Valuing Your Values

A CASE STUDY IN WEALTH STRATEGY

At NewEdge Wealth, we believe that the complexity of our clients' wealth requires more than just creating a financial plan. We seek to work with clients to build a comprehensive wealth strategy. By our definition, a wealth strategy encompasses not only the typical components of financial planning (including retirement planning and education planning) but also incorporates considerations such as generational estate and wealth transfer strategies, philanthropic plans, risk management, banking and lending, business succession planning and tax planning. Also, as important as it is to create a wealth strategy, it's equally essential to make sure that the next generation understands the plan, which can be accomplished through education and family meeting facilitation.

When working with families through this process, we have found that there can be a difference between establishing a good wealth strategy and a great wealth strategy. A good wealth strategy helps keep you on track to meet your financial goals and objectives. But a great wealth strategy helps keep you on track and incorporates your individual and family values in every facet of your overarching wealth strategy.

Values are important. We make decisions based on our values every day, even if we don't consciously recognize them. For example, imagine you are faced with two choices: whether to purchase a coveted luxury item representing "pleasure" in your value system or donate funds to a charity representing "obligation" in your value system. The one you choose directly reflects which value you prioritize more.

Why is it important to understand the values that drive you as you go through the wealth strategy process? When your values are not aligned with your plans, you can often feel that something is just not right, but you cannot pinpoint the problem. This lack of coordination with your values can result in multiple revisions to your documents, which can become not only costly and time consuming, but your documents may never adequately reflect the legacy you want to impart to your family.

Perhaps the easiest way to understand how values play into planning is through a case study we have created.

Background

The subject of our case study is a successful business owner. We'll call him John Smith and assume that he is in his 60s has three grown children, none of whom were interested in taking over the business. Each of his children were responsible, self-supporting members of society, and there were no substance abuse issues or concerning factors impacting the children. John had a team of advisors who worked well together; however, they were concerned because John revised his estate plans every two years.

The Issues

The typical recommended cadence to review estate plans is every five to seven years, assuming there are no changes to the tax law or substantial changes to an individual's personal circumstances. In this case, John's revisions to his estate planning documents every two years or so were to add what he viewed as protective restrictions. He was a self-admitted control freak, and while he trusted his children, he wanted to provide protection for them when he was no longer alive.

Overtime, the documents became so overly prescriptive that most established corporate trustees were not able to act as fiduciary in any capacity. Like most wills and trusts, the most restrictive provisions would not go into effect until John's death.

At that time, it would be too late for the beneficiaries to ask John why he included so many prohibitive provisions. Given the complexity of his estate, an experienced corporate fiduciary was a key to a successful estate settlement process.

The First Step – Uncover John's Values

As a starting point, we walked John through a series of exercises aimed at uncovering his core values. We presented him with a deck of values cards, each having a value (i.e., opportunity, spirituality, courage, etc.) From that exercise, he identified his top values as resilience, responsibility and sustainability. John defined each of the values through the prism of his family, focusing on the legacy he wanted to leave and how he wanted his family to demonstrate good stewardship of the wealth.

John viewed resilience as the ability of his children to recover and rebound from the challenges they will face throughout life. He shared the story of how one of his sons is dyslexic, and though that child always dreamed of being a lawyer, law school was not a good fit given his circumstances. The child realized he liked working with his hands and was able to find an apprenticeship as a metal worker. From that experience, he was able to refine his craft to become an up-and-coming jeweler. Resilience.

Another top value was responsibility, which John thought was an innate part of his personality and something he had successfully demonstrated as a parent throughout his children's lives. He defined responsibility as voluntarily doing what is needed. He shared with us that his only daughter had been taking a two-year accelerated master's course to become a physical therapist, and once her final course was complete, she and her friends were planning a relaxing vacation in the Caribbean. One week before her last class, her maternal grandmother (who lived alone) was diagnosed with a serious health condition and would need a family member to stay with her pre- and post-surgery. John was proud that his daughter did not hesitate and immediately made plans to temporarily move in with her grandmother while also cancelling her vacation plans. Responsibility.

John's final value was sustainability regarding the wealth he had created. He viewed this as his family's ability to have access to lump sum amounts of the wealth for emergencies and specific lifestyle needs (i.e., starting a business, buying a first house, getting married), yet not deplete the wealth for future generations.

While John appreciated the motivational values exercise and sharing his story with us, he did not yet see how his values were connected to his wealth strategy plans.

The Second Step – Identify Gaps Between John's Values and His Wealth Strategy Plans

In order to provide John with an objective view of his documents, we blacked out all identifying information about him contained in the documents and asked some of our colleagues to provide their initial impressions of what the documents said about John, and more importantly, what they said about his family.

The impression about John was consistent: he was a control freak who did not trust his children. The documents indicated that one or more of the children had rabid spending issues, substance abuse issues, and had even fallen under the sway of a cult – all of which were false.

