# Laying the Foundation for Multi-Generational Wealth Planning: Make Your Legacy Count

***"Shirtsleeves to shirtsleeves in three generations."*** *Wait. What?*

If you're contemplating what that could mean, let me save you the inevitable Google search.

It's an old proverb that concisely describes future generations' inability to manage and maintain the wealth passed down to them from previous generations. Another way to look at it, as the matter-of-fact Scottish proverb goes, is this: "The father buys, the son builds, the grandchild sells, and his son begs."

This saying represents an unfortunately common cycle. One generation builds the wealth, the next use it, and by the third generation, well, it can all but disappear. Leaving the fourth generation with nothing but stories of their family's "good old days."

# Enter Multi-Generational Planning

Multi-generational planning focuses on breaking that generational cycle. It centers on a family's long-term financial wellness, often looking more than 100 years into the future. Its emphasis lies in maximizing a family's fortune, ensuring that wealth gets passed on through the generations.

In short, multi-generational planning allows your heirs to have the financial stability necessary to build a foundation for your family's future financial success.

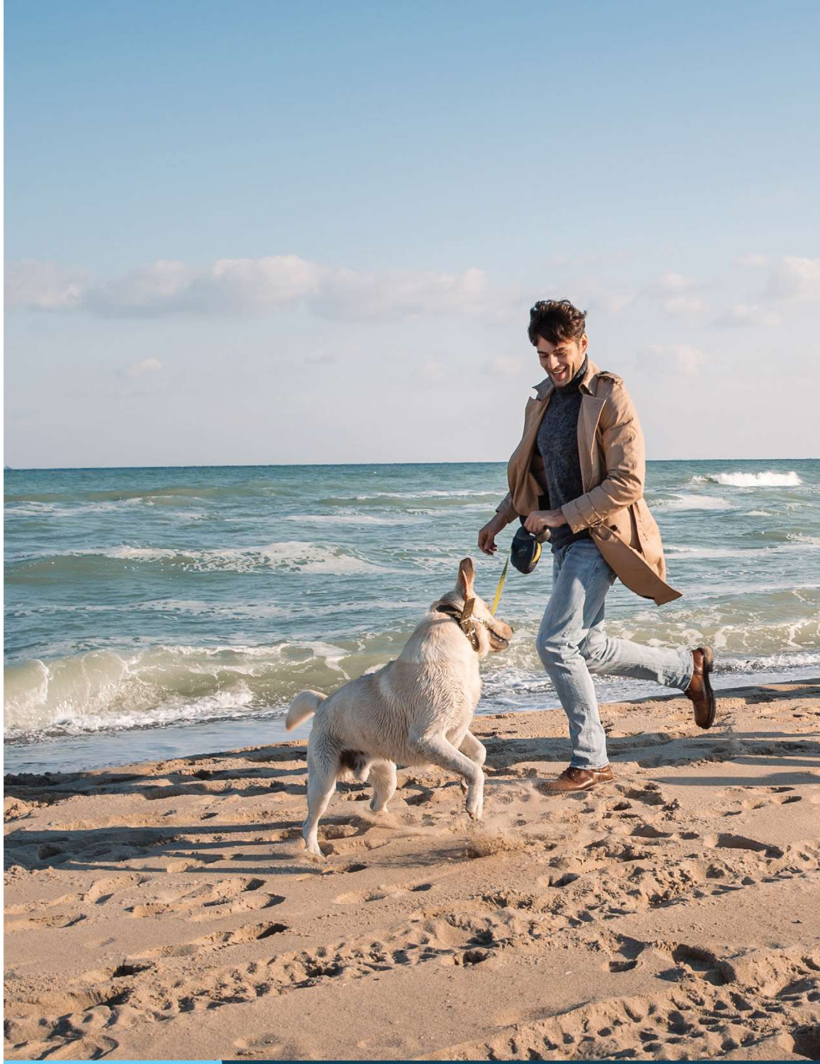
We want to make sure you don't ever have to think about the meaning of "shirtsleeves to shirtsleeves in three generations" ever again. (Because who would want to, anyway?) So, we developed a list of multi-generational planning tips and strategies to keep in mind the next time your family's finances come up at the dinner table.

