U.S. TRUST
Bank of America Private Wealth Management

HOW DO YOU BUILD A WEALTH MANAGEMENT PLAN?

Integrating investment and wealth planning with family values can help create a plan that stands the test of time.

BY SEAN GILLIA, *U.S. Trust*

WHEN IT COMES to creating a wealth management plan, investment and wealth planning are obvious, important components. But are they the most crucial? Not according to Chris Heilmann, U.S. Trust's chief fiduciary executive, who suggests that a successful wealth management plan ultimately depends upon something far more basic: your values. Does this blueprint for your family's future reflect who you are and what you care about? Does it embody the full spectrum of your goals and needs? Does it help address concerns you might have, including the potentially negative impact wealth could have upon your children? The most sophisticated investment and wealth transfer strategies in the world don't really mean anything if they don't reflect your particular values. "In short," says Heilmann, "your wealth management plan should help make your wealth more of a blessing than a burden, and for most people that means it has to do more than simply provide a reasonable investment return and an inheritance for your loved ones.

"At U.S. Trust, we believe the best way to create an effective wealth management plan is through a series of in-depth conversations between you and your advisor," he continues. "The dialogue should review how you want the members of your family engaged in the planning process, which might include something as simple as financial education for your children and your grandchildren." Heilmann believes that a thorough planning process helps families develop and articulate a set of shared values and goals — personal, family and philanthropic — which can then be reflected in plans for investments and wealth transfer. "These conversations tend to bring families closer together," he explains. "They also increase a family's ability to create and realize opportunities for themselves and the organizations they care about — and enhance the likelihood that their legacy will continue for succeeding generations to carry on."

THE FIRST TIER: Nuts and Bolts

"It can be helpful to think of wealth management as occurring at three integrated tiers," Heilmann notes. The first tier includes the nuts-and-bolts components commonly associated with wealth management. "This is the day-to-day work of managing your wealth, of asset allocation and asset location — deciding which assets to place in taxable, nontaxable or tax-deferred accounts — of managing risk-adjusted returns and reducing tax consequences, executing investment plans and wealth transfer plans," Heilmann says. "Making it all work requires the coordinated input of a variety of experts: investment strategists, economists, market analysts and portfolio managers on the investment side, for example, and various tax and trust-and estate-planning experts on the wealth-structuring side."

THE SECOND TIER: Enter the Family

"Building investment portfolios, and establishing trusts and other wealth transfer structures can all be important components of an effective wealth management plan," Heilmann says, "but at U.S. Trust, that's only the first level of a more in-depth process. In Tier 2, we expand our focus from the individual client to a broader, family-oriented point of view." This is when, Heilmann explains, your advisors begin to speak with you about your children or grandchildren and how ready they are to handle wealth.

SHIFTING THE MINDSET FROM THE MATERIAL ASPECTS OF WEALTH TO ITS RESPONSIBLE HANDLING.

This has long been a concern for high-net-worth parents. In the 2011 *U.S. Trust Insights on Wealth and Worth™* Annual Survey of High Net Worth and Ultra High Net Worth Americans, for instance, only a third of respondents said they believed that their children were prepared to handle wealth. And while two-thirds of parents agreed that their family would benefit from discussions with a financial professional, nearly six in 10 have not introduced their children to their advisors, and half have never discussed how to teach them to handle wealth responsibly. At the same time, 52% hadn't fully disclosed their wealth to their children, and an additional 15% had told them nothing at all, largely because of concerns about how it might affect their lives. They worry about creating a sense of entitlement in their heirs, of removing incentives to become productive members of society and leaving them without a sense of purpose, or that they'll simply squander the money. Many parents are unsure of how and when to talk to their children about their wealth, so they tend to procrastinate.

"This is where U.S. Trust can help," Heilmann says. "We offer financial education programs designed to help high-net-worth parents and their children address important financial education issues, as well as the so-called softer side of wealth, such as values and philanthropy."

The Financial Empowerment Program is for young adults (in their twenties and thirties) that addresses financial basics, philanthropy, trusts, protecting wealth, dealing with life events from a financial standpoint, and other issues. The program begins with a U.S. Trust specialist who works with participants to identify values and goals, and to diagnose gaps in financial knowledge. Participants then receive a customized program that can be delivered online, in one-on-one sessions or in groups for the entire family.

