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HERE'S HOW THE ULTRA-WEALTHY SET THEIR HEIRS UP FOR SUCCESS

Wealth transfer and legacy planning is often about much more than just passing along wealth. Discover how the ultra-wealthy think about transferring wealth to their heirs—and the steps they take that are designed to instill values in their children.

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Here's How the Ultra-Wealthy Set Their Heirs Up for Success

KEY TAKEAWAYS

- The vast majority of people with \$25 million or more of net worth are worried that their heirs may waste the money they inherit someday.
- Focusing on family values and legacy concerns can potentially help steer heirs in the "right" direction.
- Discuss financial values, get kids involved in financial decision making, and enlist advisors to conduct formal family meetings.

Wealth planning for the next generation is a topic that is commonly discussed between advisors and their clients. That's not surprising, of course: If you have wealth that you intend to pass down to children or grandchildren, chances are you'll have questions about how to best transfer those assets given your specific family circumstances.

That said, wealth planning can—and often should—go beyond the mere mechanics of how assets get from person A to persons B, C and D. Issues around wealth and values, fiscal responsibility, and family legacy can be important matters to address in many families.

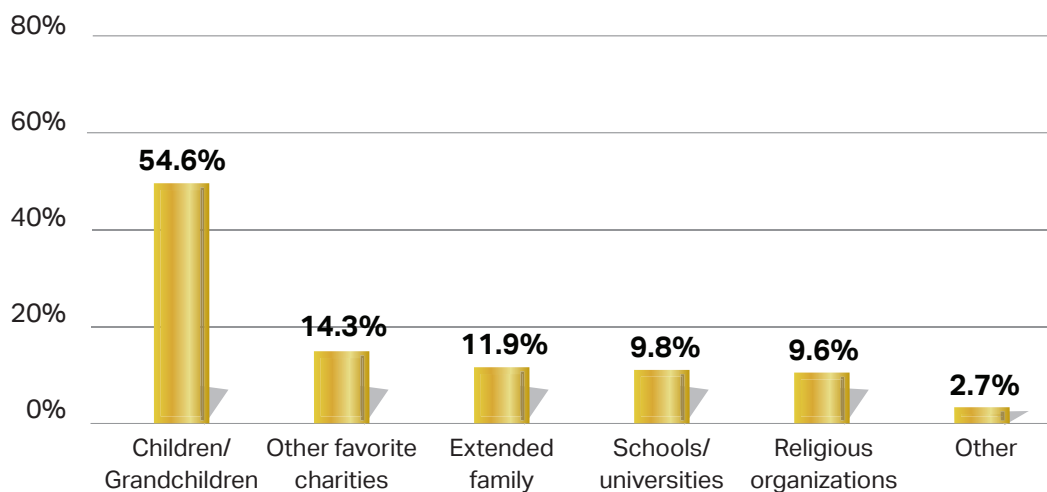
That's something that families with truly significant wealth generally seem to appreciate. Recent research suggests that those with a net worth of \$25 million or more are acutely focused on broad, big-picture concerns relating to how their heirs will use inherited wealth. With that in mind, here's a look at some key wealth transfer issues that are on the minds of the ultra-wealthy, and what they're doing to get out in front of them.

Their attitudes and actions may potentially serve as valuable guidelines for your own plans to pass on wealth to your heirs.

Supportive of—and nervous about—the kids

When it comes to passing on assets to heirs, the ultra-wealthy investors (again, those with at least \$25 million in net worth) indicated they would leave 56.4% of assets to children and grandchildren, giving charities 14.3% and extended family 11.9% (see Exhibit 2).

EXHIBIT 2
The Ultra-Wealthy's Plans to Distribute Assets upon Death



N = 165 investors.
Source: CEG Insights, 2023.

But here's the thing: Even though the ultra-wealthy on average expect to leave more than half of their assets to their children or grandchildren, they're not fully comfortable with their decision. Consider that the vast majority of this group (77.5%) are worried that the next generation may waste the money they receive.

