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Bridge the Generation Gap: How to Have a Family Wealth Briefing

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INVESTMENTS & WEALTH INSTITUTE®

Bridge the Generation Gap

HOW TO HAVE A FAMILY WEALTH BRIEFING

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For better or worse, the coronavirus pandemic has all of us more focused on our families. So now is a great time to reinforce family wealth planning for investors who may be interested.

As a financial professional, you are well positioned to play an important role for clients looking to do generational wealth planning. You can look beyond assets and tailor family wealth management guidance based on the needs of the individual and the family. More importantly, you have the skills to help bridge the communication gap between today’s very distinct generations.

Study after study finds that more than half of wealth transfers fail, not because of the quality of estate planning advice or structures in place, but due to inadequate preparation of the family and issues of

trust and communication. Data from Capital Group’s February 2020 Investor Generational Wealth Transfer Study shows the disconnects among generations when it comes to lessons given and lessons learned (see figure 1).

The ability to bring younger generations into the financial fold increases the value of the service you provide to your clients, which can deepen your relationships and improve your advice. It also could lead to additional business. According to our study, 38 percent of Generation X, 62 percent of millennial, and 55 percent of Generation Z respondents said they would work with their parents’ financial advisors—and there is perhaps no better referral than an existing relationship. With the aging generations expected to pass on \$73 trillion in assets within the next 25 years, a real need exists for generational wealth planning.

So how do you help clients bridge the generation gap? Here are four ideas for creating connections to help build and transfer generational wealth.

HAVE A FAMILY WEALTH BRIEFING

If transparency is the goal, gathering everyone for regular family meetings or “wealth briefings” can be a great way to share with the broader group. Although the ultra-wealthy may favor a retreat that allows the group to learn while catching up with loved ones, a briefing also can be an in-office or virtual event that takes place in an afternoon. What matters most is that individuals have the time and space needed to feel more included in the larger wealth picture, including the goals for wealth, the long-term plan, and how wealth is managed. Clarifying these objectives now can prevent future misunderstandings during wealth transitions.

Figure 1

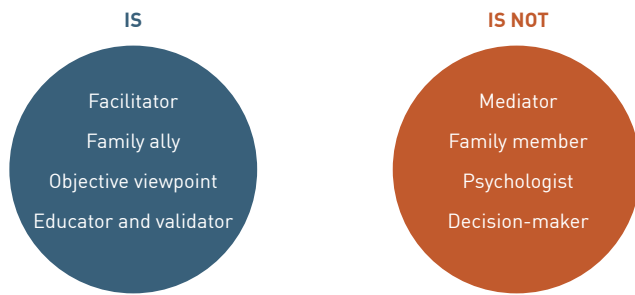
FINANCIAL LESSONS GIVEN AND RECEIVED

	Parental lessons given		Children lessons learned	
	Boomers	Gen X	Millennials	Gen Z
Financial basics				
"Rainy day" savings	✓	✓	✗	✗
Budgeting	✓	✓	✗	✗
Earning money	✓	✓	✗	✗
Managing spending	✓	✓	✗	✗
Investing basics				
Understanding investments	✗	✗	✓	✓
Wealth transfer				
Trusts	✗	✗	✗	✓
What to do with inherited assets	✗	✗	✗	✓

Source: Capital Group Investor Generational Wealth Transfer Study, February 2020

Figure 2

THE FINANCIAL PROFESSIONAL'S ROLE ...



Source: Capital Group

A family meeting also provides an opportunity for you to educate multiple generations about financial literacy and financial fitness, to share investment philosophy, and to help echo the family's core values. Bear in mind, however, that although you serve as a family ally, you generally should not have an opinion on family matters (see figure 2). Your role as an advisor should be that of a neutral third party, there to facilitate so no single family member is in charge. Blurring that role can add to complications, particularly if it's presumed you are taking sides or have some agenda in family decisions.

DEVELOP FAMILY GOVERNANCE GUARDRAILS

As a family's net worth increases, there may be a greater need to develop certain ground rules for the wealth, its control, and its management. This is known as family governance. The concept has long been used in family business planning, where it is crucial to have procedures and processes in place. However, families do not have to be in business together to benefit from a governance model. It offers a way to organize communication among family members, encourage problem-solving as a larger group, and provide mutual support in decision-making.

