Multi-Generational Wealth: Guidelines and Guardrails for Success

Q&A with Lee-Norah Sanzo, Jeff Sain, and Teri LaMar

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Inconcussa manet ("to remain unshaken") could be the motto of families taking on the challenge of preserving and growing their assets – financial and as well as personal – over many generations as life ebbs and flows. Among LNWM clients there are many examples that this can be done, including the Laird and Norton families, now into their 7th generation as successful business owners and entrepreneurs. How do we work with families to help them thrive from one generation to the next? LNWM Directors – Lee-Norah Sanzo, Jeff Sain, and Teri LaMar – provide inspiration and insights based on decades of experience advising high-net-worth families.

What are key things that enable families to thrive over many generations?

Lee-Norah: I would say education of family members is a common thread and one of the most consequential things we do for clients. Families partner with us to educate their young people about how to preserve and build on what is given to them. It doesn't matter if it's old money or new. The younger generations should think of themselves as "ambassadors" who represent the family and are preparing to manage wealth not only to enhance their lives but also the lives of others.

Jeff: Often, another key element is financial structures – different types of trusts, a foundation, perhaps a family business – that are long-lasting and can involve all the family members in managing assets. Trusts are about what assets go to whom and when, and our clients tend to have very different answers as to "whom" "when" and "how." The important thing is to explore and answer those questions and put structures in place to act as guardrails. For example, trust terms can allow us to add young adults as co-trustees so they can gain valuable experience working with us to manage the assets in their trust(s).

Teri: Related to that, success over many generations usually requires a common purpose that comes from a shared set of values. We help clients get at the root of what they value so they can pass that on to the younger generations. This often starts with a list of questions I give clients to think about that are unique to their situation. Eventually we are able to more clearly define what they value and use that to answer the questions about what goes to whom and when. The result is a well-though-out plan that has inherent logic, often with flexibility built in, depending on what happens with the lives of the different family members.

How do you partner with parents or grandparents on education?

Jeff: It depends on the age of the children but also on their interests and abilities. With young kids, we work with the parents on money choices and the conversations this opens up. "Do you NEED to buy this or do you WANT to buy it?" "How much of this do you want to spend, save and share?" As kids age, we add basic money skills – budgeting, saving, credit, etc. – critical know-how that is not taught in most schools. We also help client parents/grandparents understand the different money personalities within the family and how to help kids develop their interests. This is a gradual process that's not hard to do once you start. And the benefits are tremendous: Getting everyone in the family comfortable talking about money and decisions related to that.

Lee-Norah: Wealthy families tend to associate with other wealthy families, and this sometimes can cause people to lose perspective. For instance, kids or grandkids might say: "But all my friends are buying that or doing this, so why shouldn't I?" It's often hard for adults to draw the line and say, "No, and here's why." It takes preparation, perspective and conviction to respond thoughtfully with: "This is what our values are, this is what we're about." And that is what we help our clients define with conviction, so they can be ready to pass on those values and create a strong foundation for success.

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How does the multi-gen planning process typically start? At what age should people think of multi-gen planning?

Teri: Actually, there is no set age. We work with young families with small children and a significant amount of wealth they want to pass on, as well as family patriarchs and matriarchs whose children are in their 50s and the grandkids are in high school.

Jeff: Sometimes, the bulk of family wealth might be illiquid, perhaps in a closely held family business. To preserve and build on that legacy requires planning way in advance so the younger generation is ready and capable to take up the baton. In these situations, we might suggest strategies such as the use of trusts to start the process of transferring ownership. This can incentivize the younger generations to get more actively involved, especially if the terms and conditions of the transfer are tailored to their unique interests and abilities.

What do you see as misconceptions or mistakes people make?

Lee-Norah: I would say trying to hide the fact that the family has significant wealth in order to protect young people from being spoiled. More often than not, this approach backfires. Young people end up not being prepared when they come into an inheritance and all sorts of things can go wrong, including de-motivation. Also, not starting the process of legacy and multi-gen wealth planning until there's some sort of medical or other emergency that forces decisions under duress. We have helped clients put plans in place during stressful times, but it's best to have a plan before a plan is required.

Teri: Where things tend to go wrong is when people who are unprepared to handle wealth receive a large amount of money at one time. In that case there is no education (guidelines) and no financial structures to control distribution (guardrails). So wealth tends to dissipate and by the 3rd generation often it's gone. The best situations are when young people are prepared over a decade or two to responsibly handle wealth and apply it to fund their interests, and there are structures in place that allow them to do that thoughtfully and incrementally.