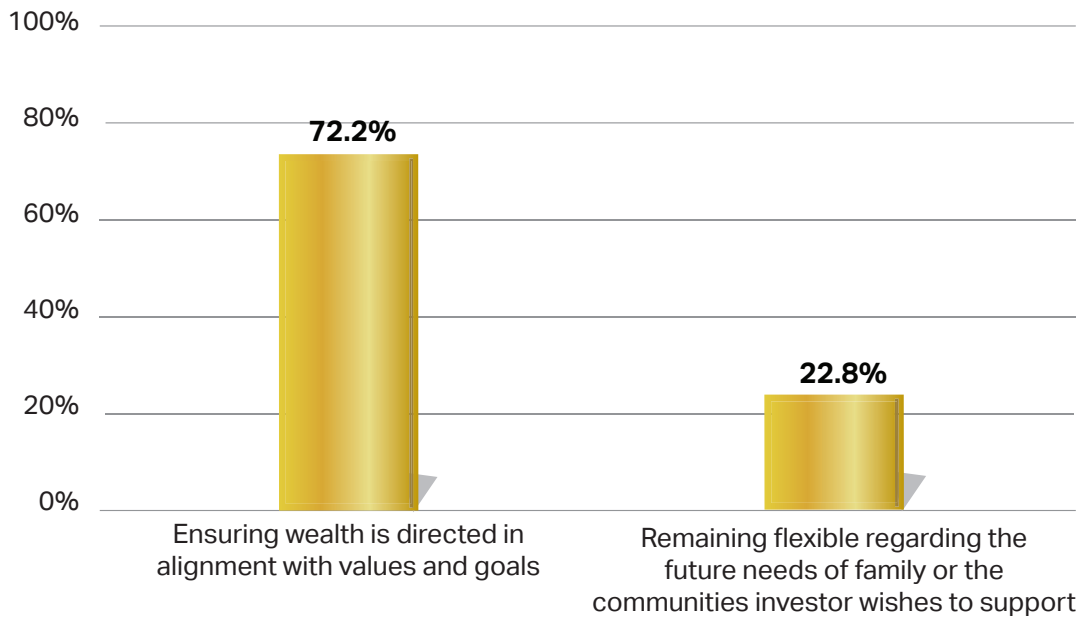
It seems there's some tension at work. The ultra-affluent want to support their kids—but they're concerned that in doing so, their efforts will be squandered.

The role of values and legacy

The ultra-wealthy, in general, are seeking to address this situation by taking a larger view of wealth transfer. Specifically, they're engaging in legacy planning, which goes beyond wealth transfer to focus on the broader impact that people wish to leave behind.

That impact might include values, charitable gifts, life lessons and much more. Example: More than three-quarters (77.2%) of the ultra-wealthy believe it is important to direct their wealth *in alignment with their values and goals* (see Exhibit 3).

EXHIBIT 3
The Ultra-Wealthy's Approach to Transferring Wealth



N = 165 investors.
Source: CEG Insights, 2023.

Reinforcing this point, an overwhelming majority—85.8%—believe that it is either extremely or somewhat important to leave a legacy for future generations. Establishing a legacy means giving money, of course, but for many it also involves passing down morals, values and the family name/ reputation.

Legacy planning enables these investors to attain these types of goals; in fact, it's a linchpin of their ability to achieve all that is most important to them. Yet it is deeply personal, involving their most closely held beliefs and dreams. Families need to identify their core values and goals through deep and ongoing discovery.



Instilling values before transferring wealth

If, like the ultra-wealthy, you want to instill certain values and beliefs in your heirs prior to them inheriting your wealth, there are several action steps that can potentially help you make it happen. Some ideas to consider, based on what we see the ultra-rich doing in their own families, include:

1. Help heirs see the potential power of their future wealth.

Often, we find that potential inheritors don't care to learn at an in-depth level how specific legal strategies and investment products work. But they do want to have a big-picture understanding of what they can accomplish with their wealth. Essentially, they seek to understand the impact their inherited wealth can have—on their families, their communities and even the world at large. Therefore, inheritors can benefit from getting help developing their wealth agendas so that their assets can be positioned to support those goals. Getting this type of high-level guidance in creating a vision for one's wealth often means working with a wealth manager who focuses upfront on helping clients define their financial values and goals.

