

Secrets of Successful Families: Transferring Values with Wealth for a Lasting Legacy

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Justin T. Miller, J.D., LL.M., TEP, AEP®, CFP®
National Wealth Strategist



Agenda

What Are Families Attempting to Preserve?

The Problem: What Happens to Most Wealthy Families?

The Solution: Secrets of Successful Families

- Team of Advisors
- Investment Planning
- Tax Planning
- Family Governance

What Are Families Attempting to Preserve?

WHAT IS WEALTH?

Financial Capital—“The Money”

- Cash
- Real Estate
- Stocks and Bonds

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What Are Families Attempting to Preserve?

“Money isn’t the most important thing in life, but it’s reasonably close to oxygen on the ‘gotta have it’ scale.”

—Zig Ziglar (1926-2012)

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What Are Families Attempting to Preserve?

Financial Capital—“The Money”

Non-Financial Capital

- Individual Capital: Each family member’s personal strengths/talents
- Collective Capital: Family’s collective capabilities and traditions
- Community Capital: Family’s contributions to others
- Spiritual Capital: Belief in a higher purpose (God, faith and morality)

How Are Financial and Non-Financial Capital Related?

- Financial Capital supports and enhances Individual, Collective, Community and Spiritual Capital

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What Are Families Attempting to Preserve?

“A good man leaves an inheritance to his children’s children...”

—Proverbs 13:22

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What Happens to Most Wealthy Families?

A GLOBAL PROBLEM

United States

- Shirtsleeves to shirtsleeves in three generations

China

- Wealth never survives three generations

India

- Peasant's shoes to peasant's shoes in three generations

Ireland

- Clogs to clogs in three generations

Italy

- From stalls to stars to stalls

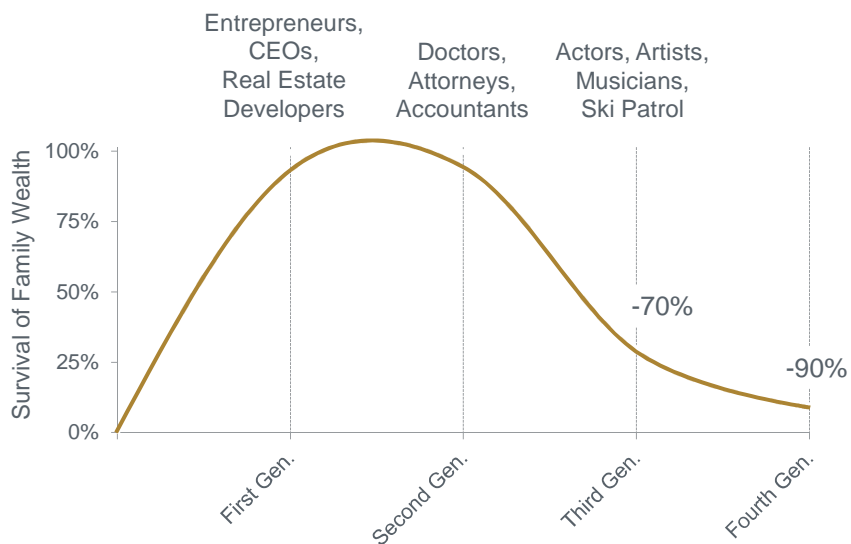
Mexico

- First generation traders, second generation gentlemen, third generation beggars

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What Happens to Most Wealthy Families?

STUDIES OF GENERATIONAL WEALTH



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Sources: Beckhard, R., and Dyer, Jr., W.G., "Managing Continuity in the Family-Owned Business," *Organizational Dynamics*, 1983; Ward, J. L., "Keeping the Family Business Healthy: How to Plan for Continuing Growth, Profitability, and Family Leadership," *Jossey-Bass*, 1987; *The Economist*, "The New Wealth of Nations," June 16, 2001.

What Happens to Most Wealthy Families?

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

—Adam Smith (1723-1790)

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Secrets of Successful Families

TEAM OF ADVISORS



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Secrets of Successful Families
INVESTMENT PLANNING

Easy Question:

- How do we invest the family money?

