BloomsburyWealth®

The Bloomsbury Wealth

GUIDE TO PREPARING YOUR HEIRS

How to prepare your heirs
for the future

Welcome to the Bloomsbury Wealth Guide to Preparing Your Heirs.

In the spring of 2017 a number of our clients very kindly participated in a global survey compiled by Dimensional Fund Advisers to determine what mattered most to them, their areas of concern, the likelihood of them referring Bloomsbury and their satisfaction with the service they receive.

Overall the results made interesting (and altogether rather pleasing) reading both in terms of the answers our clients provided and how those answers compared with the other respondents, whose numbers approached 19,000.

'Passing along assets to heirs who will not use them wisely' was the most popular response amongst Bloomsbury clients to the statement: 'My greatest fear about my finances is…' It was also a higher response than the survey average and is a subject which crops up regularly in annual update meetings.

We have put this document together in an effort to provide some guidance and reassurance about preparing your heirs for what lies ahead when they no longer have the benefit of your experience and voice of reason.

Hopefully they will have picked up some of your good habits along the way and learned the value of sound financial advice.

Read on to find out how to increase the likelihood of your heirs behaving in the way you hope for.

With warm regards,

The Bloomsbury Wealth Team

INTRODUCTION

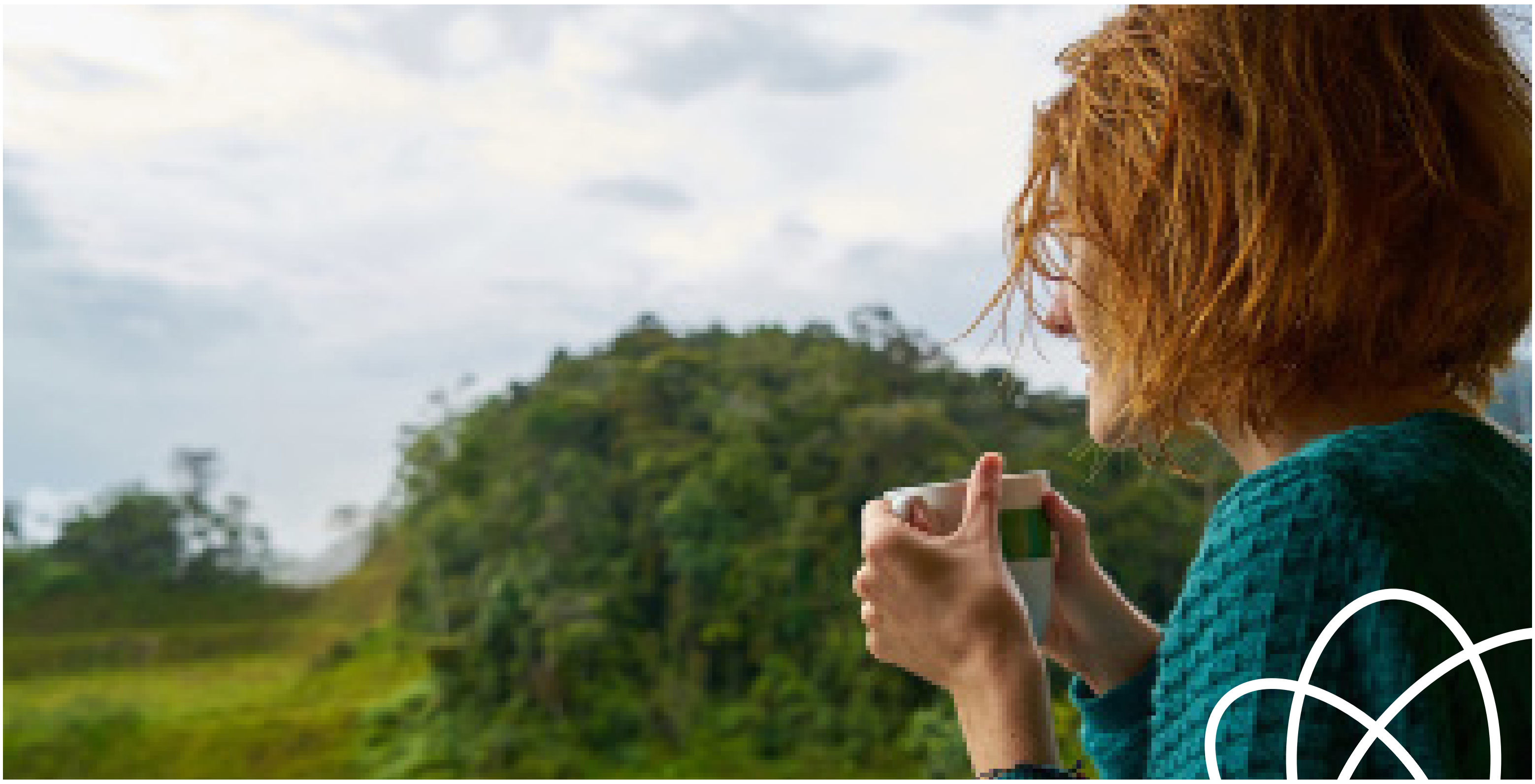
"Every affluent father wishes he knew how to give his sons the hardships that made him rich."
Robert Frost

