CREATING A FAMILY LEGACY

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FINANCIAL SERVICES
WEALTH MANAGEMENT REDEFINED

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Creating a Family Legacy

With Loreen Gilbert, Founder and President, WealthWise Financial Services

Creating a Family Legacy can mean different things to different people. For business owners, it may mean passing down the family business to children who can then lead the company to the next level. For individuals, it may mean establishing a family foundation in order to keep the family's charitable intent alive. In our feature this week, we will hear from our wealth management experts on how they help their clients create a family legacy. And in creating a legacy, how they help their clients integrate their values and their wealth so that their wealth and their values outlive them.

We will start by hearing from **Natasha M. Davis, JD, LLM, MBA** with **City National Bank**.

Natasha M. Davis

Loreen: What are some of the most important questions that you ask business owners as you address business succession planning strategies?

Natasha: We ask clients two very important questions: 1) Did your estate planning attorney review your business governing documents before drafting your estate plan? And 2) Have your estate planning attorney, business attorney, CPA, banker and financial advisor coordinated efforts with a collaborative goal-focused meeting?

Loreen: What do you accomplish in the collaborative meeting?

Natasha: We address the goals of the client from all angles and uncover any gaps or conflicts in the business and estate planning documents. This creates the foundation for the client and advisor to produce a plan directed towards the client's goals.

Loreen: How have you recently helped a business owner with their succession strategy?

Natasha: We met with three business owners, who were college friends over the last thirty years, about what their buy/sell agreement said, in the event one of them passed away. Individually, two of the shareholders' goals were for their adult children to take over the business; the third wanted to sell his interest. We were able to fund the buy/sell agreement with appropriate life insurance policies and had their attorneys update each of their estate planning documents to complement the business plan of succession. Additionally, after getting a valuation, we helped them begin the process of transferring shares to some of the children, while all of the owners are alive and able to train the next generation accordingly. We were also able to help the children get a loan to purchase a portion of the company.

For another take on business exit strategies, **David Frederick, JD, LLM**, **Director Wealth Management Planning** with **First Bank** shares his insights.

David Frederick

Loreen: How do you advise closely held businesses to prepare for their eventual exit?

David: Owners of closely-held businesses face an inevitable choice as they prepare to exit their business: will they pass the business to the next generation in their family or try to sell it to a third party? For clients who wish to keep the business in the family, we strongly advise that they discuss the transfer with the next generation early and work with their children to prepare to receive and operate the business. We suggest that parents start sharing business responsibilities with the children before they actually transfer the ownership. Nothing is worse than passing a business on to an heir who does not want it, except perhaps passing the business to progeny who want it but are not prepared to run it.

Loreen: How can you help family businesses successfully transfer ownership to the next generation?

David: We help our clients transfer their business to the next generation by advising on the crucial elements of timing, structure, taxes, and retirement planning. Many owners expect that they will pass their business to the children all at once when they pass away. But this plan is rife with pitfalls and difficulties. It is often better to transfer the business gradually while the parents are still alive, to allow the children to become familiar with operating the business. Also, clients who transfer their business to the next generation may be parting with their primary source of livelihood. We work with our clients to develop retirement plans for what comes after the business transfer to make sure that while the business prospers with the next generation, the first generation can also prosper in retirement.

Loreen: What are the financing techniques you use to help a business owner sell their ownership interest?

David: There are several structures for selling a business — either within the family or to a third party — designed to maximize control in the transfer while minimizing risk and taxes. These techniques are rather technical, such as the IDGT, the FLiP, the SCIN, 2704(b) discount, and the 453 transfer. The truth is that all of these financing techniques are simply components of a cohesive transfer strategy that works first and foremost to make the client's goals a reality. We work with clients every step of the way to understand their goals, develop a strategy, and use all necessary components — including sophisticated financing techniques — to make the transfer of their business successful.

As families consider their legacy, the conversation often turns to what the family values most. **Laila Pence, CFP, president** and **cofounder** of **Pence Wealth Management** is a veteran in helping families determine how to live out their family values.

Laila Pence

Loreen: How do you help families fulfill their purpose?

Laila: The first step is to help a family uncover their own unique purpose or mission. This involves asking thought-provoking questions that take time for a family to answer. The next step is to ensure the family's investments are aligned to the mission, and are able to provide sufficient capital to empower the family to meet the stated goals.