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Key Findings from Risk Assessments

1.	Missing Asset Classes.....	89%
2.	Lack of an Overall Portfolio Plan.....	89%
3.	Following, or Fleeing, a Trend Too Late.....	86%
4.	Sector Bets Happening Without Investor's Knowledge.....	83%
5.	Not Enough – or Too Many – Holdings.....	78%
6.	Unnecessary or Unknown Portfolio Risk.....	78%
7.	Little to No Tax Management.....	75%
8.	Hidden Costs.....	68%

Source: BNY Mellon Wealth Management

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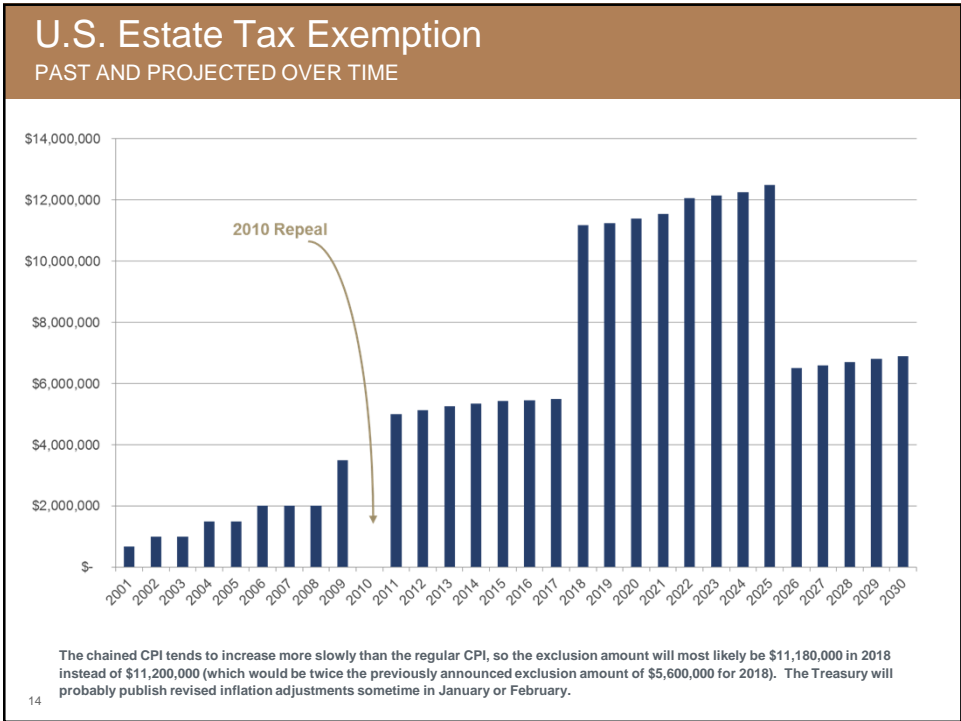
Secrets of Successful Families

TAX PLANNING

Easy Question:

- How do we minimize taxes?

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Tax Planning

Effective Techniques

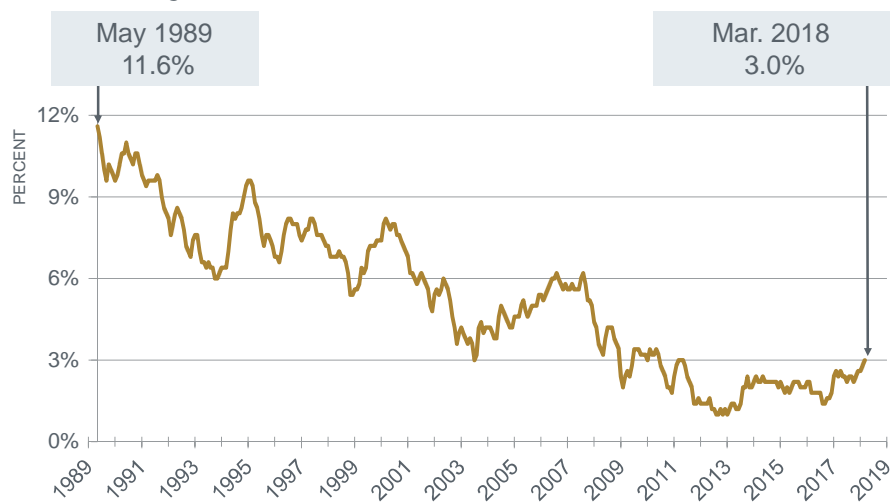
- Intra-Family Loan
- Family Limited Partnership (FLP) or Family LLC
- Grantor Retained Annuity Trust (GRAT)
- Intentionally Defective Grantor Trust (IDGT)
- Irrevocable Life Insurance Trust (ILIT)
- Charitable Remainder Unitrust (CRUT)
- Charitable Lead Annuity Trust (CLAT)

