BreedElliott

happiness through sensitive financial planning

Chartered Financial Planners

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Preserving wealth through generations

Introduction

Many, many years ago, back in 1776, Adam Smith in the Wealth of Nations wrote:

"Riches, in spite of the most violent regulations of love to prevent their dissipation, very seldom remain long in the same family."

A more modern saying goes, "The first generation makes money, the second generation retains it, and the third generation blows it."

In fact, there is data to substantiate these views. Research by the Williams Group wealth consultancy in the United States has found that 70% of wealthy families lose their wealth by the third generation and a stunning 90% lose it by the fourth.

From shirtsleeves to shirtsleeves in three generations

The problem of successful wealth transfer within families has long been known. The above phrase illustrates how quickly wealth can evaporate.

Typically, it happens like this: The first generation creates the wealth through hard work and struggle. The second generation gets a close-up view of that struggle and gains some understanding of the importance of hard work. But by the third generation, the connection is lost. Without a link to the sacrifices their grandparents made, it is easy for young family members to take the wealth for granted.

We are just entering the largest era of wealth transfer ever with the oldest baby boomers now in their early 70s. The average life expectancy of someone who reaches 65 today is 84 – 86, so most of these wealth transitions are probably still over a decade away.

Therefore, the good news is that we have time on our side to formulate a plan for the successful preservation and transfer of our wealth to future generations.

Key considerations

- **Connect with children and grandchildren**

We heard a story regarding connection recently where a businessman had received a reply to his informative email to a young associate which simply read 'TLDR'. On investigating what the acronym stood for, the answer came back 'Too long, didn't read'!

If we are going to succeed in preserving wealth through our children and grandchildren, we are going to have to find a way to connect with them on their level. Unbelievably for many of us, emails are already passé for younger generations, rapidly being overtaken by social media.

We need to become 'trendy' and keep up with the changing times.

- **Be prepared to communicate with children and grandchildren**

Historically, parents discussing wealth and financial planning with children was a taboo subject. For many families, the reason that wealth disappeared so quickly was because its arrival came as something of a surprise. The children had not been prepared to deal with the responsibilities of managing wealth.

In our experience, there is very little time spent in schools educating children about wealth management. However, parents and grandparents have a wealth of experience (excuse the pun!) which can be passed on to children and grandchildren once a connection has been made.

- **Preserve family values**

Assuming we have been successful in accumulating wealth, it is almost certain that we will have strong views about how we have managed to achieve this success. These are likely to be the values that we hold most dear.

Have we taken the time to reflect upon these values and then record them so that we can communicate them with future generations?

If a grandchild not only knows that their grandparents were successful but also understands how they achieved that success, they are more likely to take greater responsibility in managing and preserving the family wealth.

- **Work as a team**

If we combine the above considerations, the family can start to work together as a team with common goals and strategies for managing the family wealth.

We appreciate that parents may feel uncomfortable discussing and disclosing their personal financial situation with their children, but the fact that most wealth is gone within three generations should communicate that something is wrong either with the family value system or the knowledge of one or more generations. Educating the family in a collaborative manner will surely increase the chances of success.

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The role of the financial planner

We are very conscious that we could (and maybe should) have an important role to play and that we need to keep improving how we do what we do if we are to succeed in engaging with younger generations.

We need to offer to help train younger family members in the basic principles of sound financial planning. We can be involved in organising and planning regular family meetings when the family's wealth preservation strategy can be reviewed. We need to ensure that our knowledge and use of Information Technology is kept up to speed so that we can provide the communication required by younger generations.

Implement a Family Wealth Preservation Plan

We are fairly confident that the idea of a 'Family Wealth Preservation Plan' will make many readers feel a little uncomfortable. But why?

As parents, most of us do not want to see the fruits of our labours, sweat and tears squandered by our children. However, the facts would indicate that the strategies we have been using in the past have not been particularly successful in achieving this aim.

Indeed, what are the strategies we have been using in the past? Have we had any?

As I sit and think about setting up a family meeting with my three young adult children, I am quite excited about the possibilities of discussing with them our family values, our collective aims and aspirations for the future and our hopes for them and their children - our grandchildren.

Clearly, this is something new and, as such, there are feelings of awkwardness and discomfort, but the potential benefits are sufficiently exciting to counteract any negative emotions.

Once a plan has been formulated, there is likely to be greater teamwork and understanding from all family members. Meetings can be organised on a structured basis to monitor and review the evolving circumstances and to carry out whatever changes are required. As and when future generations reach adulthood, they can be involved in the family meetings.

There is one final benefit we would like to take the opportunity to mention. Unfortunately, we see far too many examples of families breaking up as a result of squabbles over finances, which occur largely as a result of a lack of planning. We are confident that the ideas covered in this newsletter will help to reduce the chances of family fallouts.

If you would like to discuss the idea of formulating a plan for the preservation of your family's wealth, please do not hesitate to contact me.

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Market data

Market	2022	Current situation	Comments
Interest Rates (BOE base rate)	Increased from 3.0% to 03.50% in December	5.00% at 30/06/23	The official bank rate is 5.00%.
House Prices (Nationwide)	House prices fell by 2.8%	House prices remain flat at 30/06/23	Annual house price growth down 3.5%.
UK Share Prices (FTSE 100)	Closed at 7451.74. An annual rise of 924 points	7521.50 at the close on 30/06/23	The FTSE 100 rose by 85.36 points in June.