Years ago, we had a client who decided that his family's purpose was to build churches. Through careful planning and investment management we were able to meet his goal of giving away half of his income each year, and establish a Charitable Lead Trust to allow the income to be paid out to the charity over a period of time. In the end, twenty-two churches were built or remodeled in Southern California and Mexico, with each of the children and grandchildren still inheriting significant wealth.

Loreen: How can grandparents best leave a legacy to their grandchildren?

Laila: We recommend grandparents leave a legacy to their grandchildren by naming the grandchildren as beneficiaries of an IRA instead of naming their adult children. This strategy allows the Required Minimum Distribution to "stretch" over the lifetime of the grandchildren and every distribution check bears the grandparent's name. This is a way for the grandparents to be fondly remembered by their grandchildren for the rest of the grandchild's life.

Loreen: What are the benefits of establishing a family foundation?

Laila: Family foundations are a great vehicle for larger donors to bring heirs together. Some foundations employ the children in a permanent capacity, while others may require heirs to meet and confer annually to disperse the required minimum 5% of the foundation assets. In this way, significant philanthropic resources can be leveraged even though the grantors may not initially have a specific direction in mind for the assets. Additional funds can be added to the foundation every year during higher income years, and distributions can be spread out over longer periods of time.

At WealthWise Financial, we begin with establishing a client's top five values as the foundation for creating a legacy. Once personal values have been identified, we help our clients live out those values through matching their values with their goals. Ultimately, a family's values can become the family crest which lives on for generations.

In closing, as you think about your own business and family, consider how you can implement these legacy strategies and how our wealth management experts can help you achieve your vision of the future.

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Four Ways to Pass Along Inter-Generational Financial Wisdom

By City National Bank

Wonderful as it may be to pass along wealth to your children, it's just as important to share your financial values, philosophy and know-how with the next generation.

Whether your children are in preschool, high school or beyond, it's likely neither too early nor too late to teach your kids about money, financial management, saving, investing and giving.

Many high-net-worth parents, however, don't prepare their children for large inheritances, neglecting to provide guidance or to arrange the wealth transfer in ways that will protect both offspring and nest egg.

Preparing Your Family for Wealth Transfer
"Generally there's an inverse relationship between wealth and passing on knowledge and values. It's the reverse of what everyone would think," said Paul DeLauro, manager of wealth planning at City National Bank.

Families of modest means, motivated by fear of not having enough money, often do pass along financial knowledge, he said. That fear "teaches you how to save, how to invest, how not to be taken advantage of ..."

In contrast, DeLauro said, many multi-millionaires — uneasy about discussing money — haven't taught their offspring about finances or given them an "inheritance education" in interacting with portfolio managers, wealth advisers and lawyers. The children may inherit wealth in their 50s or 60s with little clue about how to handle it.

"They're rather ill-equipped to go out in the real world when they're called upon to manage and house those monies," DeLauro added, noting that financial advisers often see families implode after wealth transfers to the next generation.

In his experience working with family wealth transfer, the average inheritance life span is about 18 months, he said. "You're looking at a massive loss of wealth immediately after the inheritance occurs."

Money conversations are important, as U.S. heirs are expected to inherit more than $3.2 trillion within a generation, according to RBC Wealth Management's 2017 Wealth Transfer Report, which is based on a survey of more than 1,200 Americans with average investable assets of $4.3 million.

"Most inheritors say they were largely unprepared, unsupported and uninformed about the inheritance process," RBC Wealth Management reported.

While wealthy parents may shy away from discussing finances with their children, the silence can backfire. A $20 million bequest for someone who has never made a budget can become a personal catastrophe, leading to dangerous lifestyles, bad marriages and other wrong turns, DeLauro said.

"What if the wealth itself is what destroys them emotionally?" he said. DeLauro asks clients whether they want to leave money or a healthy person — power and peace of mind, or a time bomb.

"You have to prepare these children long before your passing," DeLauro said.

Van Pate, an RBC Wealth Management vice president and wealth strategist, said he's seen family financial education done "in very different ways" and at different ages.

Working With Professionals
Financial advisers, private bankers and wealth managers often are the best teachers, especially since they're the ones heirs may turn to later, DeLauro said. "It truly takes a financial village and learning those skill sets early on," he said.

Indeed, Pate recalled, there have been times when parents have asked him to join family meetings so that he could share some financial knowledge with their children.

