

## PRESERVING FAMILY WEALTH

By Steven W. Shirley

### Planning Across Generations

A lifetime of investing and accumulating wealth presents a unique set of opportunities for you to ensure long-term financial security for your family. A comprehensive and personalized wealth management strategy is the key to achieving your multi-generational financial goals.

In-depth analysis and personalized advice based on each client's planning needs is required. Fostering and maintaining harmonious family relationships is paramount when addressing issues surrounding the distribution of family wealth.

A good financial professional will take the time to understand the dynamics of your family, as well as your financial posture, so that they can help you define and achieve your goals. As a result of that experience you should have the resources and expertise to help with all your wealth planning needs, which include

- Professional wealth management
- Charitable giving programs
- Education funding
- Wealth protection strategies
- Intergenerational wealth transfers
- Tax reduction strategies

### The Starting Point

*John D. Rockefeller and Andrew W. Mellon – two successful American industrialists – knew one of the secrets to preserving a family fortune: planning across generations.*

Rather than following the traditional approach and leaving their entire estate to their children, these captains of industry passed a significant portion of their wealth directly to their grandchildren, eliminating a generational layer of estate taxes. A generation-skipping transfer tax has since been implemented to limit such massive tax-free estate transfers. Nevertheless, their strategy was an impressive early example of multi-generational planning that still has merit. Planning across generations, a sophisticated wealth management philosophy is as valid today as it was 100 years ago.

In much the same way that a family business is unlikely to survive to the third generation, family wealth is likely to dissipate as it is passed down – unless steps are taken to avert that. The best protection is to consider your extended family as you plan. A comprehensive multi-generational strategy produces numerous tangible benefits, including reduced spending,

lowered estate taxes, greater investment opportunities, and more effective asset protection strategies. Most importantly, perhaps, it can also produce more knowledgeable children.

Maximizing investment returns is often viewed as the best way to preserve and build wealth. Wealth, however, is frequently more sensitive to spending patterns. By creating and funding trusts, rather than giving money to heirs outright, you can establish appropriate controls to manage how much children or grandchildren are able to spend while they are maturing and developing their financial management skills.

Today, Rockefeller's and Mellon's estate tax minimization strategy takes the form of the "generation skipping trust". The grandparents create a trust [funded in the amount of their generation skipping transfer tax exemption] that provides a life estate for their children, who receive income and limited principal. At each child's death, the trust's remainder passes in further trust for the benefit of the grandchildren and future generations. The property is taxed in the grandparents' and grandchildren's estates, but not in the successive generation's estates. By "skipping" the intermediate generation's estate taxes, the family preserves more of its wealth.

## **Teaching Across Generations**

Your family can invest as an institution, achieving the greatest diversification, economies of scale, and access to the institutional money managers. Your family can also receive the benefits of having a larger relationship with any single provider.

Divorce, financial mismanagement by younger family members, and other unanticipated situations can have a negative impact on family wealth. Asset protection strategies, such as the use of trusts designed to dissuade creditors from filing claims, can reduce much of the financial risk these events pose.

Multi-generational planning also preserves wealth in other ways. It provides a forum for teaching financial management skills to children and grandchildren, and sharing philanthropic values during the grandparents' lifetime. In some cases, a family may choose to invest together; in others, they may choose to set up a private family foundation and put younger family members on the board and junior board. Either way, younger members of your family will have the opportunity to develop the skills they will need to become effective stewards for the family wealth.

Before implementing any of these methods, however, it is important that participating family members come to understand and agree on the desired outcomes as well as the rules that will govern the process. Exploring different needs and goals, while respecting the sensitivities of individual family members, is crucial to the success of any intergenerational planning strategy. Where there are common goals, create common structures to meet them. Where there are unique goals, the planning process should adapt to them so the resulting structures will meet those needs.

## United Across Generations

It is equally important to consider family governance structures similar to those used by companies to resolve any disputes that might arise. Such structures could include a board of directors that votes on behalf of family members, partnerships with voting and non-voting shares, operating agreements, and other governance provisions as needed.

Multi-generational planning should address both the technical aspects of your family's finances as well as each nuclear family's needs and goals. When implemented properly, this approach to planning has the power to not only preserve your family's wealth; it can also allow individual family members to pursue their unique interests while uniting the family around common financial and philanthropic goals.

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