The Elements of Heritage Planning

SUSTAINING FAMILY WEALTH & UNITY ACROSS GENERATIONS

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Who We Are

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The Heritage Institute engages in the research, development, application and reality of increasing the 10 percent.
(And, we will explain “the 10%” in a few minutes!)

Agenda

• Expectations
• Issues and gaps in traditional planning
• The key elements for Sustaining Family Wealth & Unity Across Generations (that have worked for centuries)
• Next steps
“Smart people learn from their own experiences. Wise people learn from the experiences of others!”
Lessons from history –
Geography
Cultures - Economies
Governments - Tax Structures

Don’t Matter.

Families rarely keep their money and families together for more than three generations.

90% of families fail to keep their families and fortunes together for more than three generations – and that has been true for centuries!

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The Gaps
Perception vs. Reality:

“What do you think will get you?” (FOX 2009)

Top Risks Identified by Family Offices, 2009

- Investment Performance: 30%
- Executive and Management Issues: 10%
- Financial Constraints: 5%
- Family Dynamics and Family Relationships: 1%
- Other: 10%

Williams & Preissers Study

“What got you?”

- 60% - Lack of Communication and Trust
- 25% - Unprepared Heirs
- 3% - Failures in Financial Planning, Taxes or Investments
- 12% - Everything else
Another huge gap exists between what is *known* about wealth transfer, and what is *done*.
What We Know
Among the studies on issues related to wealth transfer in recent years are those done by:

What Is Known
Successful families share common characteristics:
- They foster good communication & trust
- Have shared vision
- Meet regularly
- Promote a balanced view of “wealth”
- Keep business and family separate
- Know the roles necessary to be successful
- Inspire family members to participate in the family
- Actively train and mentor each generation
- Facilitate the genuine transfer of leadership
- Have ongoing family governance

The family story and life lessons!
77% for both “Baby Boomers” and their parents (“Elders”)
For “Baby Boomers”
it was 10X more important to pass or receive
the family story and life lessons than financial assets or real estate.

What Is Known
What Clients want to pass and receive…

(What would you MOST like your heirs to inherit from you?)

• 35% Spirit (Passion/Enthusiasm/Sense of Humor)
• 19% Religion
• 16% Knowledge/Advice
• 15% Homes/Property
• 8% Way of giving/Supporting the Community
• 7% Money
• 1% Business/Career

What is Done
Typically, you work with your financial and estate planning advisors to:

• clarify your desired lifestyle;
• create financial plan and investment portfolio that prepares and protects your assets based on that desired lifestyle, and creates cash flow through your life expectancy to achieve those tangible goals; and
• determine who gets your stuff when you die, with the maximum tax savings and minimum administrative costs (with or without trust controls to protect your heirs from themselves)
To fill the gap and build a strong foundation that can support the inheritances, we must act on what we know and expand what we do.

Successful Wealth Transfer

Financial Planning
Estate Planning

Heritage Planning
The Heritage Process

Heritage Planning gives families the tools they need to replicate what successful families have done for centuries.

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EPIDRHANY!

“We can't solve problems by using the same kind of thinking we used when we created them”

Wealth Remaining at the End of Each Generation

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Why?

• It is NOT due to a lack of traditional financial and estate planning…

• It is due to transferring **MONEY** rather than **WEALTH**, and not having a solid foundation to support the inheritance that is being given and received.

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**Affluenza Project**

Jessie O’Neill, the founder of the Affluenza Project and the heir of a wealthy family, lists the following outcomes when a financial inheritance is passed without an emotional inheritance.

• Inability to delay gratification;
• Inability to tolerate frustration;
• Low future motivation;
• Low self-esteem;
• Low self-worth;
• Propensity for substance abuse;
• Lack of personal identity;
• Social and emotional isolation;
• Feelings of failure, depression and anxiety;
• Unrealistic expectations and lack of accountability;
• False sense of entitlement;
• Inability to form intimate relationships

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Affluenza

Why are we just hearing about this problem now??

Growth in Material Wealth Across Centuries, 1000-Present


The Obvious Question...

What do the successful 10% do differently?
Pass both the **financial** and **emotional** inheritances ... 

... and build the **FOUNDATION** that supports both.

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**#1**
Effective Inter-Generational Communication

**#2**
Plentiful & Meaningful Pre-Inheritance Experiences

**#3**
Genuine Leadership Transfer

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**To Be Successful ...**

Families must create a culture of communication and trust within the family, and prepare each generation for both the financial and emotional inheritances they will receive.
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**ELEMENT**

**FOSTER STRONG AND EFFECTIVE COMMUNICATION, AND BUILD TRUST BETWEEN GENERATIONS**

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**ELEMENT**

**DEVELOP, MAINTAIN AND REGULARLY RE-VISIT YOUR VISION FOR THE PRESENT & THE FUTURE**

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SUCCESSFUL FAMILIES MEET REGULARLY

PROMOTE A BALANCED DEFINITION OF THE MEANING OF “WEALTH”

Wealth Is Not Just Financial

What do you value most in life?

- Family
- Health
- Friends/Relationships
- Money
- Values
- Faith or Spiritual Beliefs
- Skills
- Experiences
- Reputation
- Causes
Holistic View of Wealth

**Foundation**
Human Capital

**Wisdom**
Intellectual Capital

**Financial**
Financial Capital

**Community**
Social Capital

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**ELEMENT**

**Keep the family business (including investments) separate from the business of being a family**

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**ELEMENT**

**Identify the 'roles' necessary for the family to be successful (non-financially as well as financially)**
INSPIRE INDIVIDUAL FAMILY MEMBERS TO PARTICIPATE FOR THEIR OWN REASONS

What it takes to engage G2 (and G3, G4, G5, ...)

The 2 Questions They Will Ask Themselves:

1. Is it worth it?
2. Can I do it?

From: Influencer by Patterson, Grenny, Maxfield, McMillan & Switzler (2008)

TRAIN AND MENTOR EACH GENERATION
*ELEMENT*

facilitate the genuine transfer of leadership from generation to generation

*ELEMENT*

require true collaboration between your professional advisors

*ELEMENT*

create mechanisms for ongoing family governance
The Heritage Institute took what successful families ("the 10%") have done for centuries and identified the common elements these families used to sustain their family wealth and unity across generations. We then synthesized those elements into a proven six-step process and a structure called The Heritage Process that any family can replicate.
Every affluent parent wishes they knew how to give their children the hardships that made them rich.
Adapted from Robert Pratt.