# Breaking Down Barriers

*The first step towards achieving a multi-generational wealth planning strategy is to get everyone on board with a single plan. But with such a broad range of opinions prevalent in most families, getting loved ones to align when discussing family goals and intentions can be challenging.*

## *Generational Differences*

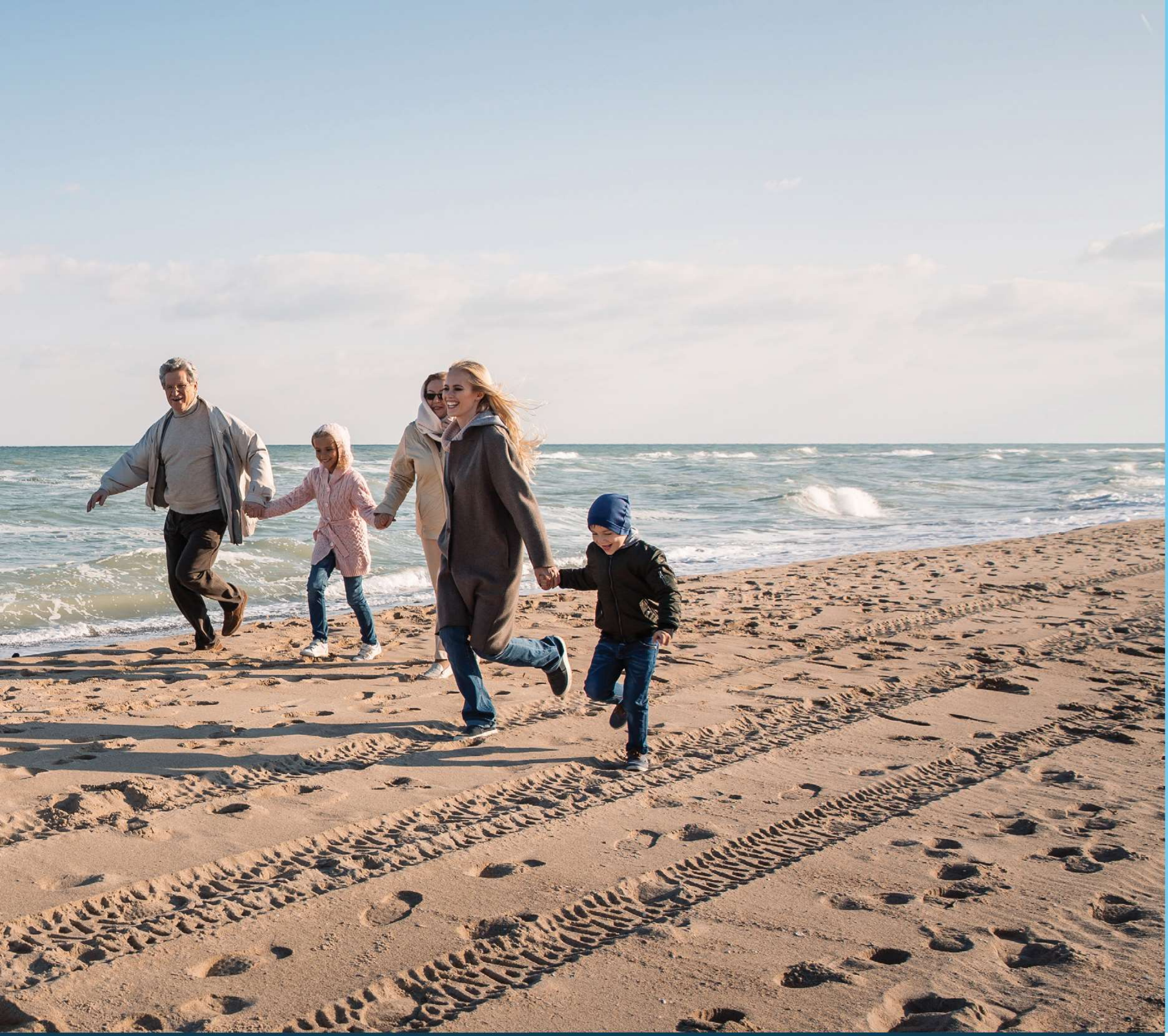
Because of the myriad of differing views, starting generational planning conversations early and often can pay off. Open communication allows each generation to provide their perspectives to ensure all issues and concerns are evaluated to protect your family's wealth. Here's an example of what a three-generation family's situation may look like before developing an official plan:



### First Generation

The oldest generation should start by communicating what the family values are and why they matter through the multi-generational wealth lens. Presumably, senior family members helped build their family's wealth through hard work and frugality. Sacrifices were undoubtedly made to get the family's financial situation to where it is today.