Research has found that 90 percent of inherited wealth is depleted by the third generation. Probably one of the most famous examples of this 'shirtsleeves to shirtsleeves in three generations' phenomenon is the case of the Vanderbilt family.

Essentially, Cornelius 'Commodore' Vanderbilt managed to transform $100 borrowed from his mother in 1810 into a $100 million fortune by the time of his death in 1877. He expressed public disappointment over his family, saying he felt his only two sons (from 10 children) were not up to his standards and did not have what it took to grow the family wealth. He was wrong. His son William expanded the business and more than doubled the family fortune by 1885. Sadly the fall that followed was every bit as rapid as its rise. Opulent homes and lavish lifestyles cut through the fortune and fewer than 50 years after the death of Cornelius, one of his grandchildren is said to have died penniless. In less than a generation the majority of the family wealth had been spent and was virtually gone within four generations.
Find out more about the rise and fall of the Vanderbilts here.

This is a subject which clearly resonates with our clients as many of them ask for our help in handling the transfer of significant wealth to the next generation.

Our clients are generally not people who have inherited their wealth. They have all worked incredibly hard and are first generation wealth creators - often from very modest beginnings. They are very conscious of the difference between providing their children with a 'hand up' and a 'hand out'. They want their children to work as hard as they did and to value the wealth that they will ultimately inherit. What they often struggle with is how best to pass on the responsibility for that wealth to the next generation.



A recent study by US Trust looked at, amongst other things, the attitudes of the wealthy regarding family relationships and wealth.

Despite being aware of the benefits of doing so, the study found that very few wealthy families had developed any kind of overarching principles or mission statement to reflect the values and wishes as to how the family's wealth should be used, while fewer than one in three has had a discussion with their children about the wealth that they will inherit.

Nearly one in five parents with children over the age of 25 says that they have not discussed the family's wealth with them because they don't think their children are old enough or mature enough. Four out of ten parents over the age of 70 believe that their children won't be ready to deal with the family wealth until they are aged at least 40.

Whilst understandable in many ways, this does their children a huge disservice and puts at serious risk the longevity of the wealth they worked so hard to create. As William K Vanderbilt said:

"It has left me with nothing to hope for, with nothing definite to seek or strive for. Inherited wealth is a real handicap to happiness. It is as certain death to ambition as cocaine is to morality."

How differently things might have turned out if Cornelius had done more to prepare his heirs in advance and put in place a strategy into which the whole family had bought.

This guide is designed to look at the issues families face in dealing with wealth transfer and the positive action that can be taken to improve the chances of that wealth lasting through successive generations.

"Give a man a fish and you feed him for a day; teach a man to fish and you feed him for a lifetime."

Maimonides

WHY IT MATTERS

"We should not forget that it will be just as important to our descendants to be prosperous in their time as it is to us to be prosperous in our time."
Theodore Roosevelt

