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VOLUME 19 | EDITION 03

Sterling Investment Advisors Ltd.
Timothy E. Flatley, ChFC®, President

"How can I avoid the shirtsleeves-to-shirtsleeves scenario for my heirs?"

By Timothy E. Flatley

Our country is on the verge of an unprecedented transfer of trillions of dollars in family wealth. What family would not want to create a better world for their children and grandchildren?

Unfortunately, many families share a similar wealth life cycle. The first generation, in shirtsleeves, creates wealth. The second generation enjoys it, while members of the third generation find themselves back in shirtsleeves. It can be more challenging to preserve wealth than to create it.

Numerous books tell how to raise children with wealth and how to build values that maximize the use of affluence. We are writing to share Sterling's experiences over the past 29 years in working with high net worth families and the transfer of wealth to their children.

In many families, the discussion of wealth transfer is considered taboo until the time the heir stands to inherit the wealth. This creates a situation in which that person, who may be emotionally unstable due to the loss of a loved one, is forced to make significant financial decisions without proper direction. Education concerning the family's wealth and how to manage it should occur over an extended period of time.

Experience has demonstrated that receiving unrestricted access to wealth at a young age can produce many undesirable results. In response, the definition of a "young age" for our clients has increased over time. A recent trend in wealth transfer is to require minimum ages as old as 40 or 50 before unrestricted access is granted.

Another potential problem is appointing trustees from among friends and loved ones who may not have the expertise required to properly oversee a trust. Blending the responsibilities between corporate trustees and individuals can address this.

Probably the hardest issue to manage is the consumption rate of the family assets. Due to recent economic conditions, many portfolios are smaller and are not producing the returns that existed when lifestyles were being set. This requires honest conversations to reach agreements regarding the level of portfolio consumption that will preserve the family assets for future generations.

A substantial number of estate planning strategies—family limited partnerships, GRITs, GRATs, charitable remainder trusts, ILITS, etc.—can reduce estate taxes and help protect the assets. To determine which of these make sense for your family, we suggest the development of a family vision statement on wealth and a careful analysis of the financial needs of each generation. Discussing wealth within the family can be difficult, but facilitators can assist the process. The balance of the advising team would include an estate attorney, a wealth manager and a tax advisor.

We frequently encounter families who created estate plans more than 10 years ago and who have not updated them since. Make sure an estate plan is updated on a regular basis, especially considering we are in the midst of substantial tax-law changes.

The Delaware Valley region is defined as the following counties: Pennsylvania—Berks, Bucks, Chester, Delaware, Montgomery, Philadelphia; Delaware—New Castle; Maryland—Cecil; and New Jersey—Atlantic, Burlington, Camden, Cape May, Cumberland, Gloucester, Mercer, Ocean, Salem.

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