Best Practices of Generational Wealth Transfer

There are many facets to consider when planning your family's wealth transfer. These 10 best practices will help you stay focused on how to execute the most efficient transfer possible.

01 Think of monetary wealth as part of a larger picture

Although monetary wealth is important for your family's security, it's important to consider monetary assets as part of a larger family legacy. A successful transfer of wealth should also include family values, stories and traditions. Wealth transfer means not only uniting your family behind your assets, but, more importantly, aligning those assets with the morals and standards your family cherishes most.

02 Set up a mentoring system

Making time to educate, nurture and collaborate with your future heirs can mean the difference between a successful wealth transfer and the loss of your family legacy. Twenty-five percent of wealth transfer failures are caused by inadequately prepared heirs. Luckily, this problem has a simple solution: invest time in the next generation. By fostering a respect for money and educating the next generation on basic economic concepts, you can help your future heirs avoid the traps of careless spending and financial paralysis.

03 Practice family governance

Family governance simply refers to making decisions as a family. You can develop and practice family governance through informal family meetings, which provide a forum for family members to speak as equals so that all generations feel they are having their voices heard. Establishing this type of discussion can help your family to develop policies that guide how you go about making decisions. By creating a model for how to make important choices regarding family wealth, your family is more likely to avoid conflict. For more formal practice, you can set up shared philanthropy or involve your future heirs in the family business. By giving the next generation responsibility of family wealth early on, they can develop valuable decision-making skills while they still have the previous generation to guide them.

04 Establish a plan for conflict resolution

Many families think that if they avoid conflict at all costs, there is no need to think about conflict resolution. However, conflict when dealing with money, especially during the emotional time after a family member has died, is very common, even for the most peaceful of families. Having a predetermined protocol for conflict resolution can help you to resolve conflict in a fair and efficient manner.

05 Evaluate individual risk

No two families are the same, and one of the best parts of wealth transfer plans is that they can be customized to best fit your family. However, chances are you know the spending habits, attitudes and maturity levels of your family better than your advisor. These are all things to consider before meeting with your financial advisor so that you can help customize risk profiles for each member of your family. Maybe that means setting up trusts rather than giving money directly to heirs or setting a certain age that heirs must reach before they can inherit. Just as you wouldn't buy the same gift for every member of your family, neither should you make a collective decision about how to pass on wealth.

Twenty-five percent of wealth transfer failures are caused by inadequately prepared heirs.

Conflict when dealing with money, especially during the emotional time after a family member has died, is very common—even for the most peaceful of families.

Pinnacle Wealth Management Group, Inc.

(734) 667-5581
849 Penniman Ave Ste 201
Plymouth, MI 48170

06 Get organized

By establishing early on how much you can afford to pass on and how much you need to conserve, you can see at a glance how your future finances could play out. Separating your assets into “core” capital, the amount of money you need to cover your necessary expenses for the rest of your life, and “excess” capital, the amount that you can put toward the next generation, will ensure that you aren’t overspending now or allocating too much money for the future.

07 Choose your trustees wisely

A trustee is responsible for administering money from a trust to its beneficiaries. The trustee should understand the grantor’s intent in creating the trust, know the beneficiaries well and have the appropriate knowledge to be able to monitor investments. Unfortunately, not all trustees meet these criteria. It can be tempting to choose a family member or close friend as a trustee, but many people may not have someone capable of carrying out all of these responsibilities. There are also other options, such as a trusted advisor, a corporate trustee or a private trust company. Each has its own pros and cons, but you ultimately have to decide on the balance between familiarity and experience that you are comfortable with. Another important (and sometimes overlooked) aspect of selecting a trustee is choosing a successor or protector to ensure that your wealth is in good hands, no matter what happens.

08 Establish set roles among beneficiaries

Just as important as choosing the right trustee is deciding who will be your beneficiaries and what roles and responsibilities they will take on. Each beneficiary is expected to contribute to accomplishing their family’s long-term goals, but their role in achieving these goals may be different. For example, if a business is being passed down, you will need to establish who will fulfill which role within the business. By discussing these decisions and the reasons behind them ahead of time, you can prevent beneficiaries from fighting amongst each other about who is best suited for leadership.

09 Protect those assets worth protecting

After spending so much time building up your assets, it’s natural to want to hold on to as much as you possibly can. However, with certain non-monetary assets, it’s often prudent to think about how these assets will affect the next generation. For example, let’s say you have a summer cottage that you want to pass on. Do you also have a large family? With one or two children, this might not seem like a problem. But with four or more children, considering the children they may one day have, that ends up being a lot of people sharing just one piece of property. Especially since the cottage might only be able to be used for four months out of the year, allocating vacation time could turn into many arguments. That’s not to say you can’t pass down property—it’s just important to discuss the types of concerns that may arise, such as scheduling and maintenance, before you do.

10 Expect the unexpected

Wealth transfer plans should be made assuming that they are going to change. They require a certain amount of flexibility, as natural and unforeseen events such as divorce, illness, marriage, birth or death can deeply affect wealth transfer. It can be helpful to do practice runs of what you would do if one of these life events did occur so that you are more prepared in these situations. For example, how would you want to rearrange your will or possible trusts if you were to have another grandchild or if your daughter were to get married? Would you want to allocate more funds to a certain family member or add another family member to your will? These are important questions to consider so that you can put “in case of” precautions into place in your wealth transfer plan. ■

Wealth transfer plans should be made assuming that they are going to change.