Thoughts about governance may vary from family to family, but these five big-picture considerations are pretty much a constant among high-net-worth families:

Control: Who's in charge? Clarify each person's role, so everyone knows who is making financial and planning decisions and who has authority.

Process: How are decisions made and communicated? Outline exactly what to expect so there are few surprises.

Education: Are younger generations educated about wealth, and does everyone have appropriate guidance on family finances and financial planning?

Planning: How are we prepared for future tax and estate issues?

Transition: Do we have everything in place to pass the reins to the next generation and beyond?

You are in a good position to help your clients answer these questions, and to help coordinate and assemble the work of trust and estate planners, accountants, and lawyers. Put guardrails in place so the family can find and track this information over time.

PROVIDE ENDOWMENT RESPONSIBILITIES

For those families with the means to leave an endowment, charity can be an effective way of bringing family members into the wealth management process. It can provide a sense of responsibility that is founded on managing assets and supporting the family mission through philanthropy. Endowments also can encourage families to make day-to-day

financial decisions through budgeting and grant-making while learning to focus on the benefits of strategic long-term investing.

Many of America's wealthiest families (including the families of Warren Buffett, Bill Gates, and the Waltons, owners of Walmart) support well-run endowments managed by family members. Charitable efforts often have an emotional appeal that can draw in different types of people, often with fresh perspectives and different points of view. Some may choose to move on to other parts of the business; others may want to remain in the nonprofit world and continue to support the family in that way.

CONSIDER SMALLER LIFETIME GIFTS

Inter vivos gifting, or gifts made while still alive, is another way to provide communication and ease the wealth transition between generations. Using inter vivos trusts, family members can gift money or other assets during their lifetimes. As of 2022, assets can be gifted tax-free if the value of the assets is under the gift tax minimum threshold of \$16,000, per person, per year. Inter vivos trusts can provide the matriarch or patriarch of the family a peek into how certain family members might handle an inheritance.

An inter vivos gift removes the assets from the estate and probate process, and it can give the grantor a preview of what the wealth transfer process might look like. By distributing small pots of money to children and grandchildren over time, the grantor may feel more in control of the gift and engaged with the impact it can have on other family members.

Most importantly, allow younger generations access to you. Be a resource. Let them know that you're available to answer questions or discuss investment ideas. Families that are connected to the wealth management process and demonstrate strong communication will experience an easier transition.

FIVE COMMON FAMILY LEADERSHIP TYPES

No two families are alike, but they do tend to fall under certain archetypes. Recognize your clients? Here's how to help them start planning.

THE INVINCIBLES

The type: The head of the family—matriarch or patriarch—thinks they're never going to die. The family has the lack of planning to prove it, and it's not easy to talk about.

Your goal: Start the conversation and put proper planning in place as soon as possible.

The tactic: Storytelling helps. Sometimes the most effective exercise is to walk through the reality of what things would look like if the head of the family dies without any planning in place. The prospect of tax consequences, financial disarray, court proceedings, in-fighting, and a business without a leader can be very convincing. Encourage some small inter vivos gift planning to get the family leaders comfortable with giving up control of some of the wealth, bringing in other voices, and recognizing the financial benefit to themselves and their beneficiaries of tax planning now.

THE CONTROLLERS

The type: The head of the family recognizes she or he may die but doesn't want to cede control. These families usually have a plethora of documents—trusts, guidelines, investment instructions, procedures, processes, specific limits, incentives for distributions, etc.—in an attempt to manage every possible scenario and consider every potential family member. The problem is, it's impossible.

Your goal: Create a plan that's comprehensive but flexible, designed to change with the times, the technology, and a growing and evolving family.

The tactic: Share the risk of “dead-hand control,” or attempting to exercise too

much control from beyond the grave. Instead, appointing a few trusted individuals (with processes in place to appoint successors) and giving those people discretion to handle situations within a certain set of guidelines can be far more effective than trying to anticipate circumstances, behaviors, and future actions. Additionally, an overall set of guidelines or a statement of wishes can be very helpful with this type of family. The documents are not binding, but they set forth values and overriding goals for the fiduciaries to follow, as opposed to strict rules.