Senior members should think about their own needs first to maintain the quality of life they've worked hard to build and then decide how much (or little) wealth they want to pass on to their heirs. Once the first generation is set up comfortably and has an idea of how much heirs will receive, the family values and rules expressed can start molding a healthy multi-generational wealth plan.



## Second Generation

Children of senior family members have often seen first-hand the blood, sweat, and tears that were required to amass the wealth their parents have created. With that in mind, this second generation is generally appreciative of their parents' sacrifices and want to use their inheritance to build a life of balance and purpose.

Now middle-aged, perhaps with children of their own, the wealth creators' offspring are often unsure how much wealth their parents genuinely have. Because open communication is essential in multi-generational planning, the second generation should engage in discussions with their parents (when appropriate) to determine the level of their family's wealth to begin understanding expectations and start thinking of how it'll be preserved and utilized in the future.

## Third Generation

The youngest generation is also the least experienced when it comes to financial planning. They're generally teens or young adults who are still figuring out their path in life. And because they're furthest removed from the wealth creators, this generation can sometimes be careless with their family's money if given the opportunity.

Their inexperience doesn't mean they shouldn't have a voice in the planning conversation, but they may not need to know every detail at this point in their lives. However, finding ways to educate them in financial management, like college funding or budgeting, can be an essential step towards including them in multi-generational planning talks.

## *Family Charters*

Creating a formal and open communication plan is critical for multi-generational planning, and one big component of that can be putting together a family charter.

A family charter is a document that describes the values, vision, mission, roles, and responsibilities of family members. It should also contain sections on the charter's purpose, how it'll change throughout the generations, and which members have decision-making capabilities. Lastly, a family charter should detail members' accountability, participation, and most importantly, transparency.

The lack of transparency in multi-generational planning is the primary source of any distrust among family members, potentially leading to major consequences and conflict. Developing an open dialogue into why the charter was written and the creation process can turn out to be invaluable down the road.

## *Family Meeting Tips*

*Once a charter has been established and the family's values and goals solidified, you can set up regular family meetings to start realizing your plan. Here are five simple tips to consider to make the most out of your meetings:*

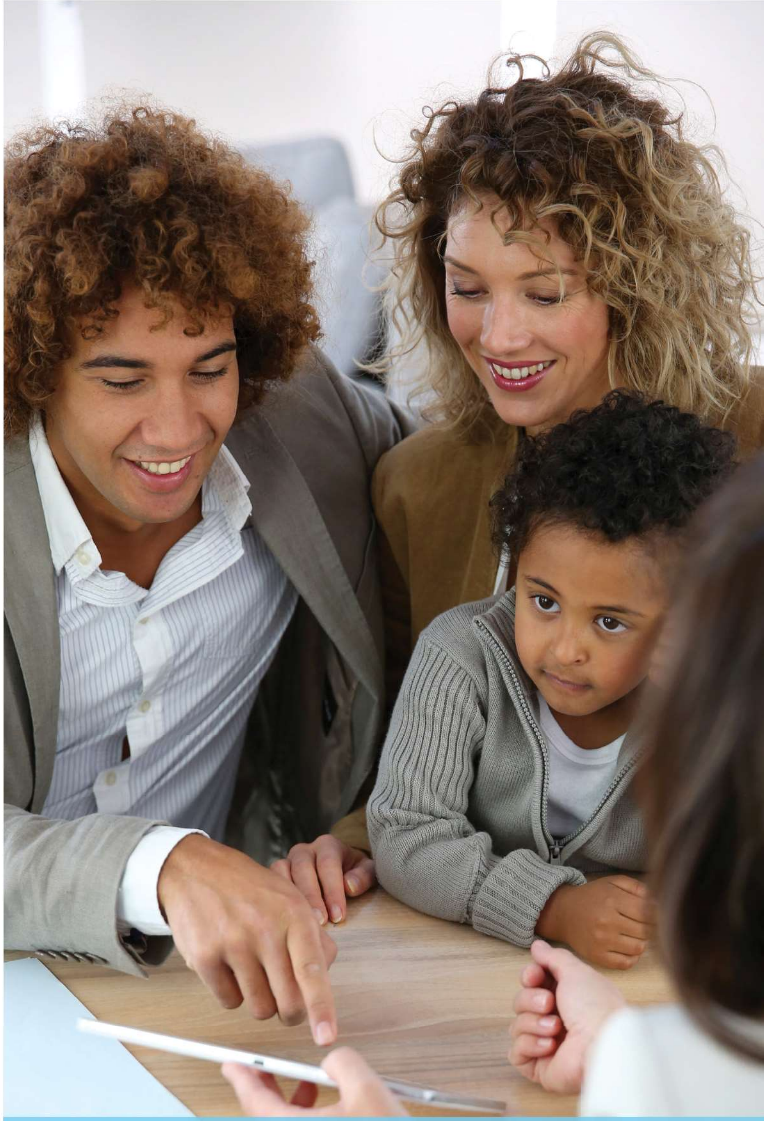
**1. Set your vision and purpose.** Having a direction on how your family will achieve your financial goals will set the table for a defined family culture when it comes to planning.