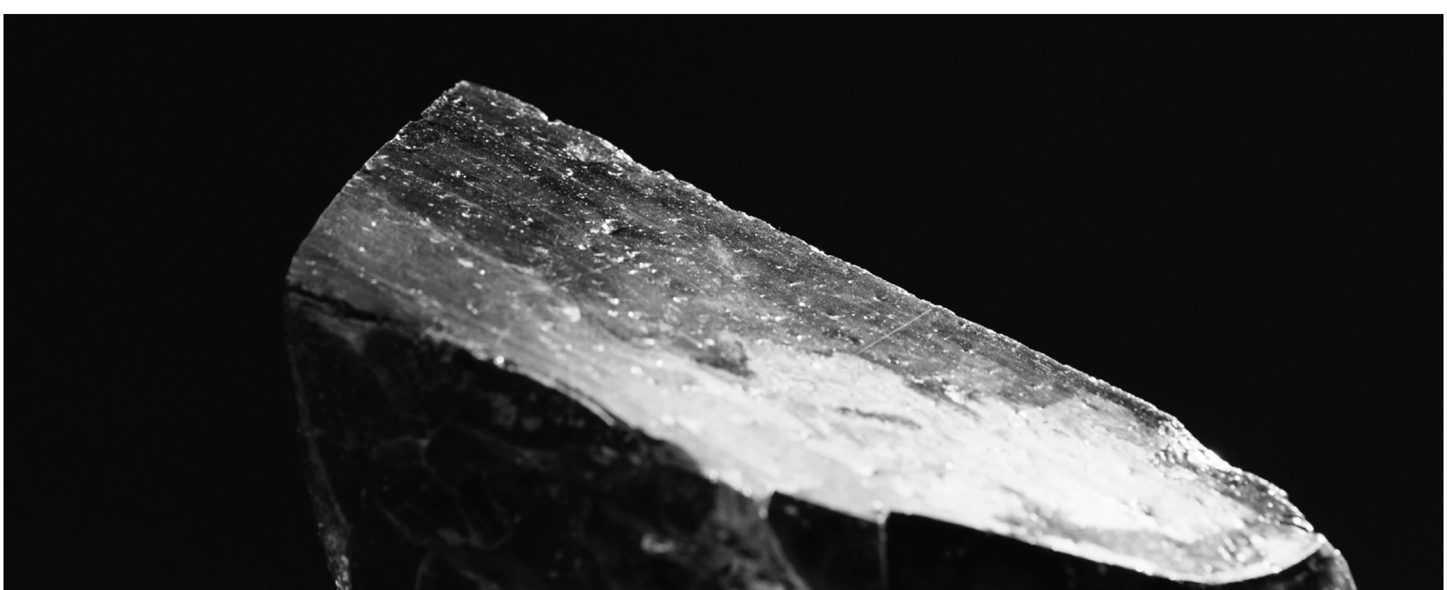
Regarding distributions for specific lifestyle needs, the requirements went beyond those of typical documents: to start a business, it is standard practice to require a beneficiary seeking a distribution to create a business plan. For purchasing a first home, it is standard practice to ask for a budget. As to distributions for a marriage, it is standard practice to ask that a prenuptial agreement be executed. However, in John's documents, in order to receive a distribution to start the business, the child had to present a business plan to three outside advisors chosen by the trustee. The child was then required to go through a drug screening process and receive a written letter from a qualified mental health professional stating that the child was mentally fit to run a business. The distribution requirements for buying a first house and getting married contained similar restrictions and requirements.

By incorporating these overly restrictive provisions into the documents, the values John identified as important were not reflected. While the child would need to be resilient in terms of meeting the requirements for a lifestyle distribution, this clearly was not in line with how John wanted that value to be reflected in his documents. Given the restrictive provisions, the child had very little room to demonstrate responsibility. And while the restrictive provisions would help sustain the wealth over generations, they did little to foster John's personal definition of sustainability as it related to his family.

The Solution

Clearly, John's values did not align with his documents and once we were able to identify the misalignment, he understood why he was never really satisfied with the final outcome. As a result of our discussions, we worked with John and his attorney to create an estate plan that reflected his values and supported his legacy goals. We also facilitated family meetings for John and his family to discuss not only John's values but his children's values as well. The end results are that the children have a better understanding of John's legacy goals and they also understand the expectations around being a good steward of the family wealth. In turn, through open and honest conversation, John feels more trusting of his children and their ability to manage the family wealth.

While this might seem like an extreme example, the facts of the case study are more common than you think. Understanding the values that drive you and reflecting them in your wealth strategy, coupled with sharing your values with your family and understanding the values that drive them are key components to a successful, multi-generational wealth strategy.



Let's talk.

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