

Successful Wealth Transfer?

Why Heirs Lose their Wealth

We have observed that 95% or more of wealthy families focus their wealth transfer planning almost exclusively on minimizing taxes and drafting appropriate documents. They think that by using the most sophisticated planning and tax reduction techniques and drafting airtight legal documents, they can help ensure the successful transfer of their wealth to their heirs. After such sophisticated planning, the wealthy must ask themselves this most important question, “*Have we been truly successful in our wealth transfer plans if our heirs are not able to retain their inheritance?*”

Recent studies have revealed some staggering statistics:

- 65% of the wealthy families have lost their family wealth by the end of the second generation
- 90% of these families will have lost their family wealth by the end of the third generation

It has been suggested that the primary culprit behind the disappearance of this wealth is the crippling estate taxes that are levied on wealthy American families.

However, Australia has almost exactly the same percentages as the U.S. Yet, Australia has one major difference: **Australia has no estate taxes!** Wealthy Australian families are still losing their wealth at virtually the same rate as wealthy American families. The United Kingdom has almost identical statistics as well.

Obviously, avoiding estate taxes does not ensure the successful retention of wealth to children or grandchildren. So what is the reason for these pathetic results? The answer has nothing to do with how effectively you eliminate taxes or draft great legal documents. It has everything to do with the **TRUST** and **COMMUNICATION** between parents and their heirs. The following is an illustration of this point:

A father has never turned over the responsibility of managing the family’s multimillion-dollar investment portfolio to his sons. “They could never manage money as successfully as I do,” the father thinks. He’s correct. He’s correct now, and he’ll be correct after he’s dead.

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The sons will never learn to manage money because Dad never *trusted* them to try to or *communicated* to them how to be effective money managers. So the first time the boys get their hands on the money, Dad, who could have been their best teacher and coach, is dead. He had left them adrift at sea with millions of dollars, no idea how to manage it, and no one advising them. No *trust*. No *communication*. This is not an isolated example, unfortunately. It is almost routine among wealthy families.

Another example is the Dad who never tells his children how much wealth the family has because he doesn't *trust* them with that kind of sensitive information. They finally learn about the amount of wealth Mom and Dad have in the lawyer's office after the last parent dies. They are completely ill-prepared to manage the family's wealth. No *trust*. No *communication*.

It is quite common among wealthy parents for their children to be resentful of that wealth. They see Dad as filled with greed, consumed with power, and living an opulent lifestyle. They see wealth as evil. They take the side of those who are down and out – the weak and poor. They see their parents as the enemy. These children intentionally go to the other extreme in their lifestyles rejecting this cursed disease of “affluenza.”

What they have never seen or understood is that their parents annually gave over one million dollars away to help the poor in their community – a gift only made possible because of Dad's brilliant business prowess. They do not know that Dad paid his employees very well and provided them with very generous benefits, which gave their families a better and happier life. The kids did not see any of this, and they just do not know. Why? They did not see because there is no *trust*. No *communication*. Their parents chose not to include them in charitable giving. The children do not understand how their family's wealth can be used to help others.

If wealthy families are going to successfully keep the wealth in the family for future generations to enjoy and use for good, they must do more than simply implement financial techniques and strategies. This traditional approach to planning guarantees nothing except a 90% failure rate.

Family Wealth Counseling takes a radically different approach in helping wealthy families successfully pass on *and* retain their wealth for future generations. We do all the traditional kinds of planning as well. But what makes us unique is that we ask the “mission critical” questions that none of your other advisors have been trained to ask.

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This makes us an essential player on your planning team. If you haven't gone through the Family Wealth Counseling process, there's no time like the present.

Carlos H. Lowenberg Jr., ChFC
620 Congress Avenue
Suite 300
Austin, Texas 78701
Tel: 512.472.9033
Fax: 512.472.5842

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