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Tax Planning—Why Clients Need to Act Now

LOW INTEREST RATES AND A HIGH EXEMPTION AMOUNT

Historical § 7520 Rates



Mar. 2018 rates. Rev.Rul. 2018-06.

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Secrets of Successful Families

TAX PLANNING

Tax Item	2017 Law	Tax Cuts and Jobs Act ¹
Corporate Tax Rate	Top rate of 35%	Top rate of 21%
Partnership & Other Pass-Through Entities	Taxed at individual rates	Taxed at individual rates but allowed a 20% deduction ²
Individual Ordinary Income Tax Rate	7 brackets: 10%-39.6%	7 brackets: 10%-37% ²
Taxable Interest Income & Short-Term Capital Gains	Taxed as ordinary income	Unchanged
Long-Term Capital Gains & Qualified Dividends	3 brackets: 0%/15%/20% (+ 3.8% NIIT)	Unchanged
Carried Interest	Taxed at capital gains rates	Unchanged but must hold investment for more than 3 years
AMT	Imposes minimum tax	Corporate AMT repealed Individual AMT remains ²
Standard Deduction	Single: \$6,500 (2018) Joint: \$13,000 (2018)	Single: \$12,000 (2018) ² Joint: \$24,000 (2018) ²
Itemized Deductions	Various	Eliminate all deductions except for mortgage interest, state & local taxes, medical expenses, investment interest expense and charitable contributions
Estate / Gift / GST Tax	Top rate: 40% Exemption: \$5,600,000 (2018)	Top rate: 40% Exemption: \$11,180,000 (2018) ²

¹ Source: <https://www.congress.gov/115/bills/hr/1/BILLS-115hr1eas2.pdf>. The official name of the bill was changed prior to the final vote but is known as the "Tax Cuts and Jobs Act."

² Sunsets at the end of 2025 and reverts back to current law in 2026. (Corporate tax rate is permanent, but most provisions related to pass-through income and individuals sunset at the end of 2025).

Family Governance: Preparing Your Family for the Money

Family Governance

Hard Questions:

- How much is enough?
- How much is too much?
- How much is enough that they'll do something, but not too much that they'll do nothing?

Answer with a Question:

- How much have you prepared them for?

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Preparing the Family for the Money

“It has left me with nothing to hope for, with nothing definite to seek or strive for. Inherited wealth is a real handicap to happiness.”

—William K. Vanderbilt (1849-1920)
Grandson of Cornelius Vanderbilt

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Preparing the Family for the Money

“The almighty dollar, bequeathed to children is an **almighty curse**.
No man has a right to handicap his son with
such a burden as great wealth.”

—Andrew Carnegie (1835-1919)

“I regard large inherited wealth as a **misfortune**, which merely serves
to dull men’s faculties...merely **encourages laziness** and impedes
the healthy development of the individual’s capacity to make an
independent position for himself.”

—Alfred Nobel (1833-1896)

“Fortunes tend to self-destruction by **destroying** those who inherit
them.”

—Henry Ford (1863-1947)

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Healthy Family Governance

How Do We Prepare Our Family for the Money and Avoid “Shirtsleeves to Shirtsleeves?”

