GenSpring
SunTrust Private Wealth

Keys to Integrated Wealth Planning

Those with significant wealth often own a diverse mix of assets, including multiple residences, less liquid alternative or private equity investments, and valuable collectibles, all of which requires more sophisticated planning. Their wealth exceeds their foreseeable lifetime consumption needs and affords them an increased capacity to tolerate risk, yet they often express less desire to incur it. This "surplus" wealth also allows them, if they choose, to sustain their wealth for multiple generations or use it for philanthropic purposes. These families also have somewhat different emotions about their wealth. These emotions can include, among others, fear that wealth can have a corrosive effect on future generations or a heightened appreciation of the wealth's potential to accomplish ambitious family or charitable goals.

The result of these unique circumstances is a somewhat different set of wealth management planning needs than those of other families. And, because no single advisor, no matter how talented, can serve these diverse needs, working with these families requires a team approach. We often have the privilege of collaborating with the other members of our client families' advisory teams, including attorneys, accountants, and insurance consultants, among others. We have learned a great deal from our partners and have drawn some powerful conclusions about the best practices that allow multi-party advisory teams to most effectively serve their clients. Specifically, we have learned that planning for this unique group should have multiple characteristics.

INTEGRATED

A well-integrated wealth management plan incorporates tax, investment, philanthropic, fiduciary, and risk management planning as well as an intimate assessment of the people involved and the impact of this planning on personal growth and family dynamics. It takes into account the income tax and estate planning objectives of different entities before making investment recommendations. It considers the different risk profiles of family members before proposing tax-saving strategies. And, perhaps most importantly, it incorporates a knowledge of the beneficiaries as real people with interests, strengths, and weaknesses that can derail or empower the most sophisticated planning techniques. Unfortunately, even a good estate plan and a good investment plan that don't account for the other can introduce significant inefficiencies. The key warning sign of a poorly integrated plan is very similar investment allocation for accounts with very different income tax, personal or trust considerations, or estate planning objectives (e.g., a client's personal account, his or her charitable foundation, an IRA and a family generation-skipping trust). There simply is no shortcut to successful planning that minimizes important considerations for the sake of simplicity.

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COLLABORATIVE

Many clients believe that it is their responsibility to "take care of" wealth management planning for their family members. They don't want to discuss uncomfortable issues, such as business succession planning, detailed information about the extent of family wealth, or their mortality, with other family members for fear of upsetting them or discouraging their work ethic. Other clients are simply uncomfortable themselves about discussing these issues. Nonetheless, our experience has proven that candid and specific conversations about wealth planning issues with all appropriate family members, as well as with the family's entire team of advisors, yield the most effective results. Additionally, the dialogue itself often promotes better communication among the family. So, while the conversations can be awkward at first, and the coordination of multiple family members and advisors can create an administrative burden, the benefits of collaborative planning are far-reaching. With respect to multiple advisors, the key factor to consider is whether they function well as a team rather than becoming territorial about who "owns" the client relationship or the best ideas. In the most successful situations, the members of the advisory team are respectful of each other's areas of technical expertise but are open-minded in the search for the best solutions. Only the family "owns" its future, but it is inevitably a shared ownership. Often times an advisor can serve as facilitator to bring the family together and keep discussions on track that can become emotional.

EXPANSIVE

A thoughtful wealth management plan looks beyond a family's financial capital to incorporate its human and intellectual capital strengths. This requires an examination of the family's existing governance structures, the personal values of each family member, the family's overall mission, and the mentoring needs of each generation. Looking beyond the investment account allows us to not only address a more expansive set of needs but also to cultivate the family's broader resources and talents. So often the most effective answers to a family's questions lie within the family itself; a more expansive view of the advisory role helps clients locate those answers. The key indicator of an expansive plan is a sense that the advisors are cognizant of the unique characteristics of the family members as individuals, rather than merely in their role as beneficiaries of the estate.