Families that successfully transfer wealth often set up children's trust accounts with third-party trustees, DeLauro said. Beneficiaries need to learn about the trusts — including budgeting and living within their means — at an early age, DeLauro said.

Work and Allowance
Structured financial guidance typically doesn't start until age 28, according to RBC's report, however financial education can start years earlier, as soon as a child is old enough for an allowance.

Business owners often excel at passing along financial know-how and values, as they tend to involve even their young children in the business, Pate said. The

youngsters may start by taking out the trash or otherwise getting their hands dirty.

Putting a child on the payroll can also help them learn to put money aside, he said. An allowance for younger children, often with chores as part of the arrangement, is another way to teach kids about money, spending, saving and charitable giving.

Saving Money
"We also see parents who are aware of the power of compounding, and so they will encourage their children to save, and a lot of parents — we did this with our children — will match dollar for dollar," Pate said.

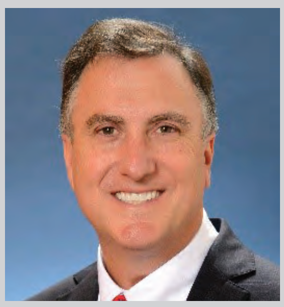
Pate's two children were about eight or nine years old when they started receiving matches. "It made a difference for both of them for things that they wanted to do," he said, noting that his daughter paid for a $10,000 semester-at-sea program with her savings. Now in their late 30s, Pate said, "they're both very committed savers."

Philanthropy
Well-thought-out charitable giving is another way to pass along family values. Pate described a woman who started a fund that she named Grandma's Foundation.

"All the grandchildren are on the board of the foundation and they all make contributions to the foundation," he said. At Saturday morning meetings at Grandma's house, the young board members get together, look at investment results and present grant proposals to the other grandchildren.

"You can't go on the board until you're seven years old, but once you're seven you're on the board," Pate said. "And they get lunch at Grandma's house, too."

Paul DeLauro, J.D., CTFA



Paul E. DeLauro serves as Wealth Planning Manager for City National Bank. Paul provides comprehensive financial planning services to City National clients, including entrepreneurs, professionals, their businesses and their families.

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PENCE WEALTH MANAGEMENT
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Does your Wealth have Purpose? Creating a Legacy that is Worth More than Money

When we talk about the life cycle of wealth, we refer to it as three phases: first the Acquisition phase where you are working to create wealth; second the Distribution phase, where you are living off the wealth created; and third, if the first two phases have gone well and you have plenty to live off of, we call it the Purpose of Wealth phase.

For years we called this last phase the complexity of wealth phase but we have learned a lot over thirty years of working with families and it has changed our view. In the past this last phase was based on thinking about mortality and once you die what do you want done with what is left. Who gets what? Now it's more about what are you going to do before you pass on to make sure your legacy is more than a bank account but a way to transfer values as well as wealth to the things that matter to you most. It goes from a focus of endowment to a focus of empowerment. Seeing your wealth in action. It is not who gets what, but what gets done. We call it the Purpose of Wealth.

Times have changed. The lines between working and retiring are blurred. The phases no longer have exact cut off dates. People who find work fulfilling don't just stop at 65. Rather they refocus their attention and purpose. People who have purpose tend to live longer and more fulfilling lives. Longer lives give people more time to have bigger more meaningful dreams. For instance, we have noticed that parents love their children, but they are *in love* with their grandchildren. They typically don't move across the country to be near the kids, as they have lived with them before. However, they will completely reorder their lives to be close to the grandkids. That is why we have clients in 37 states. We had one client tell us that, being a grandparent is God's way of giving you a second chance.

Wealth and Legacy is frequently not just about leaving money, but empowering and enforcing things that matter the most. In some cases, it is making sure all the grandkids are resourced to go to college, regardless of their parents' affluence. Sometimes it is making sure the entire family has a regular vacation all together for years so that intergenerational bonds are formed and maintained for decades. Or maybe it is the focus of a family's wealth around a legacy beyond the family and is something that can bring them together for generations.

Regardless, we like to help families start early to focus on their Purpose of Wealth. They need to develop a family mission statement. It can be purely family focused, or more philanthropically based. Complete the following sentence: "We want to be the family that ________." Answer that question and then get with your financial advisor and align your goals to fulfill that purpose.