THE BUSINESS FAMILIES

The type: Overwhelmed by the financial, emotional, and interpersonal complexities of the family business, the family is unable to have the necessary conversations to effectively transition the business across generations.

Your goal: Help the family come up with a transition plan for the business, or an exit strategy if the plan is to get out at the end of this generation.

The tactic: Before discussing the transition plan, the family needs to come to terms with and understand the underlying structure and family involvement in the business. It can be complex. Note who is in control, who benefits economically, and who is making decisions, which is not necessarily the same parties in all categories. One member of the family may be drawing a salary for staying out of the way while others are running the day-to-day operations. The family may consider cashing out those who don't want to be involved. Or they may use inter vivos gifting options to transition control gradually to help children and grandchildren get used to new roles while still being supervised.

THE BLENDED FAMILY

The type: The blended family includes second or third marriages, multiple sets of stepchildren, half-siblings, etc., with no end to iterations and complexities.

Your goal: Bring all family members to a place of reality when it comes to planning and expectations.

The tactic: Help the family's decision-maker plan for realistic, if unpleasant, relationship dynamics and family situations. If a surviving second spouse doesn't get along with children from a first marriage, for example, that dynamic won't change after the head of the family passes away. Or, three children who don't get along now will not be comfortable as co-trustees. Similarly, if a child has a financial vice, such as gambling, it should be assumed that problem will still exist when it comes time to transition the wealth to that generation.

Transparency and communication are key here. That calls for family meetings to be sure everyone understands the structure, why certain decisions were made, and why certain people are in charge.

THE GREAT EQUALIZERS

The type: Anyone who utters: “I just want everyone treated equally. I don't want anyone to fight after I'm gone.” Sometimes equal treatment is appropriate—for example, a family with three children who all live in the same part of the country, have the same number of children, go into the same profession, marry the same type of spouse, etc. Realistic, right?

Your goal: Help the family plan for increasing complexity as the wealth and the family grow. As the family disperses and branches, its values and financial needs will increasingly diverge.

The tactic: Remind clients of the difference between equal and fair, because sometimes fair is the actual goal. Again, use storytelling or hypotheticals: What if one of your children marries someone very wealthy, and another child becomes a teacher and marries another teacher? What if one of your children is a single parent with a special needs child? Or if one grandchild wants to pursue

medicine and another wants to start a business, be an artist, or learn a trade? In any of these situations, do you provide for them differently? Fairness is subjective, and it allows for flexibility. It's fine if everyone does not have equal control. Maybe it's most fair to have the child who is a conscientious Type A attorney be a trustee or to let the child with an interest in art manage the sale of a collection.

HOW TO HAVE A FAMILY WEALTH BRIEFING IN THREE STEPS

STEP ONE

Set the scene. Help your client decide on some important logistics: Where will the meeting be held? Who will be there? Should the invite come from you or the client? What about family rifts, blended families, or in-laws? The details matter, so carefully think through the planning of the event from a generational wealth management standpoint.

STEP TWO

Have an agenda. Define goals for the meeting and what you want to cover beforehand. What to cover will depend on the family, but you may consider some or all of the following:

- Financial education and responsible wealth management. Start with smart money basics and prepare to cover

more sophisticated topics depending on the group's financial literacy.

- **Family mission and values.** At the first meeting, the goal may be to define an overall mission for the group. Come prepared with some examples or ideas based on the tenets you are most familiar with. Encourage family members to share stories about their history and their experience with finances: What were your first memories of money? What are your strongest memories regarding financial decisions? What are your financial worries or fears?
- **Wealth update.** The most important aspect of the meeting will be sharing information about the family's finances and long-term wealth goals. Prepare a "state of the family" presentation with easy-to-understand graphics and terms.
- **Roles and responsibilities.** From managing future family briefings to taking leadership roles in everyday wealth management, this is the time to gauge interest and discuss how others in the family want to engage.

STEP THREE

End with action items. At the end of a family briefing, you may want individuals to walk away with specific roles or action steps that you as an advisor can help facilitate. Keeping interactions

professional can help the family manage project deadlines without leading to the types of intra-family skirmishes that might otherwise arise. ●

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