

# Wealth Manager

## Deep Values

Incorporating a family's values into legacy plans requires advisors—and clients—to think about the real effects their strategies have on heirs.

BY COVENTRY EDWARDS-PITT

**A**s advisors in multi-family office practices or family-focused wealth management firms, we have a unique opportunity to play a critical role in our clients' lives. Our work allows us to both initiate conversations with our clients about their deepest values and to touch the wide variety of planning issues necessary to assure that these values are reflected in their financial strategies.

The opportunity to shepherd our clients through a process that reflects their inherent values represents some of the most rewarding work that we can do. But it is not always easy. And it is not always clear how to incorporate this process into our day-to-day efforts to help our clients with their financial affairs.

This article will attempt to draw a road map that incorporates this work into our ongoing client interactions and shows us how we as advisors can make the best use of the unique position we occupy with our clients and their families.

Incorporating this work into our daily practice involves three stages:

**Stage 1:** Informing ourselves—developing both knowledge and insight

**Stage 2:** Analyzing the consequences of day-to-day planning on family dynamics

**Stage 3:** Proactively crafting long-term strategies that reflect our clients' deepest values

These stages may seem simple or even obvious, but as is often said, the devil is in the details. In case after case, the specifics of the client situation and the dynamics of the client's family dictate different answers. The reality is that no answer is formulaic; there is consistency only in the approach we take to arrive at the right answer.

# Stage 1

The body of knowledge in the field of wealth consulting continues to evolve and comprises numerous sub-areas—from educating children about wealth to crafting ethical wills to establishing best practices in multi-generational philanthropic governance. It is important to stay abreast of compelling thinkers and theories in the field of wealth advising (i.e. Jay Hughes, George Kinder) and to work to develop relationships with advisors who provide specialty expertise in the fields of family dynamics, psychology and human behavior. Our firm regularly consults Dr. Jim Grubman for his insights and knowledge about issues involved in family wealth consulting. It's particularly beneficial to be able to consult with a trained psychologist who can both educate you about behavioral aspects of a given family situ-

ation and alert you when the complexity of a situation requires additional professional help.

While this knowledge is a critical foundation, it is really useful only when married with the deep insight that comes from really knowing the clients. Who are they? What is their outlook on life? What is their relationship with their children? And what is their children's relationship with money? Developing such insight requires not only empathy and the ability to listen deeply, but also the courage to ask tough questions: What is the money for? How much money is too much for your children? How do you want to be remembered? These questions and the conversations they trigger create a road map for the entire engagement and the framework for the technical planning ahead.

## Achieving Gift Goals

Good communication can help families avoid the unintended consequences that sometimes arise with legacy planning.

For instance, a gift made with no explanation creates a vacuum that the child may easily and understandably fill with any number of erroneous—and potentially damaging—messages:

- 1) I can count on this gift to repeat every year,
- 2) my parents intend me to use this gift to supplement my lifestyle, or
- 3) when my parents think about giving me money, they do it only for tax reasons.

Instead, a gift given with a clear explanation can have an entirely different outcome. For example, the parents might say: "We are giving you this \$26,000 but we hope that you don't spend it now but instead, invest it. We intend to give you annual gifts for the next several years so that you can have the experience of saving and investing in order to meet a goal. In a few years, perhaps it may be enough for you to put a down payment on a house or start a business."

This message and the gift that accompanies it correspond to the parents' original goal of helping their child achieve financial independence.

## Stage 2

You can apply the answers from Stage 1 to your analysis of the long-term implications of current planning decisions to test whether they will help the client achieve their goals. If the analysis reveals concerns, you need the courage to question current behaviors that do not promote the goal. In his book, *Family: The Compact Among Generations*, Jay Hughes compellingly addresses the importance of courage in providing meaningful advice to wealthy families. For example, a client might identify the desire for their children to achieve financial independence as an important goal. This seems straightforward enough, but in the realm that is the intersection of wealth planning and family dynamics, it can be quite complicated. No doubt the client has been counseled by a tax advisor to make annual exclusion gifts to the children.

You are in a unique position to think through the implications those gifts may have on the children and on the parents' ability to achieve their original goal. Will the gifts be outright or to a trust? Have there been discussions with the children about the expectations for using the gifts? Do the children have any training or education in how to create a budget for themselves or how to invest the money that they receive? Without laying this groundwork, annual gifts given in a vacuum might actually work against the parents' original goal. This is where our work is so critical and meaningful. We are in a unique position to ask these questions. If there have been no discussions with the children about expectations, we can work with the parents to outline that discussion and encourage them to speak with their children. If the children do not know how to budget, we can work with them to develop this skill. Most importantly—and the part of this that requires courage—we can advise our clients not to make those

gifts at all, or at least not to give them outright until this groundwork is laid. By asking these questions, we assure that they pursue transactions that may be smart from a tax perspective only if they are also congruent with their deepest goals.

