PERSONAL WEALTH ADVISORY BY
Laird Norton Wetherby

Multigenerational Wealth: Guidelines and Guardrails for Success

Inconcussa manet ("to remain unshaken") could be the motto of families taking on the challenge of preserving and growing their capital – both financial and human capital – as life ebbs and flows. Among LNW client families there are many examples of multigenerational wealth that has been sustained successfully over time. How do we work with families to help them thrive from one generation to the next? LNW Wealth Managers Lee-Norah Sanzo and Jeff Sain provide inspiration and insights based on decades of experience advising high-net-worth and ultra-high-net-worth families.

What are key things that enable families to thrive over many generations?

Lee-Norah: I would say education in the broadest sense is a common thread and one of the most consequential things we do for clients. Families partner with us to foster in their young people a commitment to preserving and building on what they are inheriting. It doesn't matter if it's old money or new. It is a great outcome when the younger generations are able to see themselves as "ambassadors" who represent the family and are preparing to manage wealth not only to enhance their lives but also the lives of others.

Jeff: Often, another key element is financial structures – different types of trusts, a foundation, perhaps a family business – that are long-lasting and can involve all the family members in managing assets. Trusts are about what assets go to whom and when, and our clients tend to have very different answers as to "whom" "when" and "how." The important thing is to explore and answer those questions and put structures in place to act as guardrails. For example, trust terms can allow us to add young adults as co-trustees so they can gain valuable experience working with us to manage the assets in their trust(s).

Lee-Norah: Related to that, success over many generations usually requires a common purpose that comes from a shared set of values. We help clients get more specific about what they value so they can pass that on to the younger generations. This often starts with a list of questions I give clients to think about that are unique to their situation. Eventually they are able to more clearly articulate what they value and we use that to guide what goes to whom when, and just as importantly, why. The result is a well-thought-out plan that has inherent logic but with flexibility built in to reflect what happens with the lives of the different family members.

How do you partner with parents or grandparents on education?

Jeff: It depends on the age of the children but also on their interests and abilities. With young kids, we work with the parents on money choices and the conversations this opens up. "Do you NEED to buy this or do you WANT to buy it?" "How much of this do you want to spend, save and share?"

As children get older, we add basic money skills – budgeting/borrowing, saving, investing, etc. This is critical know-how that is not taught in most schools. We also help parents/grandparents understand the different money personalities within the family and how to help kids discover their passions and develop their interests. This is a gradual process that is not hard to do once you start. And the benefits are tremendous: Getting everyone in the family comfortable talking about money and decisions related to that.

Lee-Norah: Wealthy families tend to associate with other wealthy families, and this sometimes can cause people to lose perspective. For instance, kids or grandkids might say: "But all my friends are buying that or doing this, so why shouldn't I?" It's often hard for adults to draw the line and say, "No, and here's why." It takes preparation, perspective and conviction to respond thoughtfully with: "This is what our values are, this is what we're about." And that is what we help our clients articulate.

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When should the multigen planning process typically start? At what age?

Lee-Norah: Actually, there is no set age. We work with young families with small children and a significant amount of wealth they want to pass on, as well as family patriarchs and matriarchs whose children are in their 50s and the grandkids are in high school.

Jeff: Sometimes, the bulk of family wealth might be illiquid, perhaps in a closely held family business. To preserve and build on that legacy requires planning way in advance so the younger generation is ready and capable to take up the baton. In these situations, we might suggest strategies such as the use of trusts to start the process of transferring ownership. This can incentivize the younger generations to get more actively involved, especially if the terms and conditions of the transfer are tailored to their unique interests and abilities.

What do you see as misconceptions or mistakes people make?

Lee-Norah: I would say trying to hide the fact that the family has significant wealth in order to protect young people from being spoiled. More often than not, this approach backfires. Young people end up not being prepared when they come into an inheritance and all sorts of things can go wrong, including de-motivation. Also, not starting the process of legacy and multigen wealth planning until there's some sort of medical or other emergency that forces decisions under duress. We have helped clients put plans in place during stressful times, but it is best to have a plan before a plan is required.

Where things tend to go wrong is when people who are unprepared to handle wealth receive a large amount of money at one time. In that case there is no education (guidelines) and no financial structures to control distribution (guardrails). So wealth tends to dissipate and by the 3rd generation it might be gone. The best situations are when young people are prepared over a decade or two to responsibly handle wealth, use it to enable positive outcomes, and there are structures in place that allow them to do that thoughtfully and incrementally.

It's a tricky balance: you want to give young people enough to enable them to lead fulfilled lives, but not so much that it de-motivates them. Each client situation is unique, and we come into these discussions with a completely open mind as to what might be appropriate for each family.