We have had families focus on outward legacy like building churches, supporting higher education, science centers, museums, or scholarships. We have had families focus combating specific issues like environmental issues or sex trafficking and homelessness. It runs the gamut from the arch diocese to the dogs.

We also have families focus on inward legacy and purpose. Where trusts are designed to educate future generations and then in order to make sure they move on to meaningful work, then match a portion of what they earn rather than just outright grant future funds. Likewise, funds can be set aside to support stay at home moms.

The key to all of this, like with any part of successful financial planning, is to start early. The ability to compound your wealth over time is the greatest decision one can make in creating wealth, and the Purpose of Wealth. Money set aside for children at birth, and compounded can educate not only them but their children as well. Retirement money specifically allocated to family adventures can build strong bonds that keep families together through thick and thin.

These strategies are not just for high net worth families. These are for any family. People don't always start off wealthy, they work to get there but along the way they know that if they share their blessings they will be blessed further. While saving on purpose is important there are some new provision in the tax law that make a family foundation within reach for almost anyone. It allows a family to start focusing on their purpose long before they need to actually find themselves in distribution mode.

Each family is different, but here are two easy methods to create, and leave, your legacy:

1. Gift Stocks | Instead of giving cash to your family, we encourage our clients to gift highly appreciated stock to develop and teach the next generations about investing. In our practice, when clients come to us with stock their grandparents purchased for them decades ago, such as Coke, Apple, Disney, it makes that person a believer in not only those companies, but the stock market. These clients have watched the value of these stocks increase over their lifetime, and they inadvertently learn about earnings, company profits, and knowledge of business and the markets. They are able to check their stock on their phones or via an app, so it is a direct impact on their lives. This is a simple and easily obtainable strategy for many families. Plus, it is a fun way to teach children about the stock market. We encourage our clients to gift stock on an ongoing basis.

2. Establish a Family Foundation | Family Foundation is typically used with larger estates, but is a great way to pass on your values, not just your assets, as it helps teach families about gifting and giving back. For example, when parents leave a family foundation and leave highly appreciated stock, their family is required to have regular meetings about these stocks. Thus, they learn about analyzing investments, and to pay attention to important causes or family initiatives. This method keeps the family close, and makes sure the family is constantly looking for causes they believe in. Year-to-year, they can see how their contributions benefit society and the causes that are most Important to them and the family.

There are many ways to create your legacy, but one of the most important is to lead by example. Walk the talk. Your actions have more impact than you think. If something is important to you, put your money where your mouth is. And invite your family and others to join you. If you teach and instill habits and values along the way, then they learn to do what is right because it is by choice not coercion.

The difference between a legacy and a gift is this: A gift is a toy for a birthday. A legacy is a lesson for a lifetime. How can we help you create your family legacy?

For more information visit www.PenceWealthManagement.com.

Laila Pence, CFP®
Laila Pence, CFP® is President of Pence Wealth Management, a Registered Investment Advisory firm. Since 2007, Laila is perpetually recognized and ranked in the top 1% of female financial advisors nationwide. Recently, Laila was ranked as #1 in Forbes' Best-in-State Wealth Advisors[1] List for California (Southern) for 2019.

Laila has a unique approach to financial planning that goes beyond the normal scope to include consideration of a client's taxation, retirement planning, business structure, estate planning, and real estate. Laila is focused on making a positive difference in her clients' lives.

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At Pence Wealth Management we are in the business of helping you realize your dreams. Since 1980 we have worked closely with clients to understand their various needs, goals, and aspirations. One of the most important things we do is help develop a clear vision of your dreams. Once defined, we identify all the obstacles between where you are and where you want to be. Whether your goals are to secure an adventurous retirement, pass along a family business, or leave a legacy that will support your values for generations to come, we are here to help. What's your dream?

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What if No One in the Family Wants the Family Business?

As generations before us, most family business owners have invested considerable time, energy, savings, hopes, and dreams into the longevity of their business. Like many founders, family business owners often establish their business with the long-term intent of positioning the next generation to one day assume leadership. But, what if assumptions are wrong and they simply don't want the business or they have other career aspirations in mind? Regrettably, it can—and does—happen.