Another aspect of this type of planning that makes it both challenging and rewarding is that the wisdom of a particular approach is wholly dependent on a family's unique dynamics. At some point, for instance, many wealthy parents are presented with either the opportunity or a request to buy a house for one of their children. From a tax perspective, this raises questions about whether rent is required or whether the child is providing a "caretaking" service that makes it unnecessary to pay rent. Advice from different CPAs may vary on this point. However, arguably more complicated than the tax issue is the impact on the child of living in a house owned by the parents. Much of the literature about children of wealth talks about the challenges that these young people face in developing their self-esteem and creating an identity—especially as it relates

to money—that is separate from their parents. We are often the only advisors involved with our clients who know them and their families well enough to understand the child's degree of emotional maturity and how living in a house owned by their parents will impact their development. We can judge whether having the child pay rent will likely result in a beneficial situation or whether it will only heighten tension between children and parents.

The key to this stage is to remain alert about whether otherwise simple planning techniques have unintended consequences that may actually work against clients' intentions. Doing this well requires a keen understanding of the family's goals, the personalities and behaviors of all family members involved, and the likely response to incentives that are inherent in every planning strategy. It also requires having the courage to stop the conversation and to ask the client to imagine the potential consequences of each action. Is this the outcome they intended? Would this reflect the values they identified? And if the answers are no, it requires us to steer a different course.

Developing such insight requires not only empathy and the ability to listen deeply, but also the courage to ask tough questions for which there may not be obvious or quick answers: What is the money for? How much money is too much for your children? How do you want to be remembered?

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## Stage 3

In addition to evaluating whether our clients' day-to-day actions are congruent with their long-term goals, we have the special opportunity to work with them to proactively craft plans and implement long-term strategies that help them achieve these goals. This is a particularly rewarding part of our practice because it allows us to apply our best technical knowledge of sophisticated planning techniques toward helping our clients achieve their most meaningful goals.

An example of this might be working with a family to craft a values statement that defines its approach to estate planning before we make any attempt to revise or create an estate plan. While this may seem obvious, it's a step that is often overlooked in the drive to focus on more tangible aspects of a plan, such as the details of how the inheritance will be divided and whether anything can be done to reduce the tax bill. Yet laying out the client's values is the most critical part of the plan. It is a natural extension of the exploration involved in Stage 1. In fact, in many situations we can draft a statement based on what we have

learned from our initial discussions with the client. This is the glue that gives meaning and relevance to the strategies that comprise the estate plan.

In addition, it can serve as the basis for a family discussion about the details of the estate plan and allows clients to explain the details of their planning to other family members in a way that is compatible with their deepest values and goals. Take the value of stewardship: This can be expressed in a decision to purchase a life insurance policy that will reduce estate taxes due on death. The value of creating opportunities for the next generation to exercise independence with regard to wealth may come to fruition through gift trusts or grantor retained annuity trusts (GRATs) created to transfer assets to adult children.

Often, estate plans are explained to family members in only the barest detail and, if any explanation is offered for why different strategies exist, it is almost always that the decisions were tax advantageous. Creating a values statement that both drives the actual creation of the plan and subsequent discussions about it

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with family members enables the estate plan to serve as a vehicle through which clients can both express and communicate their deepest goals.

Uniting those goals with our clients' estate planning objectives is not always a simple task and can involve difficult decisions. For instance, if a plan is already in place, we must take the important step of studying it and thinking through the question of whether it will actually achieve our clients' goals.

Often, plans that are ideal from a tax perspective may fail to address—or worse, conflict with—an important value that our clients have identified. Sometimes this conflict doesn't become apparent until it affects the second or third generation.

It's important for us to ask how the plan will work in another 40 years. Will

## Starting the Conversation

Uncovering legacy goals deepens the relationship.

If the conversation is framed around a client's goals, it is a relatively seamless transition to imagine the consequences of the different planning alternatives that are on the table. You can ask the client how they think their children might react to a plan, and then, with that in mind, think through whether that reaction aligns with the clients' original goals. However, if the initial conversation is technique-based, rather than goal-based, it may be necessary to stop the conversation and to take a step back in order to reframe the discussion around the clients' goals.

our clients' adult children feel that this plan reflects well on their parents? Will their legacy actually reflect the way we know our clients want to be remembered? If these questions reveal incongruities, we are in a unique position to work with our clients and their estate and tax advisors to modify the plan to address these issues.

So, how do we make sure that we incorporate these three stages into our daily interactions with our clients? To accomplish this we must approach each interaction with the knowledge that we have the opportunity to make the communication deeper, more meaningful, and more valuable by harnessing this additional layer of insight.

We should also educate our clients to demand this type of approach. They should seek out advisors who will encourage them to think through the hard questions and craft strategies that are not just technically sophisticated, but also emotionally resonant.

And finally, we should work proactively to make sure that all of our clients' advisors are on the same page. Our role at the intersection of the multiple planning issues that our clients face means that we have both an opportunity and

a responsibility to ensure that all other advisors are well informed of our client's goals, and that we will all work together to achieve them.

Once you start to approach your practice in this way, you will find that the results are so rewarding that it's impossible to go back.

In my desk I keep a letter from one of my client's sons. Initially, he had expressed some discomfort at being involved in thinking more intensely about his family's wealth and the values that were important to him as an individual and as a part of his family. A couple of years later, after several family meetings, some recommended reading, and introspective exercises, he wrote to me. His letter acknowledged that he had been skeptical at first, but that the work we had done with him and his family had changed his outlook and his family for the better.

As advisors, it's not every day that we receive feedback like that, but we can strive every day to make the kind of lasting impact this feedback demonstrates.

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