Staying on Track

Avoid falling into the trap of a static wealth transfer plan. Learn why it's important to check in with your financial advisor regularly.

It's important to think of a generational wealth transfer plan not simply as something to create and then file away as "done," but rather as a fluid strategy that should keep pace with your lifestyle.

Life events

Many unforeseen life events can affect your wealth transfer plan. For example, a death or divorce in your family could cause you to remove beneficiaries from your plan, while a birth or marriage will cause you to add them. If you have a large number of beneficiaries, it's even more likely that one of these events will affect your plan. Changes in employment may prompt you to rethink whom you name as beneficiaries of your life insurance and retirement plans. Moving to a different state or country can affect how your property is divided up by law. For example, common law states require you to specify what you and your spouse consider "shared property," whereas community property states consider all property earned or acquired during a marriage as being legally owned in equal halves. Although there is no way to predict what changes life may bring you, you do have control over how your wealth plan will reflect these changes. By adjusting your wealth transfer plan as soon as possible after a major life event, you can avoid leaving legal entanglements for your future heirs.

Policy changes

Changes to tax law can have a large effect on your wealth transfer plan, and it's often difficult to keep up with all of the changes to policy. Laws regarding the use of trusts to pass down wealth are subject to change, as are laws that govern estate and gift tax amounts. Not all policy changes are small --the estate tax exemption amount has risen by more than $4 million in the past 10 years. Laws that once applied to you may no longer apply, and vice versa.

Market fluctuations

Market changes can also affect your plans, especially if the bulk of the assets you plan to hand down are stocks. For example, say you decide to split all your stock in one company among your children, and you leave a fixed cash amount to your grandchildren through direct gifts. If the market dips and the price of your stock goes down, your grandchildren may now be receiving more than your children in your wealth transfer, which may not be what you intended. Falling interest rates due to market changes can also affect any trusts you may have set up. For example, if you set up a grantor retained annuity trust (GRAT) to freeze assets and avoid estate taxes, a low interest rate could increase the value of the annuity given to the grantor and therefore decrease the value of the GRAT remainder for the next generation. Even the most carefully thought out plans are subject to market fluctuation and should be adjusted accordingly.

Changes within the family

Just as important as a regular check-in with your financial advisor is a regular evaluation of the relationships you maintain with your family. Changes aren't always as

Many circumstances can cause your wealth transfer plan to change. It's important to check in with your financial advisor periodically to make sure your plan is adapting along with you.

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concrete as changes in the law or the birth of a new family member—change can often be subtle, such as your son gradually becoming more financially responsible or your philanthropic interests shifting. Perhaps you had checkpoints set up for your family that will affect how you transfer wealth, such as a future heir becoming eligible to inherit after graduating from college. Has this checkpoint passed? Will you set up a new goal now that it has? By stopping to reevaluate the status of your relationship with family members, you can ensure your wealth is directed to those who will care for it best.

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When to check in

If you experience a life change or the market changes dramatically, check in with your advisor as soon as possible to adjust your plan. However, to make sure that you are up to date with recent policy and that your wealth transfer plan is as current as it can be, it's a good idea to check in with your financial advisor regarding your wealth transfer plans every 1-5 years, depending on the size of your estate. If you have a larger estate or a more complicated wealth transfer plan, you may want to check in more frequently. ■