Purposeful Planning

By Barbara A. Culver, CFP®, ChFC, CLU, AEP

Imagine if you were to read the following job description. Would you be interested?

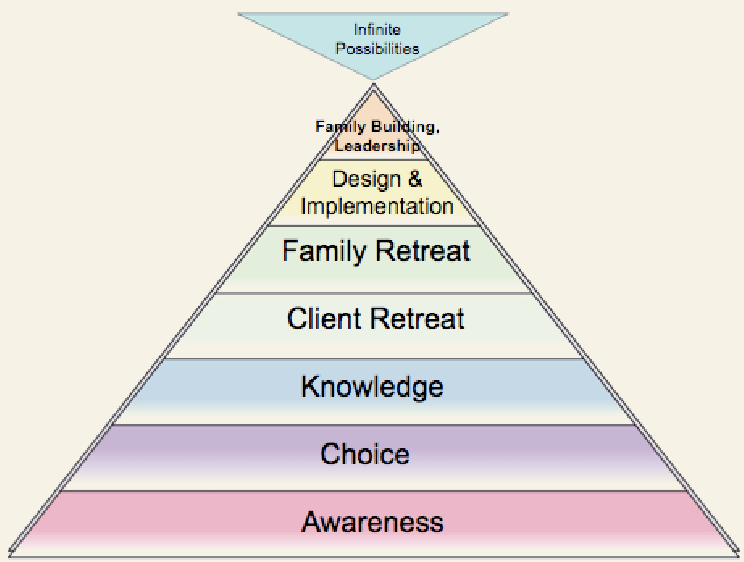
> *Outstanding pay and benefits; congenial office culture; long-term success rate 9 percent, long-term failure rate 91 percent.*

Of course you wouldn't. However, the sad state of affairs is that many financial advisors actually hold this position. In his 1997 book *For Love and Money*, Roy Williams reported on his research showing that 70 percent of carefully crafted and already executed estate plans fail from one generation to the next. This means that 91 percent of wealth transfers fail by the time assets reach the wealth creators' grandchildren. The assets are gone—oftentimes foolishly spent, or lost to lawsuits or bad investments. Additionally, and perhaps more tragically, the family also fractures. Within just two generations, the family wealth essentially disappears and the family splinters.

Roy Williams and colleague Vic Preisser continued their study of the loss of family wealth and harmony and conducted extensive interviews with American families that have managed to keep family wealth and the family harmony intact for more than 100 years. Although the details of the stories differ from family to family, three elements are common to them all. I call these the three secrets of successful planning.

1. The wealth-creator generation engaged in meaningful communication with one another, and extended and expanded the conversation intergenerationally.
2. Each family's plan always contained some form of sustained philanthropy.
3. Each family had a process for creating an effective, healthy family culture that included preparing heirs regarding their rights, roles, and responsibilities.

FIGURE 1: PURPOSEFUL PLANNING™ PYRAMID



Using these three secrets as a foundation, I have developed the Purposeful Planning™ Pyramid, an approach for working with high-net-worth families to ensure that they are successful in passing on a legacy of wealth and values.

While Purposeful Planning can be used for all levels of wealth, it is most effective for families with a net worth of $5 million or more, where substantial amounts of financial wealth require planning and leveraging. The system works especially well when multiple generations of heirs are included in the wealth transitioning process.

Advisors who work with lower-net-worth clients and their families may opt to use an abbreviated version of Purposeful Planning. For example, less time and attention would be placed on sustained philanthropy with less focus on the development of the next generation of family leaders.

The Purposeful Planning™ Pyramid

Following is a description of the seven levels of the Purposeful Planning Pyramid (see figure 1):

Level 1: Awareness. In this initial level I contrast traditional, tax-driven planning with Purposeful Planning. I share the high failure rate of traditional planning and provide a rationale for clients and their families to consider an alternative. I show clients how choosing an alternate way to plan preserves not only family treasures but also family traditions, values, and beliefs.

