Major Risks to Family Wealth

Will your accumulated assets be threatened by them?

All too often, family wealth fails to last. One generation builds a business – or even a fortune – and it is lost in ensuing decades. Why does it happen, again and again?

It is because families fall prey to serious money blunders – old and new. Classic mistakes are made, and changing times aren't recognized.

Procrastination. This isn't simply a matter of failing to plan, but also of failing to respond to acknowledged financial weaknesses.

For example, let's say we have a multimillionaire named Alan. Alan gets a call one afternoon from his bank, which considers him a VIP. It turns out that his six-figure savings account lacks a designated beneficiary. He thanks the caller, and says he will come in soon to take care of that – but he never does. His schedule is busy, and the detour is always inconvenient.

While Alan knows about this financial flaw, knowledge is one thing and action is another. Sadly, procrastination wins out in the end and those assets end up subject to probate. Then his heirs find out about other lingering financial matters that should have been taken care of regarding his IRA, his real estate holdings, and more.

Minimal or absent estate planning. *Forbes* notes that 55% of Americans lack wills, and every year multimillionaires die without them – not just rock stars and actors, but also small business owners and entrepreneurs. Others opt for a living trust and a pour-over will, or just a basic will created online.[1]

This may not be enough. Anyone reliant on a will risks handing the destiny of their wealth over to a probate judge. The multimillionaire who has a child with special needs, a family history of Alzheimer's or Parkinson's, or a former spouse or estranged children may need more rigorous estate planning. The same is true if he or she wants to endow charities or give grandkids a nice start in life. Is this person a business owner? That factor alone calls for coordinated estate and succession planning.

A finely crafted estate plan has the potential to perpetuate and enhance family wealth for decades, perhaps generations. Without it, heirs may have to deal with probate and a painful opportunity cost: the lost potential for tax-advantaged growth and compounding of those assets.

The lack of a "family office". Years ago, wealthy families sometimes chose to assign financial management to professionals. The family mansion boasted an office where those professionals worked closely with the family. While the traditional "family office" has disappeared, the concept is as relevant as ever. Today, wealth management firms consult families, provide reports and assist in decision-making in an ongoing relationship with personal and responsive service. This is a wise choice when your financial picture becomes too complex to address on your own.

Technological flaws. Hackers can hijack email accounts and send phony messages to banks, brokerages and financial advisors greenlighting asset transfers. Social media can help you build your business, but it can also lend personal information to identity thieves who want access to digital and tangible assets.

Sometimes a business or family installs a security system that proves problematic – so much so that it is turned off half the time. Unscrupulous people have ways of learning about that. Maybe they are only one or two degrees separated from you.

No long-term strategy in place. When a family wants to sustain wealth for decades to come, heirs have to understand the how and why. All family members have to be on the same page, or at least read that page. If family communication about wealth tends to be more opaque than transparent, the mechanics and purpose of the strategy may never be adequately conveyed to heirs.

No decision-making process. In the typical high net worth family, financial decision-making is vertical and top-down. Parents or grandparents may make a decision in private, and it may be years before heirs learn about it or fully understand it. When the heirs do become decision makers, it is usually upon the death of the elders – only now the heirs are in their forties or fifties, with current and former spouses and perhaps children of their own to make family wealth decisions more trying.

Horizontal decision-making can help multiple generations understand and participate in the guidance of family wealth. Estate and succession planning professionals can help a family make these decisions with an awareness of different communication styles. In-depth conversations are essential; good estate planners recognize that silence does not necessarily mean agreement.

You may plan to reduce these risks (and others) in collaboration with financial and legal professionals who focus on estate planning and wealth transfer issues. It is never too early to begin.

Citations.

1 – www.forbes.com/sites/financialfinesse/2012/01/19/a-common-sense-approach-to-estate-planning/ [1/19/12]