**2. Create structure.** Set-in-stone accountability allows for growth in individuals and your family as a whole. It's vital to have a plan in place that describes who does what and when.

**3. Consider a facilitator.** We're not going to pretend that all family meetings will go smoothly each time. But a competent facilitator will have the coaching, communication, and coping strategies needed to help level the playing field. Having a reliable facilitator will also help your family manage the discussion flow to ensure every voice is heard. Doing so can allow your family to grow together with each passing meeting.

**4. Open up.** Encourage everyone to be completely honest and transparent. Vulnerability and engagement initiate better conversations and can deliver much-needed buy-in from family members.

**5. Have fun!** Let's be honest: financial talk isn't the most exhilarating. To help energize members for a more unified experience, consider balancing your family meetings with financial education opportunities and fun activities.



### *Meeting Exercise: Broadening the Conversation*

*Often in family meetings, there tends to be a focus on the hard-hitting mechanics of multi-generational planning, such as tax-efficient strategies, wills, and trusts. And that's all fine and dandy.*

*But suppose family members can learn to look past those tangible aspects of planning and become genuinely involved in the overall well-being of future generations. When that's the case, a family's wealth can take a giant leap toward long-term sustainability.*

*A great way to develop this framework is by exploring the "dimensions of wealth" in an exercise during one of your meetings. These dimensions are both financial and non-financial in nature and can help clarify the values, ideas, and traits your family wants to pass along to future generations.*

**Here are five dimensions of wealth that you can examine with your family members:**

#### 1. FINANCIAL

It's first because it's the obvious one. Talking about financial wealth and implementing the best strategies to transfer assets is critical for multi-generational planning. Try learning more about your family dynamics (relationships, asset preferences, personalities, and more) to start accounting for potential roadblocks that may occur when transferring wealth in the future. Knowing these hurdles can come in handy when you're discussing goals and strategies with your financial professional.

#### 2. HUMAN

Human wealth: the skills, identity, and character of family members. The traits that run in your family can influence how you (or they) approach your family's wealth. In fact, it's vital to account for an individual's "human wealth" before making them a beneficiary. They should be ready both psychologically and intellectually to successfully manage any inheritance.

#### 3. FAMILY

How are your family's connections? Family wealth refers to the communication and interactions within a family tree. Since many financial failures are rooted in a lack of communication, this wealth dimension is crucial. Make sure to give all members a forum or platform to connect and improve communication—regardless if the interactions are financial-based or not.

#### 4. STRUCTURAL

This family wealth type relies on wealth management tools like estate plans, family charters, trusts, and more. It's not uncommon for a family to have various incentive clauses or other structural facets in a multi-generational plan, but those can be ambiguous. It's important to make sure all structural wealth management tools are simplified and organized into one plan. Doing this can help relieve any possible resentment between heirs down the road.

