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. The named beneficiary of Alan's six-figure savings account is no longer alive. While Alan knows about this financial flaw, knowledge is one thing and action is another. He realizes he should name another beneficiary, but he never gets around to it. His schedule is busy, and it is an inconvenience.

Sadly, procrastination wins out in the end and as the account lacks a POD beneficiary, 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.[1]

Minimal or absent estate planning. Every year, multimillionaires die without any leaving any instructions for the distribution of their wealth – not just rock stars and actors, but also small business owners and entrepreneurs. A 2015 Caring.com survey found that only 56% of American parents have a will or living trust.[2]

A will may not be enough. Anyone reliant on a will alone 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." Decades ago, the wealthiest American households included offices: a staff of handpicked financial professionals worked within the mansion, supervising a family's entire financial life. While the traditional "family office" has disappeared, the concept is as relevant as ever. Today, select wealth management firms emulate this model: in an ongoing relationship distinguished by personal and responsive service, they consult families about investments, provide reports and assist in decision-making. If your financial picture has become too complex to address on your own, this could be a wise choice for your family.

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.

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 heirs do become decision makers, it is usually upon the death of the elders.

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. It is never too early to begin.

Citations.

1 - nolo.com/legal-encyclopedia/free-books/avoid-probate-book/chapter1-5.html [5/5/15]
2 - caring.com/about/news-room/american-parents-wills.html [4/22/15]