Five-Step Process for Family Governance

1. Education: Learn the possible problems and potential solutions
2. Communication: Discuss and evaluate in a safe family setting
3. Mission, Vision and Values: Plan for the future using family values
4. Teamwork Practice Opportunities: Test drive using Steps 1-3
(Family Philanthropy)
5. Transition to Family Leadership: Structure and process for
management of family wealth

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Education

	NBA	NFL
Average annual salary	\$5.15M	\$1.9M
Average career length	4.8 Years	3.5 Years
Players who are broke within 2 to 5 years into retirement	60%	78%

Sources: National Basketball Players Assn. (2011); National Football League Players Assn. (2011); Pablo Torre, "How (and Why) Athletes Go Broke," Sports Illustrated (March 23, 2009)

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Communication

Problem:

- You can choose your employees, but you can't choose your family
- Baby Boomers, Generation X, Millennials, and now the "iGeneration"

Solution:

- Intergenerational conversations with active participation of family members

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Communication

Family Meetings: Evaluation and Discussion in a Safe Family Setting

- Should we sell or keep the family business?
- What do we do with the vacation house?
- What is an appropriate lifestyle, and when should it start?
- Which organizations do we want to support?
- When does a person become a member of the family?
- Prenuptial agreements?

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Mission, Vision and Values

What are the core values that you are trying to pass down to future generations?

What is the common vision for your family's future, the meaning and purpose of your family's financial wealth?

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Mission, Vision and Values

Write It Down—in Your Own Words!

- Family Mission Statement
- Family Constitution / Family Charter
- Ethical Will
 - Legal Wills deal with valuables, while Ethical Wills deal with values
- Letter of Wishes / Statement of Wishes
 - Guidance for the future trustee of your financial assets

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Mission, Vision and Values

How Do You Articulate Your Mission, Vision and Values?

- Personal and/or family stories
 - Where did we come from and how did we get here?
- Advice and hopes for present and future generations
- Be positive

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Mission, Vision and Values

“Begin with the end in mind.”

—Stephen R. Covey (1932-2012)

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Teamwork Practice Opportunities

Benefits of Philanthropy

- Economic—Tax breaks¹
- Social—Signaling one’s wealth or status²
- Psychological—Giving causes happiness³

¹ Clotfelter, C. T., “Federal tax policy and charitable giving,” Chicago: University of Chicago Press (1985); Clotfelter, C. T., “The economics of giving,” in J. W. Barry & B. V. Manno (Eds.), “Giving better, giving smarter”, Washington, DC: National Commission on Philanthropy and Civic Renewal (1997); Reece, W. S., & Zieschang, K. D., “Consistent estimation of the impact of tax deductibility on the level of charitable contributions,” *Econometrica* (1985).

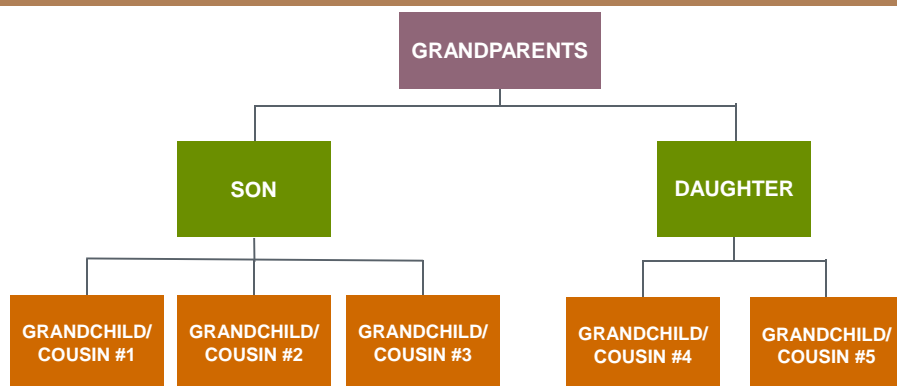
² Becker, G. S., “Theory of social interaction,” *Journal of Political Economy* (1974); Glazer, A., & Konrad, K. A., “A signaling explanation for charity,” *American Economic Review* (1996); Griskevicius, V., et al., “Blatant benevolence and conspicuous consumption: When romantic motives elicit strategic costly signals,” *Journal of Personality and Social Psychology* (2007).

³ Andreoni, J., “Giving with impure altruism: Application to charity and ricardian equivalence,” *The Journal of Political Economy* (1989); Andreoni, J., “Impure altruism and donations to public goods – a theory of warm glow giving,” *Economic Journal* (1990); Dunn, E. W., Aknin, L. B., & Norton, M. I., “Spending money on others promotes happiness,” *Science* (2008).