Level 2: Choice. In the second level I invite clients and client families to choose between the two planning approaches. To help them with this decision, I share the three great American money myths: "More is better," "There's not enough to go around," and "That's just the way it is." Then I ask clients to assess how these toxic myths impact their lives today and whether or not they choose to perpetuate these myths and pass them on to their heirs.

Level 3: Knowledge. With the myths debunked, clients are free to choose to change their focus from what they lack to what they have, from scarcity to sufficiency, from greed to gratitude. This new knowledge includes recognition that our planning process will address more than just financial assets. It will consider relationships as well as intellectual abilities, i.e., the ability to think, dream, believe, imagine, and create, and perhaps even good health. The advisor invites clients to recognize the importance of including all asset classes in the planning process, rather than limiting the results by planning only for the transmission of financial wealth. Such limitation implies that financial wealth is the only thing of value to transfer and preserve.

Level 4: Client retreat. At this level the first secret—meaningful communication—is addressed. I get clients talking to each other, on purpose and about purpose—the purpose of our lives, the purpose of work, the purpose of wealth. Meaningful, purposeful communication, initially among the wealth creators, then shared among generations, is crucial. The client retreat offers the opportunity for the wealth creators to talk about their deepest values and most cherished beliefs about life, work, family, spirituality, and money. From this conversation the planner can draft a family mission and vision statement, accompanied by a financial philosophy for the family money tree. The mission talks about the purpose of the family—why the family is here, what they stand for, how they want to be known, what they believe in. The vision is the implementation plan for the mission and the financial philosophy addresses how the family wants to save, spend, and share its money/wealth in support of their mission.

Deliverables from the client retreat may include:

- Family mission and vision statement
- Family financial philosophy
- Ethical will
- Letter of intent or wishes

Level 5: Family retreat. At the family retreat, the focus shifts to intergenerational dialogue. At this gathering, each family member has a voice and a vote in creating a shared family mission, vision, and money tree. The family retreat deliverables include an expanded and shared mission, vision, and financial philosophy, all of which incorporate the beliefs, ideas, and ideals of the entire family.

The second secret of successful families lies within this financial philosophy, incorporating sustained philanthropy as an ever-present element of the intergenerational planning. This is a critical piece that helps ensure the success of the wealth transfer.

Because the level of communication at a family retreat can lead to sensitive or difficult discussion, the Purposeful Planning approach invites the participation of psychologists who specialize in effective communication, conflict resolution, and consensus building for both the client and family retreats. These professionals use the concept of "safe space" to allow for the open discussion, and resolution, of difficult and/or sensitive topics. Apologies are offered and accepted, memories are shared, wounds are healed, celebrations occur. Family retreats offer the opportunity to clean up messes and to create magic and miracles.

The deliverables of a family retreat are:

- Shared family values
- Expanded family mission and vision aligned with the family money tree
- Ethical wills
- Philanthropic plan

Level 6: Design and implementation. Once the family has reached consensus and commitment about what they want to do and how they want to do it, we can proceed to advanced legal and financial strategies and an implementation plan. Because decisions become irrevocable once documents are signed, we don't proceed to this stage until we are sure all the decisions represent the collective wisdom, goals, and vision of the entire family. Traditional planning typically includes only the perspective of a single person or couple—even though the plans that are made will impact the lives of others for generations to come.

The deliverables of this sixth level are the actual documents and products needed to support and implement the focused mission and vision of the family.

Level 7: Family building and family leadership. Level 7 contains the third secret, focusing on educating and preparing the next generation of leaders through ongoing family meetings. The family decides how many meetings to have per year and the topics to be covered, including the issues of family culture and family governance. For this stage, experienced psychologists again help to lead the process. These meetings respectfully give each eligible family member a voice and a vote in defining his or her ideal family culture and preferred future.

