

Major Risks to Family Wealth

Will your accumulated assets be threatened by them?

05.10.19 · ESTATE AND INSURANCE



All too often, family wealth fails to last.

One generation builds a business – or even a fortune – and it is lost in ensuing decades. Why does it happen, again and again?

Often, families fall prey to serious money blunders. Classic mistakes are made; changing times are not recognized.

Procrastination.

This is not just a matter of failing to plan, but also of failing to respond to acknowledged financial weaknesses.

As a hypothetical example, say there is a multimillionaire named Alan. The named beneficiary of Alan's six-figure savings account is no longer alive. While Alan knows about this financial flaw, knowledge is one thing, but action is another. He realizes he should name another beneficiary, but he never gets around to it. His schedule is busy, and updating that beneficiary form is inconvenient.

Sadly, procrastination wins out in the end, and as the account lacks a payable-on-death (POD) beneficiary, those assets end up subject to probate. Then, Alan's heirs find out about other lingering financial matters that should have been taken care of regarding his IRA, his real estate holdings, and more.¹

Minimal or absent estate planning.

Every year, there are multimillionaires who die without leaving any instructions for the distribution of their wealth – not just rock stars and actors, but also small business owners and entrepreneurs. According to a recent Caring.com survey, 58% of Americans have no estate planning in place, not even a basic will.²

Anyone reliant on a will alone risks handing the destiny of their wealth over to a probate judge. The multimillionaire who has a child with special needs, a family history of Alzheimer's or Parkinson's, or a former spouse or estranged children may need a greater degree of estate planning. If they want to endow charities or give grand kids a nice start in life, the same applies. Business ownership calls for coordinated estate planning and succession planning.

A finely crafted estate plan has the potential to perpetuate and enhance family wealth for decades, and perhaps, generations. Without it, heirs may have to deal with probate and a painful opportunity cost – the lost potential for tax-advantaged growth and compounding of those assets.

The lack of a “family office.”

Decades ago, the wealthiest American households included offices: a staff of handpicked financial professionals who worked within a mansion, supervising a family's entire financial life. While traditional “family offices” have disappeared, the concept is as relevant as ever. Today, select wealth management firms emulate this model: in an ongoing relationship distinguished by personal and responsive service, they consult families about investments, provide reports, and assist in decision-making. If your financial picture has become far too complex to address on your own, this could be a wise choice for your family.

Technological flaws.

Hackers can hijack email and social media accounts and send phony messages to banks, brokerages, and financial advisors to authorize asset transfers. Social media can help you build your business, but it can also expose you to identity thieves seeking to steal both digital and tangible assets.

Sometimes a business or family installs a security system that proves problematic – so much so that it is turned off half the time. Unscrupulous people have ways of learning about that, and they may be only one or two degrees separated from you.

No long-term strategy in place.

When a family wants to sustain wealth for decades to come, heirs have to understand the how and why. All family members have to be on the same page, or at least, read that page. If family communication about wealth tends to be more opaque than transparent, the mechanics and purpose of the strategy may never be adequately explained.

No decision-making process.

In the typical high net worth family, financial decision-making is vertical and top-down. Parents or grandparents may make decisions in private, and it may be years before heirs learn about those decisions or fully understand them. When heirs do become decision-makers, it is usually upon the death of the elders.

Horizontal decision-making can help multiple generations commit to the guidance of family wealth. Estate and succession planning professionals can help a family make these decisions with an awareness of different communication styles. In-depth conversations are essential; good estate planners recognize that silence does not necessarily mean agreement.

You may plan to reduce these risks to family wealth (and others) in collaboration with financial and legal professionals. It is never too early to begin.

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CITATIONS

- 1 - thebalance.com/what-is-a-payable-on-death-or-pod-account-3505252 [1/15/19]
- 2 - cbsnews.com/news/failing-to-have-a-will-is-one-of-the-worst-financial-mistakes-you-can-make [3/13/19]

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