Raising Philanthropic Kids is a workshop for parents, grandparents and others looking to inspire the next charitable generation. Strategies for introducing philanthropy to children ages two to 18 are discussed, and adults participate in exercises to identify philanthropic opportunities for their children.

THE THIRD TIER: Values-Based Planning

"Financial education discussions often prove to be a compelling foundation for broader family discussions about a family's values and values-based planning," Heilmann says.

"We look to shift the mindset from the material aspects of wealth to its responsible handling," he says. What messages about wealth, for instance, do you hope to convey to your children? What are your attitudes toward work, personal integrity and social awareness? Your philanthropic interests? What do you as a family truly care about? And how can those concerns be carried forward in the context of Tier 1 activities like trust and estate planning?

IN A 2011 U.S. TRUST SURVEY, 50% OF WEALTHY AMERICANS HAD NEVER DISCUSSED HOW TO TEACH THEIR CHILDREN TO HANDLE WEALTH RESPONSIBLY, AND 52% HADN'T DISCLOSED THEIR FULL WEALTH TO THEIR CHILDREN.

These discussions can be customized to suit your preferences and comfort level, Heilmann notes. "But once families begin to have them, and they've been able to articulate their values, we can begin to set objectives aligned with those values and then work toward achieving them," he says.

Of course, a family's values, particularly philanthropic values, can evolve, especially as younger generations mature, so it's important to revisit them periodically. "By reviewing a family's values over the long run, core beliefs become almost second nature. Further, having these conversations while parents are still around tends to create a more powerful, lasting impact than simply having children read about the family values in a will after their parents are gone.

"This is an area in which families sometimes struggle, and they often avoid it as a result," Heilmann continues. "But when a family begins to focus on its values, it tends to be very satisfying — especially when the approach is collaborative. In fact, the benefits of these discussions are easy to underestimate. They allow a family to begin to understand how it can use its wealth most effectively, and then pass

VALUES-BASED PLANNING IN ACTION

Facilitating family communication about a wealth plan

Sometimes, straightforward conversations about wealth planning can lead to more exploration of family needs and values. "During the course of several meetings with one U.S. Trust client, a matriarch of a large family, in which we were updating her estate planning documents, we learned that she was having trouble communicating with her adult children about wealth planning issues," says Nancy Kistner, managing director, U.S. Trust, Wealth Planning Solutions. "She understood her plan, but it was complicated, and it was challenging to explain its many details to her children, who had several questions and had made a number of mistaken assumptions about the apportionment of the assets. So we convened a family meeting to provide the full disclosure the client wanted. We walked the children through her wealth plan, providing detailed information about the trusts she had created for them — basically how and what their mother would provide for them during her lifetime and upon her death — and they gained a much better understanding of what they could expect for themselves and their children. The outcome was positive for everyone," Kistner says. "It cleared the air, and it led to the planning of another family meeting, this time to include the matriarch's grandchildren as well as her children. One agenda item was financial education for the grandchildren, most of whom were in their teens. Another was to arrange one-on-one meetings with those adult children who wanted to discuss their individual financial situations in greater detail."

that wealth on to future generations in a way that allows them to do the same — so that wealth isn't simply earned in one generation and spent in the next."

When Your Advisor, Family and Plan Are All Working Together
"While I have described wealth planning as a series of tiers, these aren't discrete activities, and they don't represent a rigid step-by-step process in the real world of wealth management," Heilmann notes. "In fact, any step in the process could be a useful starting point. For some families, financial education for their children, Tier 2, might be where we begin. For others we might start by working through the nitty-gritty technical details of a wealth transfer plan — Tier 1 — or perhaps with a series of discussions about family values, Tier 3." The starting point doesn't really matter, he says, because the other tiers come into play almost immediately and continually inform one another.

"When parents share their wishes and intentions with their children and involve them in the wealth conversation, when they allow us to guide their children with our financial education programs, when everyone is working together to define their values as a family, and the wealth management plan is aligned with those values, the results can be remarkably powerful and satisfying," he says. CA

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