In fact, a recent survey indicated that fewer than half (45.5%) of those expecting to retire in five years and fewer than a third (29%) of those expecting to retire in under 11 years have selected a viable successor. (MassMutual, American Family Business Survey, 2007)

The time to ask those all-important questions are sooner versus later. A large part of any solid succession plan is knowing who will assume the leadership role once the next generation assumes the reins—even if it means knowing the successor won't be an actual member of the family.

A large part of any solid succession plan is knowing who will assume the leadership role once the next generation assumes the reins—even if it means knowing the successor won't be an actual member of the family.

"I always advise my clients to have a solid succession plan in place approximately five to seven years prior to their intended retirement age," said David Frederick, Director of Wealth Planning with First Bank Wealth Management. "From my experience, I've found that closely-held businesses can either be extremely valuable or hold minimal value if there's no plan in place to continue the operations. You see, the value of a business is based on the assumption that it will operate effectively in the future. You've got to ask yourself and your family members the hard questions as early as possible."

If you haven't prepped your potential successor, it could ultimately destroy the value of your business. Case and point, a well-known establishment in the Delmar Loop of St. Louis was left to the son of successful husband-wife restaurateurs. Their son had moved away and pursued his career aspirations outside of the restaurant business. Frederick said, "The parents left their restaurant business to their son when they passed away but the son was not interested in running the business, which is now effectively being dissolved. Sadly, for those of us in St. Louis, we'll lose a piece of local history due to the lack of an effective business succession plan."

Frederick commented that you must ask a potential successor before it's too late, "Do you want to run this business as your working career?" If the answer is "yes," then the team at First Bank Wealth Management can help establish sound business structures to transition it to the next generation.

What to Do Once You Understand Your Family Business Won't Stay in the Family

Once you understand the answer is "no" and there isn't a viable successor within your family, there are other options. Some business owners may decide they will simply turn the key and walk away, or the business operations will just dissolve when they leave. Other businesses may have a "key man employee," a group of employees, or a partner interested in purchasing the business. Or, a third option is selling to an interested third-party, such as a competitor, a customer, a supplier, a full-service broker, or an investment capital firm.

Preparing the Business to Sell

There are companies dedicated to appraising and valuing your business. A business has two values: Book Value and Fair Market Value. Book Value is simply the accounting of all assets of the business, such as equipment, real estate, and cash deposits. Fair Market Value is more of an art than a science and is found by adding Book Value to a multiple of the company's annual EBITDA (Earnings Before Interest Taxes Depreciation and Amortization), the raw earning power of your business.

"Clients often come to us for counsel once they have a good sense of who is buying, such as a partner, competitor, or an outside third-party," Frederick said. "Business owners may not be able to leave their business immediately after a sale, as buyers often need the sellers to consult on the business for several months. This transition period can be up to a year, especially in professional services' business, such as a legal firm or medical practice. After all, with these types of businesses, it's the services of the owner that you're selling, so it may take a while to acclimate your clients to the change of hands."

As a business owner, we realize you have more things on your to-do list than hours in the day, but don't leave the business you've worked so hard to build or its succession plan to chance. Let First Bank's team of succession planning professionals help set your family business up for success now and well into the future.

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For more information on developing a solid succession plan for your business, please contact First Bank Wealth Management.

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How a Corporate Trustee Can Help Preserve Your Family Legacy

	Family Member	Professional Advisors (Attorney or CPA)	Corporate Trustee
Duties Trustees must either perform or contract for services required by the trust.	Contracts for legal, accounting, investment, and other services	Administers own area of discipline; contracts for other services	Most services bundled in turnkey package; contracts others
Ability and Willingness to Serve Trustees cannot foresee their personal situations in the future. A trustee's duties may extend for many years.	Risk of personal conflicts or preceding you in death	Risk of personal conflicts, retirement, or preceding you in death	Established specifically to provide continuous service; potential for some organizational risk
Commitment Varies according to each trust relationship, but may be demanding.	Generally high level of commitment, but risk of conflict	Retirement or change in professional relationship may dilute level of commitment	High level of commitment, core business function
Competence Varies in fiduciary expertise.	Not usually area of expertise	May not be area of expertise	Core business function; professionally trained
Cost May span a wide range based on expertise and fees of trustee.	Generally no cost for administration; high cost for contracted services on an à la carte basis (reporting, legal, tax)	Trustee may charge fee for administration and own area of discipline; contract other services on an à la carte basis	Most services bundled in cost-effective turnkey package; others contracted in volume to lower costs
Experience May span a wide range based on specific trustee.	Varies by individual background	Typically significant experience in own area of discipline; administrative skills less certain	Provides professional staff that possesses trust experience and skills
Objectivity/Freedom from Conflicts Trustee's interests may conflict with beneficiaries'.	A common source of discord among siblings; may have conflicts if also named a beneficiary	May make decisions involving payments for own professional services and have other family roles	Provides interpretation of trust document and administration