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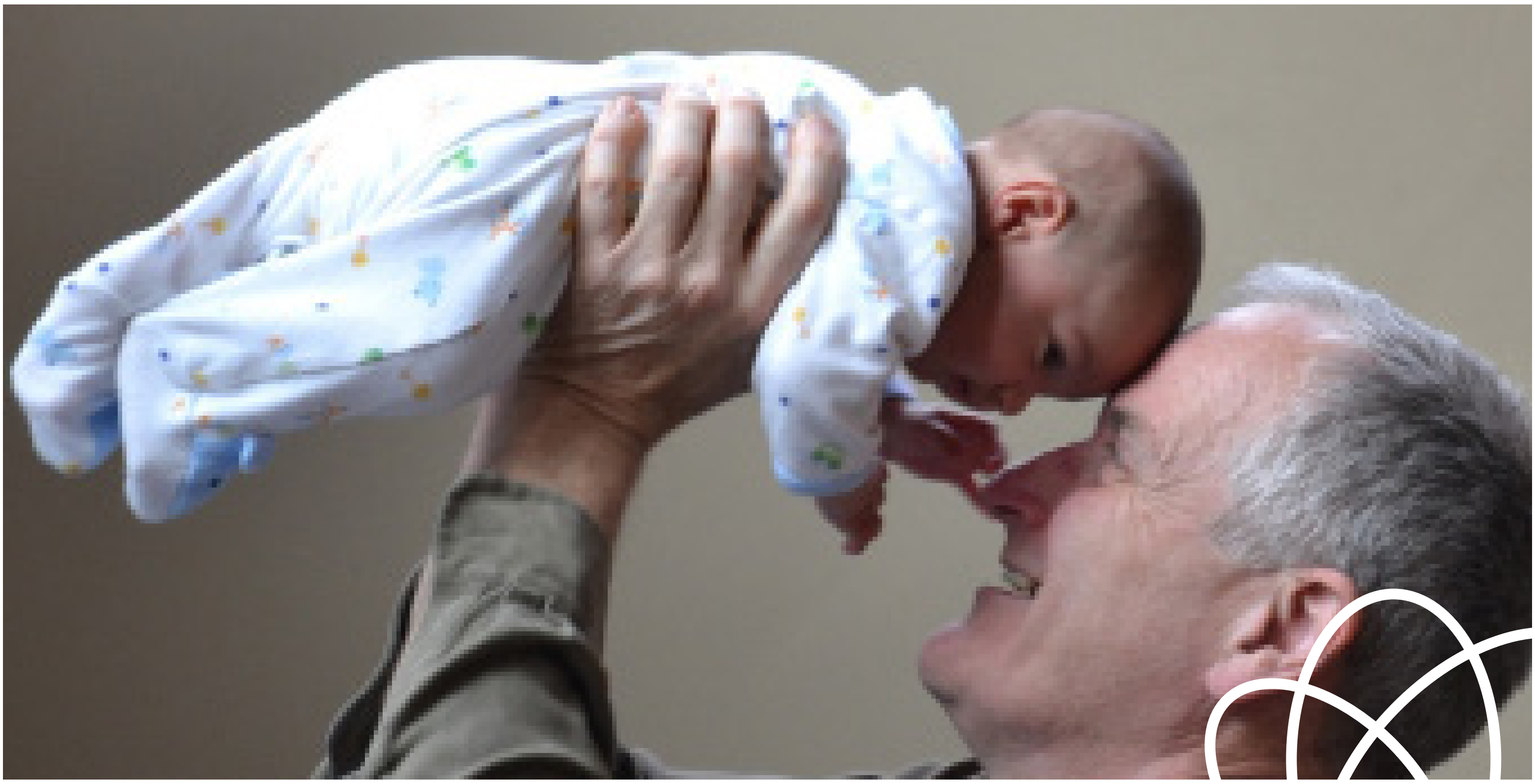
The statistics available on the loss of wealth across generations have found the primary reason for loss is not poor advice, high taxes, or dilution of wealth across a growing number of heirs but the failure to prepare heirs for the wealth they would receive and a breakdown of trust and communication.

Research has shown that the transition of family wealth down the generations stands a far higher chance of success if the family has a clear idea of the purpose of that wealth and when they all buy into the family's objective.

The principal purpose of the wealth will, and should, be to provide the desired lifestyle for the creators of that wealth. That said, in our experience, 'wealthy' does not equate to 'wildly extravagant' and therefore our clients at least should, barring unforeseen catastrophes, be able to leave a substantial legacy to the next generation. After all that's often partly why they choose to work with us; to ensure that we help them to achieve that.

So, after making sure the wealth creators are taken care of, what next? Obviously, the answer will be different for every family and can only be determined by discussion but one important thing to bear in mind is that this is NOT just about money. Family wealth comprises three main elements:

- Human capital (the individual members of the family);
- Intellectual capital (the capacity for each member of the family to learn and grow); and
- Financial capital (which should serve only as a means to support the growth of the first two).



If the first two are not nurtured sufficiently, then no amount of the third will save the family from falling victim to the ‘shirtsleeves to shirtsleeves’ phenomenon so prevalent among wealthy families. Furthermore, this is a long-term project, the success or failure of which will be measured over generations, not years.

Managing the family wealth is, essentially, no different from running a business, which is great news since most wealth creators are familiar with that concept. They should see themselves as the current CEOs of the family ‘business’ and the family members as the ‘board of directors’, each of whom will take on a specific role within that business.

Of course no serious business exists and prospers without a written strategic business plan and, in our opinion, the same is true when managing family wealth.

