealth.

Here are some of the techniques used by high net worth and ultra-high net worth families to accomplish intergenerational wealth transfer:

- Include intended heirs in estate planning discussions
 - Leverage your advisor to initiate/facilitate the discussion
- Research the most effective ways to educate children and grandchildren about long-term financial planning and investing
- Spend time with family discussing next-generation motivation, spending and saving habits
- Discuss issues of inheritance where fairness and equality do not always match up
- Collaboratively identify charitable causes to support and discuss the most effective way of doing so with heirs

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