In the over twenty years of running a wealth management practice, I have seen many clients pass away and as a result, I have seen the successful as well as the not-so-successful transfer of assets to beneficiaries. During this emotional period of time, it can be a heavy burden for the beneficiaries to also handle the financial matters of settling an estate. Using a corporate trustee can facilitate the settlement of the trust and the estate while allowing the beneficiaries to grieve. It can also help preserve a legacy by making sure your wishes are carried out properly.

Contrary to popular opinion, corporate trustees are not only for the uber wealthy. In fact, a family with a net worth of one million dollars or more could potentially benefit from using a corporate trustee as their successor trustee.

There are many benefits of using a corporate trustee including:

- Loyalty and independence to carry out your wishes
- Knowledgeable management, protection, and defense of trust assets
- Experienced oversight of the investment process to be carried out by your financial advisor
- Timely and accurate statements of the account to keep you and all current beneficiaries informed
- Arms-length relationship with beneficiaries so that sound financial decisions are made
- Accountable collection and prudent distribution of income and assets
- Tax reporting, filing, and comprehensive regulatory compliance on behalf of the trust

When most people draft their family trust, the first person they list as a successor trustee is usually a family member, such as a sibling or a grown child. However, what if the person you listed as successor trustee is not able to act as a trustee when that time comes? Last week, a single client told me about the European vacation that she, her brother and her sister-in-law were taking together this month. And who is listed as the successor trustees on her trust? That same brother and sister-in-law. What if something happened to all of them on that trip? In the least, a corporate trustee listed as a back-up could help avoid issues if the unthinkable were to happen.

Another key reason to consider a corporate trustee as an on-going trustee is to prevent beneficiaries from squandering the resources you spent a lifetime to build. A corporate trustee has a fiduciary responsibility to make sure the trust assets provide for the beneficiary. For example, if a beneficiary is left to their own financial decisions, a Harley may be bought instead of a Harvard education.

And what about the cost of a corporate trustee? It is true that not all corporate trustees are the same, especially when it comes to fee structures. So make sure to compare costs when deciding which corporate trustee to use. However, don't make the mistake of bypassing a corporate trustee solely based on the cost of having a corporate trustee. In my experience, the corporate trustee services, even with the cost, can benefit beneficiaries by preventing them from hurting themselves financially.

Gilbert

Another important use of a corporate trustee is to establish a separate property trust so that the spouse or future spouse of the beneficiary will not have access or rights to those assets in the unfortunate case of a dissolution of marriage. Many children may be opposed to having a potential spouse sign a prenuptial agreement, so keeping an inheritance in a separate trust with a corporate trustee can effectively accomplish keeping the inherited assets as separate property. Your choices of a trustee or successor trustee may include a family member or friend, a professional advisor such as an attorney or CPA, or a corporate trustee. Each choice offers specific advantages and disadvantages. It may be helpful for you to consider these choices in the context of the duties of the trustee and the desired qualities outlined below.

At WealthWise Financial, one way we think about legacy planning, is attempting to help clients avoid unintended consequences with their estate. A proven strategy to ensure that your wishes are carried out properly and to help prevent beneficiaries making poor financial decisions, is to use a corporate trustee. A corporate trustee not only can help settle the estate without emotions getting in the way, but can act as a safety net with beneficiaries who may not make the wisest financial decisions on their own.

Loreen Gilbert is an experienced wealth manager who has spent more than twenty years creating comprehensive wealth strategies for her clients. Upon graduating from the University of Texas at Austin with a degree in Business Administration, she launched her career at Fidelity Investments where she assisted clients with investment management services. Gilbert then worked for a private company selling retirement plans to municipalities and their employees. She has been in private practice as a wealth manager since 1997, and is the founder and president of WealthWise Financial Services, which offers securities and investment advisory services to individuals, business owners and corporations through her affiliation as a registered principal with LPL Financial.

For more information, www.wealthwisefinancial.com or (949) 748-1177.

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