The family building and leadership meetings are ongoing, helping to prepare heirs to be successful as they gradually assume increased responsibility for:

- Growing family wealth
- Creating meaningful impact with that wealth within the nuclear family as well as for the family of humankind
- Strengthening family connection through experiences that may include time shared in fun, faith, family enterprise, and philanthropy

Elders share the wisdom gleaned from a lifetime of learning, allow room for new ideas and perspectives, and ultimately transfer responsibility to the next generation, with the messages "I trust you," "I believe in you," "You can do it," and "You're ready." Families are able to flourish through the plans they create and carry out together utilizing these principals and this process.

The deliverables of the family building and leadership meetings are:

- Strengthening and deepening family connections through open, honest, and respectful dialogue and effective communication
- Shared responsibilities
- The wise use of wealth aligned with family values through the family vision and ongoing philanthropy

The family building and leadership meetings incorporate all three secrets of flourishing families—expanded, meaningful, intergenerational communication; continuing development of a philanthropic strategy; and educating heirs regarding their rights, roles, and responsibilities.

These meetings are a dynamic, ongoing part of the Purposeful Planning process.

Critical Role of Philanthropy in Legacy Planning

Given the importance of sustained philanthropy to a successful legacy transfer, a philanthropy specialist is an essential part of the Purposeful Planning team. This is someone who understands the technical, philosophical, strategic, and practical aspects of philanthropy.

Technical Considerations

The technical aspect considers charitable tools, such as the three types of charitable remainder trusts—standard, net income, and net income with makeup. It also addresses issues such as the following:

- Annuity versus unitrust options
- Testamentary bequests
- Gifts of qualified plan or individual retirement account assets
- Gifts of residence
- Immediate and deferred charitable gift annuities
- Gifts of new or existing life insurance policies
- Intervivos grantor and non-grantor charitable lead trusts
- Testamentary charitable lead trusts
- Donor-advised funds held at community or independent foundations, supporting organizations, and private family foundations
- Giving circles and donor circles
- Intergenerational family philanthropy
- Venture philanthropy
- Corporate philanthropy
- Community based philanthropy to consider

In addition to understanding these elements, someone on the team should be knowledgeable about the income and estate tax benefits of charitable giving, as well as which investment strategies and estate assets are most appropriate for these various gifting alternatives.

Philosophical Considerations

When working with families to develop a philanthropy strategy, it's important to address the time horizon of their philanthropic mission. For example, the Bill and Melinda Gates Foundation is designed to last for only the lifetime of the donors, not perpetuity. A central part of the philanthropic strategy is to determine what percentage of assets is to last for a designated period of time rather than disbursed.

A second, and rapidly emerging, discussion topic involves the debate between "traditional" and "transformational" philanthropy. Traditional philanthropy might be defined as responding to, treating, and managing the consequences of life within the existing social order. It may include obligatory, habitual, expected giving to a specific cause; responding to an acute need or program; reacting to a request or circumstance (e.g., natural disaster); and diverse social maintenance.

By contrast, transformational philanthropy analyzes and responds more to cause than effect. It supports societal change—actions that seek to address root causes of disadvantages or practices that threaten all people (see Tracy Gary, *Inspired Legacies*, www.inspiredlegacies.org).

It may be defined as a shift from an introspective, institutionally based focus to a focus on broader community needs, issues, and donor-direction; or even as a partnership among communities, not-for-profits, and donors.

The Bill and Melinda Gates Foundation offers another example. When traveling through India, Bill Gates responded to the suffering of the children and immediately created funds for vaccinations that would help provide immunity from certain illnesses. This is traditional philanthropy.

While this affected Melinda Gates, she also saw that cows were allowed to defecate in streams used for bathing and drinking. She responded by allocating funds for education to stop such practices that led to the same diseases Bill Gates addressed through his funding. This is an example of transformational philanthropy.

Donors themselves are transformed when philanthropic discussions are skillfully facilitated. They are motivated and inspired when individual and shared family values carefully align with philanthropic decisions. They experience, often for the first time, the feeling of congruency as their wealth supports and advances their most cherished values and beliefs via a plan they understand because they authored it.