2. Discuss the topic of wealth—a lot.

One of your biggest jobs is to have conversations with family members on the subject of money and values so you can begin to instill your beliefs and hopes. Open lines of communication between the generations are the basis for sustaining family wealth. Communicate the values you care about, and explain why you see those values as so important to heirs' realizing a good life.

This cannot be a single, one-and-done talk. Instead, over many years as your heirs grow and mature, have ongoing conversations appropriate to their age and experiences. Basic dialogues with a young child about, say, the importance of balancing wise spending with consistent saving might progress into more advanced discussions with adult children about topics such as investment strategies, joint accounts with spouses and college funding.

The upshot: Start early, then consistently communicate over time, to help them develop a sense of financial responsibility and motivation to achieve. Throughout the years, there will be no shortage of teachable moments in which a values-based conversation can help illustrate your views and instill them in your heirs—from when a child receives a large birthday check to making a decision whether to buy a single-family home or a rental property. And since most people tend to not remember or internalize lessons that are taught only once, repetition and revisiting the topic of money and values can help those lessons “sink in” over time.

Important: Talking about wealth and values doesn't automatically mean you need to reveal your net worth or how much money an heir may one day inherit. Too often, parents avoid

talking about wealth entirely because they think these conversations mean they'll have to "open up the books." Not so. You can discuss the importance of being a good steward of wealth without diving into the actual numbers.

3. Walk your talk.

As vital as values-focused conversations with heirs are, the most effective way to instill your values around wealth is by modeling those values for your children to see and including heirs in actions that solidify the importance of those values.

In short, if you want your kids to share your wealth- and success-related values, you have to *walk your talk*. These are some ways to do that at various stages of their lives:

- **Create a formal family values statement together.** As you discuss wealth and values with children, put pen to paper or get on the computer and create a document spelling out the values you agree on as a family—adding to it over time based on new discussions. Although it doesn't create a formal contract, the act of writing down your values can help reinforce them.
- **Involve kids in select financial decisions.** Give kids real-life experiences with how money, choices and values interact. Start small and safe: Ask younger kids for their input about where the family should go for a vacation based on a set travel budget. Get older children involved in choosing charities or causes the family should consider. Bring adult children into the process of how to invest and allocate family wealth in the financial markets.
- **Create a family bank.** Some affluent families establish informal family "banks" for lending money to their adult children who need funds to buy a home, start a business or pay for some other major life expense. Rather than simply handing money over, the family patriarch or matriarch can act more like a bank that is loaning money to the child—thus creating a more real-world experience that can help educate the child about collateral, down payments, repayment terms and so on.
- **Live your values "out loud."** You may tell your children you want them to care about helping others in need or being "smart" with their money—but do they see you actively doing so in your own life? Better yet, are you involving them in your efforts? Demonstrating how you live your values can make a far stronger impression than words alone can.

4. Conduct formal, facilitated family meetings.

This can be one of the best ways to foster the cohesion needed to maintain your family's wealth across generations—and both instill your values and identify shared values among different generations of family members.

These meetings, if well-organized and focused, can provide opportunities to discuss the values and mission of a family, the concerns that can impact the family's wealth and/or business, philanthropic activities, ways in which to pass down financial knowledge and responsibility to younger generations, and any other issues specific to the family. In nearly every meeting, the goal is to work through the issues, address any challenges and agree on solutions that will benefit all.

To be most effective, family meetings should be run by a skilled and experienced facilitator (such as a financial advisor). In addition, include any other professionals, such as an accountant or estate planning attorney, whose expertise may be required for a particular meeting.

An enduring legacy

Ultimately, there's a lot to be learned from the attitudes and actions of the ultra-wealthy when it comes to passing on their sizable wealth. And you don't need to have \$25 million or more to implement many of the strategies they use to help set their heirs up for success. So consider taking a page (or two or three) from the financial playbook of the ultra-wealthy as you seek to leave an enduring legacy for your family.



VFO Inner Circle Special Report

By John J. Bowen Jr.

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