Family Wealth Planning: Getting to the Heart of the Matter

"If you could turn a million dollar estate tax liability into a $2 million gift to charity (or a $100,000 capital gain tax liability into a $250,000 gift to charity), who would you give that money to and what would you have them do with it?" Or, "If you could really make a difference in just one area of life, what would it be?" Or, "How much wealth is enough for your heirs?"

The vast majority of wealthy people do not adequately address the different aspects of their wealth. As a result, their estates suffer devastating taxes and they reap only a portion of all the benefits that their wealth could have provided to them, their children and society. There is, however, incredible opportunity for those who learn how to effectively leverage all three aspects of wealth, what we call Family Wealth Planning.

1. FINANCIAL ASPECT OF WEALTH

The first facet of wealth, and arguably the most mundane, is the financial aspect. This aspect addresses the tangible material benefits that a person's wealth provides to them and their family. It is made up of balance sheets, profit and loss statements, bank accounts, investment summaries, tax returns, etc.

Very little of the planning done for the wealthy goes much beyond this first level. Most of planning seems to be simply a matter of "running the numbers" and doing whatever can be done to improve those numbers.

As most professional advisors are analytical types, it is understandable that most of their planning is done at this analytical level. But, Family Wealth Planning does not stop with merely looking at a balance sheet and a tax table to determine an appropriate plan of action. If the planning process only addresses the financial aspect, affluent people will end up leaving far more benefits on the planning table than they will ever take off.

2. SOCIAL ASPECT OF WEALTH

In order to do good, effective family wealth planning, it is necessary to fully understand the far-reaching ramifications of the social aspect of wealth in America. However, many professional advisors do not adequately explore these issues and opportunities with their clients. Consider this. The government has set up capital gains and estate tax laws so that people are offered a distinct choice. They can choose: involuntary philanthropy (taxation), or voluntary philanthropy (charitable giving), either of which supports the general welfare of the country. They must contribute one way or the other, but at least there is a choice. The term "social capital" has been coined to describe these philanthropy funds that make up part of every wealthy family's estate.

If advisors will show the very wealthy how to personally designate their millions of dollars of social capital as they believe best, the collective impact will be staggeringly powerful. Individuals can exercise the right to decide what is important, what is in the best interest of the country and what issues they want to address and resolve. Much of this can be done apart from the oftentimes cumbersome and inefficient political system. Family Wealth Plans are the vehicles through which individuals are able to efficiently and effectively vote their social capital. It is beyond imagination what good can be done for the benefit of society through philanthropy, and, if done properly, it need not cost wealthy families one penny of their accumulated wealth. In fact, with the tremendous variety of new and creative estate planning possibilities, families can often end up wealthier in the process.

3. EMOTIONAL ASPECT OF WEALTH

The most intimate and critically important aspect of wealth falls into the emotional realm. It is with this aspect of wealth that each person must struggle to answer the nagging question, “What is the purpose of all my work and the accumulation of all this wealth?’ During the first half of a person’s life, this question seems relatively easy to answer, “To become financially independent” or some like sentiment.

But, as people find themselves moving into the final few chapters of their lives, having already accumulated far greater wealth than they ever imagined possible, often the pat and simplistic answer of their youth no longer seems fully adequate or completely satisfying. Yet, despite this, a 1989 study entitled “Variability of Charitable Giving by the Wealthy,” by Gerald Auten and Gabriel Rudney, discovered that “regular, habitual giving is not the standard behavior among the high-income people,” and that “large proportions of high-income individuals give less than one percent of (their) income.”

Is this lack of charitable involvement on the part of the wealthy a lack of interest in doing good? Or, is it, possibly, far more a lack of proper understanding of how and why to do it? When wealthy people are given a full and proper perspective on these issues, they often increase their giving, and find indescribable joy in doing so. However, there are relatively few professional advisors who are intimately familiar with these concepts and the proper estate planning tools and techniques that will enable clients to effectively integrate these options into their overall Family Wealth Plan.

Advisors must help their clients think through these issues. They must ask some pointed questions like “If you could turn a million dollar estate tax liability into a $2 million gift to charity (or a $100,000 capital gain tax liability into a $250,000 gift to charity), who would you give that money to and what would you have them do with it?” Or, “If you could really make a difference in just one area of life, what would it be?” Or, “How much wealth is enough for your heirs?”

Understandably, a client initially answers these kinds of probing questions with nothing more than a blank stare. This may be because their advisors had never asked them to focus on these deeply personal and profoundly important questions.

Yet, once this new emotional variable is introduced into the estate planning equation, the entire planning process is instantly transformed into a much loftier, and far more noble, activity. As clients begin to address these aspects of wealth in the planning process, they become excited and enthusiastic over how powerfully their newly designed estate plan leverages their wealth to everyone's benefit.

An amazing metamorphosis takes place as wealthy people begin effectively dealing with all three aspects of their wealth. And, not only does this new approach to estate planning make perfect financial sense, it also positions people to more fully realize the profound joy of doing good for others.

A perfect example of this phenomenon was a 79 year-old widow who chose to embark on developing a Family Wealth Plan. Her newly designed plan outlined her son's inheritance being substantially increased, her estate tax liability being totally eliminated, and those former tax dollars being transformed into multimillion-dollar gifts to her favorite charities. She broke down and cried for joy and relief. Her emotional burden for her son's welfare was lifted. Her massive estate tax burden was removed. And, her deep longing to use her wealth to do good would now exceeded anything she had ever dreamed possible. Through her Family Wealth Plan, this woman had finally found an answer to that elusive question, "What is the purpose of all my wealth?"

by Sal Salvo