Strategic Considerations

Once the family knows how, when, and how much they want to give, the next decision involves identifying prospective recipients. Again, this process can be time-consuming and involves extensive reading, Internet research, site visits, interviews, and reviewing of financial statements. Professionals who specialize in philanthropic philosophy and strategy make valuable teammates for the second and third aspects of philanthropy.

Practical Considerations

After the plan is developed, who actually sees that it is executed correctly? If the goal is to have assets last into perpetuity, but there are no heirs, a topic of concern is who will administer these gifts after the donor is gone? Who will continue to assure that the charities originally selected are still meeting the giving standards? Who will monitor the use of ongoing gifts? Who will decide if the amount needs to be changed? Who will be aware of new possibilities, new organizations, new programs, or new needs that would have appealed to the donor, if still alive today?

This is an essential discussion because the decisions must be incorporated into the estate documents. In some cases, donors include corporations that oversee the post-mortem practical aspect of philanthropy as named trustees for certain charitable vehicles.

Benefits for the Advisor

While this process offers tremendous benefits for clients and their families, it is also of great value to advisors. By expanding the planning process to include these additional levels, the advisor gains the following:

- A deeper and more meaningful relationship with clients and client families
- Business continuity as a result of a natural connection to the next generation … and the next … and the next
- A job description that reads: "Outstanding pay and benefits; congenial office culture; deeply meaningful client relationships, long-term success rate 90 percent"
- A more gratifying personal and professional legacy

As you think about the results you want to create with your clients and client families, your reputation as a financial advisor, and the personal legacy you will leave for your own children and grandchildren, I encourage you to consider expanding your thinking and your process. Purposeful Planning offers added value for your clients and greater success and satisfaction for you. I&W

Barbara Culver, CFP®, ChFC, CLU, AEP, is a legacy planner, consultant, speaker, and author. Her Purposeful Planning™ program, involving instructors from different professions, trains advisors to transform their way of working with clients to sustain legacies. She earned a BS in education from Bowling Green University. Contact her at bculver@resonatecompanies.com.

Suggested Reading

Hughes, James E., Jr. 2004. *Family Wealth—Keeping It in the Family: How Family Members and Their Advisers Preserve Human, Intellectual, and Financial Assets for Generations* (New York: Bloomberg Press).

———. 2007. Family: The Compact among Generations (New York: Bloomberg Press).

Williams, Roy. 1997. *For Love and Money: A Comprehensive Guide to the Successful Generational Transfer of Wealth* (Bandon, OR: Robert D. Reed Publishers).

Williams, Roy, and Vic Preisser. 2003. *Preparing Heirs: Five Steps to a Successful Transition of Family Wealth and Values* (Bandon, OR: Robert D. Reed Publishers).

———. 2005. *Philanthropy, Heirs & Values: How Successful Families Are Using Philanthropy To Prepare Their Heirs For Post-transition Responsibilities* (Bandon, OR: Robert D. Reed Publishers).

Sharpe

Continued from page 30

Conflict with the beneficiaries. The inherent conflict between the trustee and beneficiaries will be reduced because of the eliminated discretion.

Income tax returns. The trustee will hire a CPA to prepare any necessary federal and state income tax returns regardless of trust structure.

Trust accounting. This must be performed (although rarely is) for all trusts. However, if the investment advisor is a trust company, the trustee may negotiate trust accounting as part of the investment advisory fee.

Conclusion

A total return unitrust can reduce the impact that an unqualified trustee can have on a trust. The client can reduce the impact even more by dictating the use of professional money management for trust assets. A total return unitrust will significantly affect distributions. But for the client who also wants to limit the effect distributions will have on family members, the total return unitrust may be the perfect solution. I&W

Chuck Sharpe, JD, is an attorney with Sharpe & Associates, PLLC in Dallas, TX, where he specializes in estate planning, asset protection, and wealth transfer planning. He earned a BBA in accounting from Texas Christian University and a JD from the University of Oklahoma.Contact him at chuck@sharpe-law.com.