THE FAMILY MISSION STATEMENT

"...a very rich person should leave his kids enough to do anything but not enough to do nothing."
Warren Buffett

As mentioned above, managing family wealth is much the same as managing a business; the 'wealth creator(s)' act as the CEO, with other family members being directors, each with a well-defined role to play.

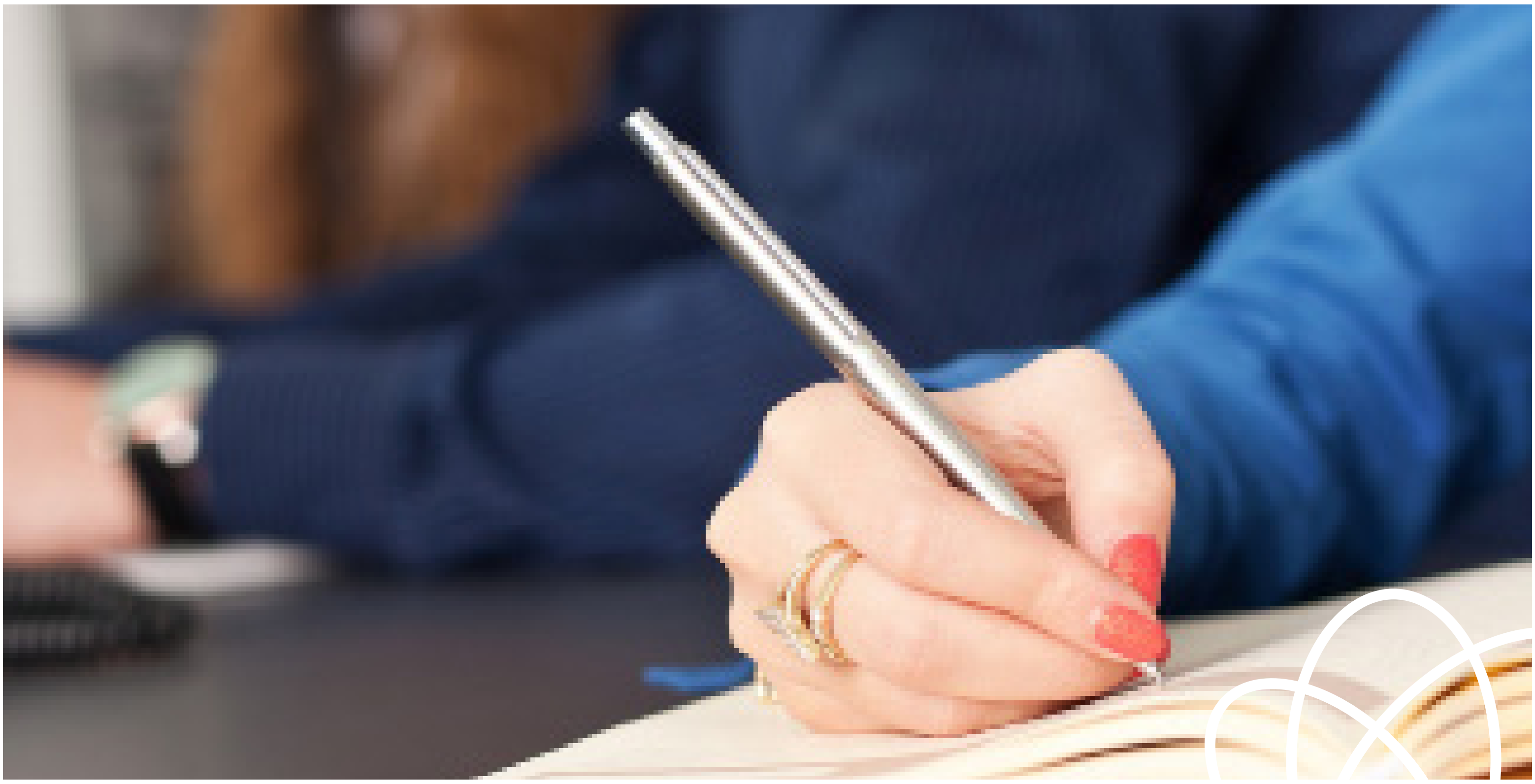
The purpose of the 'business' is to enhance the lives of the family members.

Just keeping that one sentence at the forefront of your family's mind will help to guide it in its decision making.

A family's ability to protect and grow its wealth is dependent on excellent long-term planning. By 'long-term' we mean in excess of 100 years – four generations.