It's a tricky balance: you want to give young people enough to enable them to lead fulfilled lives, but not so much that it de-motivates them. Each client situation is unique, and we come into these discussions with a completely open mind as to what might be appropriate for each family.

Jeff: I encourage clients to occasionally bring their teens and young adults to our advisor meetings to talk about money management and investing. We will sometimes recommend opening up a custodial account (e.g. UTMA/UGMA) at an early age, which can then be used as a savings and educational tool. The child knows they will get that money at age 21, and over the years we encourage them to see it as savings to be invested and/or to meet specific life goals, such as paying for college or a down payment on a house. When the kids go to college and afterward, it's not uncommon for parents/grandparents -- or even the kids themselves — to ask us to work directly with each of them because by then we have formed a pretty strong relationship.

The Importance of Family Stories

Find out why family stories, both good and bad, are so powerful in preserving family legacies, and the best way to pass them on. Read our Q&A with Marshall Duke, Ph.D., renown researcher and professor of psychology at Emory University for more than 30 years.

Where do you start when clients are ready to focus on multi-gen planning?

Jeff: We start by helping clients answer some key questions to ensure their financial security and peace of mind. Among these: How much do you need to maintain your lifestyle and meet your long-term goals? How much can you pass on and be comfortable knowing you will not outlive your wealth?

We provide the framework to help clients understand how well and for how long an asset base can support current and future spending and what capacity they have for legacy planning. From there, we work with clients on strategies to shift wealth to the next generation. For example, a trust can be used to preserve assets for the grandchildren and their future descendants, while at the same time providing benefits to the children. In some cases there may be pre-existing family trusts whose terms can impact current decisions about what should be given to whom.

And it is never too late to start. I have seen situations where a client might wait until the children are in their 50s to begin discussing estate planning and what goes to whom. The reasoning is that by middle age, the next gen will have worked for decades and have kids of their own, so it's possible to have a pretty good sense of how they'll manage an inheritance. In those cases, we might invite all three generations to gather so we can explain what our client wants to do and make sure everyone is clear with the process.

Lee-Norah: A key question is how much control do you want over how your wealth is used by future generations. Many of our clients are high-achieving and have accomplished great things. Are they OK with their children or grandchildren using most of their inheritance to live on because they have chosen careers that aren't lucrative yet satisfying? Some people are fine with that. Others want their children to become financially independent on their own and then come into an inheritance once they are well-established and have their own families.

What about prenuptial agreements?

Teri: Prenups are very common now, and we help clients discuss how to structure the agreement so that everyone feels good about the result. While prenups can be structured in many different ways, even as a vesting schedule, the one thing they must do is declare all assets a person owns now or assets they will receive from trusts set up for their benefit.

A prenup can sometimes bring out major differences in how each partner thinks of their combined finances and use of funds. We've seen situations where the marriage has been called off because of that. But most of the time, it forces couples to have discussions around finances so they are on the same page before the marriage. Since Washington is a community property state, we also advise couples on what that means in case of divorce. The website Money Sanity U, access to which we offer to all LNWM clients, has a good discussion on how a couple can prepare for shared finances (please ask your LNWM advisor for log-in info).

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What happens when life doesn't turn out as planned?

Lee-Norah: That of course happens all the time. We might have a great plan in place for passing an inheritance onto grandkids, but the kids make it clear there won't be grandkids. The benefit of having a plan is that it requires families to grapple with the key questions regarding what happens to their wealth in the future, but it is not set in stone. We always try to allow for a great deal of flexibility. And we routinely help clients modify their plans as circumstances change.

ABOUT THE INTERVIEWEES

Lee-Norah Sanzo is a Senior Director, Client Services at Laird Norton Wealth Management (LNWM). She brings to her work extensive expertise in wealth planning, taxation, market analysis, and private banking, allowing her to use trusts to make the most of client assets now and for decades to come. She often works with multiple generations within families, educating and advising trust beneficiaries especially during times of change and transition.

Jeff Sain is a Director, Client Services at Laird Norton Wealth Management (LNWM). He specializes in implementing complex trusts for multiple generations within families, incorporating into these vehicles investment solutions intended to achieve each client's goals and objectives. He is a Certified Trust and Financial Advisor (CTFA), a CERTIFIED FINANCIAL PLANNER™ Professional, and has a B.A. in business administration from Central Washington University.

Teri LaMar is a Senior Director, Client Services at Laird Norton Wealth Management (LNWM). She has 30 years of experience helping high-net-worth individuals, families, and private foundations achieve their goals, both financial and non-financial. Teri has worked with some client families for more than 25 years and is especially adept at providing guidance and education for the younger generations within families.

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