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Teamwork Practice Opportunities

FAMILY PHILANTHROPY



Grandparents Set Aside \$25k Annually for Charity:

- \$1K directed by each grandchild
- \$5K directed by son's children
- \$5K directed by daughter's children
- \$10K directed by cousin consortium

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Family Philanthropy

Why It Works—Family Members Learn:

- Communication, negotiation and shared decision making
- Leadership
- Accountability
- Investing and financial literacy
- Responsibility to help others

These are all skills that are necessary for managing the family's "wealth."

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Family Philanthropy

“Paradoxically, families often learn more about long-term wealth preservation through the process of learning to give away than by the process of learning to accumulate and spend.”

—*Family Wealth* by James E. Hughes, Jr.

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Transition to Family Leadership

FAMILY GOVERNANCE MODELS

1. **Royal:** Father or mother (oldest child or most able/interested)
2. **Anarchic:** Anarchy rules, family fights often
3. **Representative:** Equal equity, elected members lead
4. **Capitalist:** You get what you work for
5. **Socialist:** Equal shares and partners
6. **Entrepreneurial:** Company sold, money for venture capital
7. **Laissez Faire:** Sell company and give equally to each
8. **Utopian:** Business is a resource, family built around it

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Representative Family Governance Model

Family Members

- Choose the family's "executive committee"
- Rules for participation:
 - Not automatic
 - Certain criteria must be met

Executive Committee

- Chooses and monitors professional advisors

Team of Advisors

- Administers, invests and distributes the family's property

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The Rothschild Family—Success Story

"It requires a great deal of boldness and a great deal of caution to make a great fortune; and when you have got it, it requires **ten times as much wit to keep it.**"

—Nathan Mayer Rothschild (1777-1836)
Son of Mayer Amschel Rothschild

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THANK YOU!



Appendix



Biography

Justin T. Miller, J.D., LL.M., TEP, AEP®, CFP®

National Wealth Strategist

As a national wealth strategist at BNY Mellon, Justin Miller works collaboratively with other advisors to provide comprehensive wealth planning advice to clients and their families. He also is an adjunct professor at Golden Gate University School of Law, a Fellow of The American College of Trust and Estate Counsel (ACTEC), and a sought-after speaker on tax, estate planning and family governance topics for conferences throughout the country, including events hosted by the AAML, ABA, ACTEC, CalCPA, NACGP, NAPFA, Santa Clara University, Stanford University, the State Bars of California, Georgia, Nevada, Texas and Washington, STEP, UCLA, University of Notre Dame, Vistage International, and YPO. In addition, he has published numerous articles in publications such as the *American Journal of Family Law*, *California Tax Lawyer*, *California Trusts and Estates Quarterly*, *Real Property, Trust and Estate Law Journal*, *State Tax Notes*, *Tax Notes*, and *Trusts & Estates*, and he is frequently quoted as a national thought leader in the media.

Mr. Miller has served as an executive committee member of the State Bar of California Taxation Section, an executive committee member of the Los Angeles County Bar Association Taxation Section, the chair of the Century City Bar Association Taxation Section, and the editor-in-chief of the *California Tax Lawyer*. Prior to joining BNY Mellon, he was an attorney at a major law firm, where he advised wealthy families, senior corporate executives and closely-held business owners regarding tax-efficient estate and business succession planning, trust law and management and asset preservation.

Mr. Miller received a master of laws in taxation and a juris doctor from New York University School of Law and a bachelor's degree, with honors, from the University of California at Berkeley.

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Recommended Reading

Family Wealth: Keeping It in the Family—James E. Hughes, Jr.

Wealth in Families—Charles W. Collier

Preparing Heirs: Five Steps to a Successful Transition of Family Wealth and Values—Roy Williams and Vic Preisser

The 7 Habits of Highly Effective Families—Stephen R. Covey

Silver Spoon Kids—Eileen Gallo, Ph.D., and Jon Gallo

Children of Paradise—Lee Hausner, Ph.D.

The Ultimate Gift—Jim Stovall

The Life You Can Save—Peter Singer

The Wealth of Your Life: A Step-by-Step Guide for Creating Your Ethical Will—Susan Turnbull

Ethical Wills: Putting Your Values on Paper—Barry K. Baines, M.D.



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