#### 5. SOCIETAL

What does your family value? Do they have a vision of how life should be? How are you tapped into the community and world around you? These are all questions to ask that'll help you find your family's societal wealth. Maybe you choose to establish a foundation or perhaps put annual dollars towards a cause or charity. Whatever it is, charitable and philanthropic activities are a great way to link family generations together while connecting to a greater cause.

# Securing Your Family's Legacy

## *Multi-Generational Planning Basics*

*We've touched on some of the main areas of a multi-generational plan in previous sections, but it can help to bring it all together in one list. By understanding the basics of a wealth-transfer plan, you can start to focus on specific areas—either with your family or your trusted financial professional.*

*In addition to general financial planning, a multi-faceted multi-generational wealth plan should include:*

- Retirement planning
- Estate and wealth transfer planning
- Tax planning
- Charitable giving
- A financial power of attorney
- Business succession planning (if necessary)

It's important to note that before you can see all this planning come to fruition, you'll need to work with your financial professional and provide the right documents so they can begin crafting your personalized wealth plan.

Be prepared to share these documents (and perhaps more) to help build the most effective plan for your family:

- A copy of your estate plan (if you have one already)
- Social Security information
- Net worth and account statements
- Recent tax returns
- Retirement plan documents

Of course, these are just the basics to keep in mind as you begin laying the foundation for future generations. As always, it's best to work with your trusted financial professional to develop an effective multi-generational wealth plan.

## *Wealth Transfer Opportunities*

*Successful wealth transfer plans don't focus on one or two avenues alone. Instead, a more holistic approach is often the key to establishing multi-generational wealth. So, we came up with some distinct wealth transfer opportunities you and your family might consider.*

*Keep in mind that every family is different, and your circumstances are unique. It may sound like a broken record by now, but any planning*

*should be done in consultation with your financial professional to avoid any mistakes or missed opportunities. However, here are a few efficient wealth transfer ideas you and your family may consider:*

**1. Irrevocable life insurance trusts (ILITs).**
An ILIT accomplishes three main goals: it protects assets, allows some asset control, and avoids estate taxes. With an ILIT, you'll first place a life insurance policy. But instead of you being the policy owner, it'd be a trust outside of your taxable wealth. You can gift premiums to the trust every year until you pass. After that, the policy's death benefit is paid out, avoiding taxes for more efficiency.

**2. Grantor-retained annuity trusts (GRATs).**
Especially in a low-interest-rate environment, using a fixed-term, irrevocable GRAT can be a prudent strategy. GRATs present opportunities for you to transfer appreciating assets to the next generation with little tax consequences. Here's how they work: you lock assets in a trust while they earn annual income. Each year, an annuity is paid out from the trust as well. Finally, once the trust expires, your heirs receive the assets tax-free.

**3. Revocable trusts.**
Otherwise known as living trusts, revocable trusts are a useful tool to avoid the costly, legal, and public process of probate. This type of trust provides privacy, flexibility, and income to the living grantor. These trusts also allow the authority to remove assets, change directives, and even terminate the trust (contrary to irrevocable trusts). After death, the assets are fully transferred to the trust's beneficiaries.

**4. Roth IRA conversions.**
Have a Roth IRA and don't need its income? Consider converting it. If you choose this route, you'll need to pay income taxes in the year you convert the IRA. Afterward, however, the account assets will grow tax-free and will eventually be distributed tax-free to any beneficiaries you choose.

**5. Annual gifting.**
A more straightforward method, annual gifting can be an easy way to shift wealth to future generations. As of this writing, the annual gift tax exclusion is $15,000 per person, or $30,000 for spouses splitting gifts. What this means is that you can gift this amount (either in dollars or in stocks) to as many people as you'd like, every year, without paying a gift tax. You can still give above the $15,000 per person limit, but anything above it will require you to file a gift tax return.

# Final Thoughts on Successful Multi-Generational Planning

Creating and implementing a multi-generational plan is no easy task. It takes a lot of hard work, long hours, family cooperation, and professional help to see a plan come to fruition. However, the satisfaction that comes from knowing your family will be financially stable for generations to come is the priceless reward for seeing the planning process through.

And although it's just the starting block, keeping these tips in mind will help you and your family devise a more holistic and equitable approach to multi-generational planning.

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