MONEY BEYOND YOU

As a wealth management firm, a great deal of our focus is on helping clients build wealth through the financial markets. But what do clients do with that wealth?

Most clients are saving with specific goals in mind to meet during their lifetime such as saving for retirement or for children's college educations. Financial plans are created to help plan for and stay on track toward those goals. But, what about the "money beyond you"? Most of us, no matter what stage of life we are in, are extremely busy and may not be thinking beyond our immediate goals. However, we can think of no greater responsibility than stewarding your wealth in a way that builds a legacy and fosters family values. Your goals and your legacy are not mutually exclusive, but what you do for one will limit what you can do for the other.

Shirtsleeves to Shirtsleeves in Three Generations

Studies support that there isn't enough focus on the stewardship of family wealth. Stewardship can be a significant factor in the success or failure of passing wealth from one generation to the next. One study showed that 70% of family wealth is lost by the end of the second generation and 90% by the third generation (Williams Group Wealth Consultancy 2003 Study).

A 19th century proverb inspired the saying "shirtsleeves to shirtsleeves in three generations," an American version of the proverb. The theory is that the first generation starts off in "shirtsleeves," meaning two people come together and work hard to create a financial fortune. They usually do it without making significant changes to their values, customs, or lifestyle. The second generation does not have that same determination, nor do they put forth that same effort. So they live on inertia and move to the city, purchase beautiful clothes, join the opera board, and run big organizations, and the fortune plateaus. The third generation, with no experience of work, consumes the financial fortune, and the fourth generation goes back to "shirtsleeves." This is the classic formulation of the shirtsleeves concept which is a typical pattern that has played out over human history and transcends many cultures.

The message is that teaching your children to earn their own way is crucial; spoiling them is the worst choice of all. Raise them to appreciate what it takes to build what they see around them, and give them opportunities to act as determinedly as you did. How you educate your children in every facet plays an integral part in their future financial stability. This is a very important aspect of successful multigenerational wealth.

An Early Example of Multigenerational Wealth

Arguably the wealthiest and most powerful family in U.S. history is the Rockefeller family. Over more than 100 years, they amassed one of the largest family fortunes in the modern era (in addition to influencing many business, political, financial, and philanthropic activities). After making a fortune in the oil industry, the family patriarch, John D. Rockefeller, Sr. (1839-1937), devoted his life to philanthropy. John Sr. did a number of key things early on to ensure the family legacy stayed intact and grew substantially for generations to come. First, his son John D. Rockefeller, Jr. served by his side in philanthropy activities so he learned firsthand of the family values and developed his own desire to give back to society, especially in the form of helping fund social issues.

The Rockefellers also took steps early on to set up a strong family governance structure with organized meetings similar to how a board of directors operates for a corporation. As the generations continued, various pools of "brother" or "cousin" money formed in which the family members contributed their wishes on what to focus on for collaborative philanthropic projects. This also fostered the combining of talents and skills across the many family members to exert influence and expertise in the various projects. Working as a family unit with the same values and goals in mind allowed the family itself to become a powerful entity. The Rockefellers are still going strong today in the seventh generation with more than 150 descendants and have shaped priorities and family values for generations to come. While the Rockefellers are unique in the sheer size of their family wealth, many families and family businesses can learn from them the importance of key components in shaping their own legacy and future generations.

Planning is Key

It takes considerable planning and discipline for a successful multigenerational wealth outcome. Often there are a number of headwinds that can impede success, including:

- **Lax oversight**
- **Spendthrift descendants**
- **More beneficiaries each generation**
- **Poor market environment / high inflation**
- **Estate and income taxes**
- **Transfer to beneficiaries without following family plan**
- **Fees during transition**

The final two headwinds can be particularly harmful to long-term accumulation of wealth. When beneficiaries decide to re-route the family assets to another financial firm, the "family plan" can get left behind. Furthermore, during that process there can be potentially high fees and taxes incurred while transferring to another investment strategy. The good news is that headwinds can be largely avoided with good planning. Planning is vital and most people don't plan to fail, they just fail to plan!

There are basically three options for money beyond your own needs: 1) gift to family and friends, 2) donate to charity, and/or 3) let the money go to the IRS. **Planning for your legacy is embedded in the ten integral financial planning areas that comprise Savant's *Building Ideal Futures Process*[SM]**. Our Ideal Futures Financial Health Assessment[SM] is an example of a tool we use to shine a light on areas that need the most work in your financial health. Many of those areas relate directly to multigenerational wealth, such as managing long-term investments, planning for charitable giving using optimal vehicles, business succession planning, wealth transfer expertise using various trust strategies, and tax reduction strategies. We track the status of each using our proprietary database and then utilize the many levers we have in house to plan for and help implement solutions. Those include people (expertise in investments, tax, planning, estates, etc.), tools (proprietary planning tools and assessments), and vehicles (knowledge of and access to many vehicles for implementation of plans, such as donor advised funds or charitable trusts).

Takeaway

We hope this challenges you to start thinking and talking about how money can be used to create your legacy and foster your family values. Creating a road map for your wealth during and after your lifetime is essential, and communicating the details is a major key to its success.