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How to create a wealth transfer plan

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Wealth transfer is a complex affair for wealthy families. It involves the planning and execution of a strategy to shift the wealth created by the current and/or prior generations, into the possession and control of the next or even subsequent generations. Illustration by Chloe Cushman for National Post

A mindfulness of mortality is sweeping through Baby Boomers as their parents age and pass away. Heretofore so adept at turning back the clock … isn't 60 the new 40?

But Baby Boomers are waking up to the fact that some passages just can't be postponed. This newfound awareness combined with their own children reaching adulthood has focused many wealthy Boomers on the need to overhaul their own wealth transfer plans.

Wealth transfer is a complex affair for wealthy families. It involves the planning and execution of a strategy to shift the wealth created by the current and/or prior generations, into the possession and control of the next or even subsequent generations. The range of issues involved can be sweeping — family values, objectives and relationships; business continuity; portfolio strategy; insurance, taxes and ownership structures — to name a few. At the same time, questions of control, responsibility and timing are raised.

It is not surprising that many wealthy families drag their feet in addressing this topic. A survey by the SEI Wealth Network of more than 100 families with an average net worth of more than $20-million found that the majority, some 54%, did not have a wealth transfer plan in place. Our own experience is that a staged approach can avoid procrastination.

Here are the six main elements involved in moving forward.

1. Begin with a family dialogue The ultimate purpose of material financial wealth is to empower its holders to pursue the fulfillment of goals across the spectrum of human endeavors — academic, professional, commercial, artistic, athletic, avocational, and philanthropic. An effective wealth transfer plan therefore begins with a series of family meetings around the values and goals of both the family overall and each individual member. This dialogue is particularly critical when the older generation is running a family-owned business. Unless a plan for succession or sale is in place before it's needed, the combined effect of asset concentration, illiquidity and tax costs can seriously deplete the family's wealth. If none of the children are interested in or capable of running the business, it's better to confront this reality sooner than later.

2. Use a multi-disciplinary team Wealth transfer planning can involve a host of professionals — tax and estate planning lawyers, accountants, insurance and investment experts, business valuators as well as business succession consultants. Finding the right people is just the beginning; they also have to be co-ordinated. If family members lack the time or expertise, an experienced wealth management professional should be able to help.

3. Determine the amount needed to satisfy the older generation's lifestyle requirements The desire to assist one's children, engage in charitable "giving while living" and reduce taxes by immediately shifting assets is understandable. However, it is vital to quantify the amount needed to fund the parents' lifestyle before embarking on a wealth transfer.

This is no time for a back-of-the-envelope calculation. Today's negligible interest rates, so-so stock valuations and potential tax increases make this number higher than many people anticipate.

Sophisticated wealth practitioners use simulation models that incorporate these realities as well as other scenarios such as escalating inflation.

4. Assess the role of philanthropy "You can't take it with you" is only too true. Wealth ultimately ends up either in the hands of family or society by way of taxation and/or charitable giving. A thoughtful philanthropic plan is often a key aspect of wealth transfer planning. It can redirect monies that would otherwise have been spent on taxes so as to enhance the amounts available to satisfy philanthropic goals. Further, a family foundation can serve as a unifying vehicle for subsequent generations.

5. Prepare the next generation There are many potential pitfalls to managing substantial wealth. A program to educate the next generation in the fundamentals of financial management can lay a firmer foundation for the responsible management of wealth and avoid costly mistakes.

6. Recognize that planning is dynamic An old plan is often a bad plan. A recent survey of ultra-affluent families in the U.S. found that more than three quarters of their estate plans were three or more years old while a full 95% of them had experienced significant life changes since their plans were completed. Plans need to be revisited periodically and revised when needed.

Wealth transfer is inevitable — whether it's planned and orderly or expensive and chaotic is a choice that today's wealthy Boomers should make before it's made for them.

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