Jeff: I encourage clients to occasionally bring their teens and young adults to our meetings to talk about money management and investing. We will sometimes recommend opening a custodial account (e.g. UTMA/UGMA) at an early age, which can then be used as a savings and educational tool. The child knows they will get that money at age 18 or 21, and over the years we encourage them to see it as savings to be invested and/or to meet specific life goals, such as paying for college or a down payment on a house. When the kids leave for college and afterward, it's not uncommon for the parents/grandparents – or even the kids themselves – to ask us to start working directly with each of them because by then we have formed a pretty strong relationship.

Where do you start when clients are ready to focus on multigen planning?

Jeff: We start by providing the framework (the information, data, analysis/insights) that clients need to understand how well and for how long their asset base can support current and future spending and capacity for legacy planning. From there, we work on strategies to shift wealth to the next generations in context of ages, abilities, needs and wants. For example, a trust can be used to preserve assets for the grandchildren and their future descendants, while at the same time providing benefits to the children. In some cases there may be pre-existing family trusts whose terms can impact current decisions about what should go to whom.

It is never too late to start. I have seen situations where a client might wait until the children are in their 50s to begin discussing estate planning and what goes to whom. The reasoning is that by middle age, the next gen will have worked for decades and have kids of their own, so it's possible to have a pretty good sense of how they'll manage an inheritance. In those cases, we might invite all three generations to gather so we can explain what our client wants to do and make sure everyone is clear with the process.

Lee-Norah: A key question is how much control do you want over how your wealth is used by future generations. Many of our clients are high-achieving and have accomplished great things. Are they OK with their children or grandchildren using most of their inheritance to live on because they have chosen careers that are highly satisfying but not all that lucrative? Some people are fine with that. Others want their children to become financially independent on their own and then come into an inheritance once they are well-established and have their own families.

The Importance of Family Stories

Find out why family stories, both good and bad, are so powerful in preserving family legacies, and ways to pass them on. Read our Q&A with Marshall Duke, Ph.D., renowned researcher and professor of psychology at Emory University for more than 30 years.

What about prenuptial agreements?

Lee-Norah: Prenups are very common now, and we help clients discuss how to structure the agreement so that everyone feels good about the result. While prenups can be structured in many different ways, even as a vesting schedule, the one thing they must do is to declare all assets a person owns now or assets they will receive from trusts set up for their benefit.

A prenup can sometimes bring out major differences in how each partner thinks of their combined finances and use of funds. We've seen situations where the marriage has been called off because of that. But most of the time, a prenup forces couples to have discussions around finances so they are on the same page before the marriage. For couples who live in community property states, such as Washington or California, we also advise on what that would mean in case of divorce.

What happens when life doesn't turn out as planned?

Lee-Norah: That of course happens all the time. We might have a great plan in place for passing an inheritance on to grandkids, but the kids make it clear there won't be grandkids. The benefit of having a plan is that it requires families to grapple with the key questions regarding what happens to their wealth in the future, but it is not set in stone. We always try to allow for a great deal of flexibility. And we routinely help clients modify their plans as circumstances change.

ABOUT THE AUTHORS

Jeff Sain develops comprehensive wealth plans for high-net-worth clients, including business-owning families, that comprise both investment management and estate planning. He brings to his work in-depth expertise in trust and estate administration and is expert in the development and implementation of complex multigenerational trusts, incorporating into these vehicles investment solutions intended to achieve each client's unique goals and objectives.

Lee-Norah Sanzo has more than 30 years of experience in wealth management and private banking, with most of her career focused on trusts and estate planning. At LNW, Lee-Norah is responsible for advising clients on trust strategies as well as managing trusts, working to ensure trust longevity and adherence to changing tax laws and regulations. She brings to her work extensive expertise in wealth planning, taxation, market analysis and private banking, allowing her to make the most of trust strategies in multigenerational wealth planning. She often works with multiple generations within families, educating and advising trust beneficiaries especially during times of change and transition.

ABOUT LNW

LNW Advisors services support exceptional families and individuals seeking to activate the full potential of their wealth. To help turn lifetime ambitions and multigenerational aspirations into reality, Laird Norton Wetherby (LNW) brings to each client relationship a high level of care combined with deep expertise in wealth and legacy planning, investments, and trust and estate services.

Offering both RIA (registered investment advisor) and trust services, LNW is committed to providing clients with unbiased, independent guidance and solutions. LNW has offices in Seattle, San Francisco, New York, Los Angeles and Philadelphia, as well as an affiliated trust company in South Dakota, empowering clients across the U.S. and around the world.

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