In the same way that no successful business exists without a good business plan and that without a financial plan an individual will have a poor chance of determining where they are going and knowing when they get there, so a family will struggle to protect its wealth without a well-defined plan. The family mission statement is the first step in creating a plan for the family's wealth, and as such is a 'statement of intent' which will guide the family in its decision making throughout the years.

The family mission statement should be a formal record of the family's story, vision, and values and ideally should therefore cover the following areas:



- The family's purpose – What is it that the family wants to achieve?

- The family's vision – What is the plan for achieving the family's current goals and how can these be aligned with the goals that the family might determine in the future?

- Skeletons in the closet – Every family has them, to a greater or lesser extent, and they need to be acknowledged rather than ignored. Sometimes everyone in the family knows about them, and sometimes these matters are known of only by a few but pretending they don't exist can have disastrous results;

- The family's history – How did it get to where it is? Every family has stories and preparing the mission statement provides the opportunity for those stories to be shared and for it to record the family's unique history;

- Governance – What expertise exists within the family which can be called upon when needed? This will inform the decision as to the roles which each family member will fulfil.

Creating your family mission statement requires input from the whole family and the best way to obtain that is by holding a formal family meeting.

THE FIRST FAMILY MEETING

"Someone's sitting in the shade today because someone planted a tree a long time ago."
Warren Buffett

By far the best way to create the Family Mission Statement is by holding what will become the first in a series of regular family meetings.

As with any well run meeting there should be a formal agenda, a chairperson and a minute taker. There should also be a number of rules for these meetings:

- Do your pre-meeting homework (i.e. read any material which might have been distributed ahead of the meeting);
- Turn up (on time);
- Pay attention;
- Don't interrupt – let each speaker have their say;
- Speak the truth (this only works if everyone commits to the meeting being a safe environment where everyone can speak their minds without fear of being judged);
- Don't come to the meeting with any pre-conceived ideas about the outcomes – this can often result in tension and arguments.

> "Only the man who does not need it is fit to inherit wealth, the man who would make his fortune no matter where he started."
> - Ayn Rand

For the first meeting it might be helpful to ask each attendee to prepare a short statement for everyone which covers their values and passions in life.

Another useful exercise is to ask everyone to prepare a brief description of where they see the family in 20 years' time, as this will help the family in understanding the long-term nature of the journey they are embarking on.

By the end of the first meeting there should have been a sufficient exchange of ideas and opinions to enable the first draft of the Family Mission Statement to be prepared. Remember that it doesn't need to be perfect first time and that it might take several drafts before the members of the family feel they have buttoned down exactly what it is they want to achieve with the family's wealth.

ASK FOR HELP

It is worth bearing in mind that most families will struggle to manage the process we have covered in this guide without some degree of external help. In the same way that most family businesses will benefit from having non-family board members, the same is true of most families. Professionals who are neutral, who understand the dynamics of the family and who have worked with the wealth creators have a tremendous amount to contribute.

They can diffuse potentially damaging situations when emotions may be running high and can offer a perspective, or a suggested solution, to a problem which the family members might not otherwise consider.

'None of us is as smart as all of us', as Kenneth H Blanchard said. Never underestimate the power of a team.

Creating a structured process for managing the family's wealth is crucial to ensuring that the wealth survives beyond the immediate family and is a force for good rather than a destroyer of ambition.

UBS Wealth Management conducted a survey with both wealthy investors contemplating leaving an inheritance and heirs who had received an inheritance. Here's an excerpt from that article:

"Among heirs who have received an inheritance, 34% wish their parents had done something differently and 74% plan to do something differently themselves. These are the top areas that heirs pointed to in which they'll do better than their parents:

- 47% will keep their will up to date;
- 43% will disclose the whereabouts of all assets;
- 34% will proactively discuss plans with their heirs;
- 34% will minimize taxes for heirs;
- 33% will have a clear wealth distribution plan."

And one final, slightly shocking, statistic - it takes the average recipient of an inheritance 19 days until they buy a new car.

ABOUT BLOOMSBURY

Bloomsbury Wealth is a multi-award winning specialist wealth management and financial planning firm based in London owned and led by Carolyn Gowen and Robert Lockie.

We specialise in helping successful business people and their families to overcome the challenges involved in managing significant wealth. We act as personal wealth advisers to a select number of families with complex affairs to deliver tangible and substantial value. This gives our clients the confidence of knowing that they can achieve all that is important to them in life.

To arrange an introductory telephone call with one of our friendly and experienced planners or if you would like more details on any of the subjects mentioned in this document please contact the Bloomsbury Wealth Marketing Department:

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