CUSTOMIZED

No single planning idea is appropriate for every client. Each family's financial situation, risk profile, values, level of sophistication, and tolerance for complexity is unique and calls for customized planning solutions. Unfortunately, the risks and economics of running a professional practice serving wealthy families often lead professionals to implement similar techniques for many clients. For example, advisors who are wary of the risk of IRS challenges to estate plans develop a familiarity with a handful of techniques and become uncomfortable exploring other strategies. The rising cost of legal and accounting advice also makes it difficult to pass on the costs of researching customized solutions to fee-sensitive clients. Thus, it is tempting to apply well-established planning tools broadly to all clients. In other words, once the advisor has a hammer, every new client situation looks like a nail. By contrast, GenSpring exclusively serves ultra-high net-worth (UHNW) clients and has access to a wide variety of recognized experts on different techniques. This facilitates the appropriate customized planning that is critical for the family. The key question to ask is: "to what extent am I encouraged to participate in the planning process before getting suggestions on how the plan should be designed or implemented?"

CONTINUING

The most frequent client objection we hear to wealth management planning is that "I already took care of that." However, even the most sophisticated planning (in fact, especially the most sophisticated planning) benefits from an ongoing review. Keeping a plan fresh allows clients to take into account changed circumstances, as well as constantly evolving tax laws. And ongoing reviews can actually reduce costs by eliminating the need for periodic complete overhauls that require bringing the entire advisory team back up to speed. The best professionals are extremely busy, and our experience suggests that attorneys, accountants, and other advisors naturally bring their best ideas to those clients who remain "front and center" in their minds. The hallmark of good planning in this arena is a clear sense among all of the advisors about who has ongoing responsibility for maintenance of the plan and who is responsible for reconvening the team when laws change or other circumstances call for an update to the plan.

SUPPORTIVE

Wealth management planning is difficult. It requires clients understand sometimes arcane jargon, face their mortality, coordinate multiple family members and advisors, and squarely confront sensitive emotional issues. As a result, many clients often pay for sophisticated wealth management planning but fail to sign critical documents or fully implement the critical steps of the plan. We believe the most critical role a GenSpring team plays with our client families is to support the entire family through the planning process and provide the follow-through necessary to deliver a well-understood and well-executed plan. The best way to determine if advisors have been supportive is to ask: "can I clearly and effectively explain my plan to my family without my advisors present?"

STRATEGIC

Effective wealth management planning should be multi-generational in both its design and its implementation. Unfortunately, so much planning actually executed is essentially reactive. Advisors respond to a client's immediate needs or, even worse, pitch the "planning idea of the month," a process that responds to the latest change in the law instead of the family itself. We believe that the better approach is to spend the necessary time with clients at the outset to determine their long term strategic objectives and design a detailed plan to accomplish those objectives. Planning is strategic in nature if the most critical question in evaluating any particular idea is whether it fits into the long-term plan. "Techniques" in planning are, at worst, the introduction of artificial and expensive inflexibility into a family's life purely as a response to external developments. At best, those techniques that are appropriate and soberly reviewed represent the tools for implementing the family's long-term goals. The difference can be discerned only in light of the family, not in light of the "opportunity" which any particular technique seems to offer.

TAX-SENSITIVE (BUT NOT TAX-MOTIVATED)

Sophisticated wealth management planning is sensitive to the income, estate, and other tax consequences of different investment, estate planning, and philanthropic plans. Unfortunately, clients and their advisors too often allow the "tax tail to wag the dog." This can be especially true of the most sophisticated advisors who often represent clients with significant wealth. In many cases, the desire to minimize taxes can be a central goal, but a good advisor lays out the associated risks—and, just as importantly, the advisory costs and administrative burdens—of a sophisticated tax plan when presenting it to a client. Our observation is that many of these families have a plan that either ignores taxes

or, alternatively, is unduly tax-focused. A typical plan either imposes unnecessary taxes on the family or twists the family into a pretzel to avoid tax without taking into account the resulting costs and burdens. A truly sophisticated plan strikes a reasonable balance.

PRAGMATIC

The most expensive plan is rarely, by itself, the best plan, and neither is the most complex plan. An optimal plan balances risk, cost, and complexity in finding an appropriate balance for the family. An often-overlooked consideration is whether the family and its advisors realistically have the desire and resources to effectively administer and maintain the plan on an ongoing basis. Most importantly, an effective plan must be flexible so that it can respond to changing family objectives, economic realities, and tax laws. We have found that the best way to design such a plan is to be a good listener to the family, to involve as many family members and advisors as possible, and to always let the plan unfold according to a carefully thought-out strategic plan that is continually revisited. One huge problem with highly complicated planning is that the future is always a surprise, and the price of inflexibility can be enormous.

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