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Legacy Planning Benefits Clients and Advisors Alike

Over the next couple of decades, the U.S. will see one of history's greatest transfers of wealth from one generation to the next. Estimates vary widely from $25 trillion to $136 trillion. Regardless, even a minor fraction of the total creates a tremendous opportunity for financial advisors who help their existing clients leave a lasting legacy. At the same time, advisors are laying the ground work to gain new business from their clients' heirs – think of it as multigenerational financial advising.

Waste Not… Want Not

Financial advisors can influence whether or not their clients' legacies are preserved. They watch out for their clients' best interests while they are alive; why shouldn't they do so after they pass on?

Without guidance, few people take steps to prevent their heirs from squandering their inheritances. “Most people don't think about legacy planning, but then I ask them to imagine their kids with unfettered access to their inheritance,” says Matthew Tuttle, author of *Financial Secrets of My Wealthy Grandparents* and president of Tuttle Wealth Management LLC. “By doing that, a lot of people realize they need to take their estate planning to the next level.”

Almost 50 percent of people believe building or protecting family wealth that can be transferred to future generations is an important family financial goal, according to a PNC Investment Management survey. Yet, people either have not regulated their inheritance or they have not thought about attaching terms to the bequests.

Many investment professionals are advising their clients to go a step beyond estate planning and focus on legacy planning. "Studies have shown that 70 percent of estate plans fail within two generations, but legacy plans tend to be more successful," says Barbara Culver, principal of Resonate Inc. and author of *For Women by Women: Financial Passages and Giving: Philanthropy for Everyone*.

"Traditional estate planning typically focuses only on tangible assets, while legacy planning [considers] the intangibles such as shared family values, and the family mission and vision,” Culver says. “Legacy planning outlines what individuals want their wealth to accomplish for the family.”

Legacy planning is important because it not only protects assets, it also protects people, Tuttle says, adding that most people don't think about whether or not their heirs are emotionally prepared to handle their inheritances. In fact, only three out of 10 participants in PNC's survey say their heirs' proven ability to handle inheritance was important and one of their main concerns.

Unfortunately, Tuttle has seen inheritances derail lives: "If I am 23 and I know that I am going to get $500,000 at 25, 30 and 35, how much incentive will I have to go out and work?"

Consider Incentive Inheritances

Inheritances affect heirs in many ways. For example, roughly 40 percent of people who've received inheritances say it affected how much they saved for retirement and how much they spend.

Incentives, used as a part of legacy planning, can curb poor decisions. For example, if an heir has had alcoholic tendencies in the past, a legacy plan could include an "incentive trust" that allows the heir to receive his inheritance only if he's sober.

Incentives can be a motivator for the beneficiaries to follow the giver's wishes, and can cover a wide range of issues from education to careers and even extend to marriage, religion and procreation. "Incentives are a way to communicate with dollars the values and the standards that the family holds," Culver says. They tell heirs that if they don't choose to live up to certain values and standards, they will not receive the inheritance.

PNC's survey found that just 14 percent of respondents attached terms that restrict how heirs can use their inheritance once it is received. However, there are some risks to this approach — namely that the heirs will feel that the giver is trying to control them from the grave. The solution is simple — communication.

"I tell people to communicate across generations about things that really matter and don't keep secrets," Culver says. "Hold family meetings so everyone understands the family values and knows who's going to get what and when they're going to get it."

The larger the inheritances, the more likely it is that incentives will be applied. The PNC survey found that 42 percent with $5 million to $10 million in assets and 57 percent of those with $10 million-plus require heirs to satisfy certain terms before they can receive their inheritance.

But Tuttle contends that all financial advisors should be thinking about legacy planning, not just those with high-net-worth clients. "Your clients have worked their whole lives building their estates, and they don't want it squandered and they don't want the inheritance to ruin the lives of people they love," he says. "You can make sure that doesn't happen."

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