

P I M C O

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# Family Wealth Planning: Preparing the Next Generation

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# Introduction

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“The perfect amount to leave your kids is enough money so that they would feel they could do anything, but not so much that they could do nothing.”

—*Warren Buffett, Berkshire Hathaway*

# Agenda

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- The Challenge for Wealthy Families
- Introducing Family Wealth Education
- 7 Actions of Successful Families
  1. Identify Values and Characteristics to Pass on to Children
  2. Teach Children About Financial Values and Expectations
  3. Hold a Family Meeting
  4. Write a Family Mission Statement
  5. Discuss Family Philanthropy
  6. Develop a Family Education Curriculum
  7. Organize Family Activities
- Next Steps
- Resources

# The Challenge for Wealthy Families

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## Rothschild Family History

- The Rothschild family established banking and finance houses in Europe beginning in the 18<sup>th</sup> century.
- The family empire traces back to Mayer Amschel Rothschild, who founded a banking business in Frankfurt, Germany in 1760.
- Mayer Amschel Rothschild's third son Nathan achieved the greatest success, pioneering international finance.
- Nathan contributed to many areas of philanthropy and his seven children continued the philanthropic tradition.
- World Wars, politics and family rivalries decreased the family fortune over the next 100 years.
- Today the family wealth has been divided among many descendants and heirs throughout the world. Rothschild holdings span a number of industries and charitable work.

*"Concordia, Integritas, Industria"*  
*(Harmony, Integrity, Industry)*

—Rothschild family motto

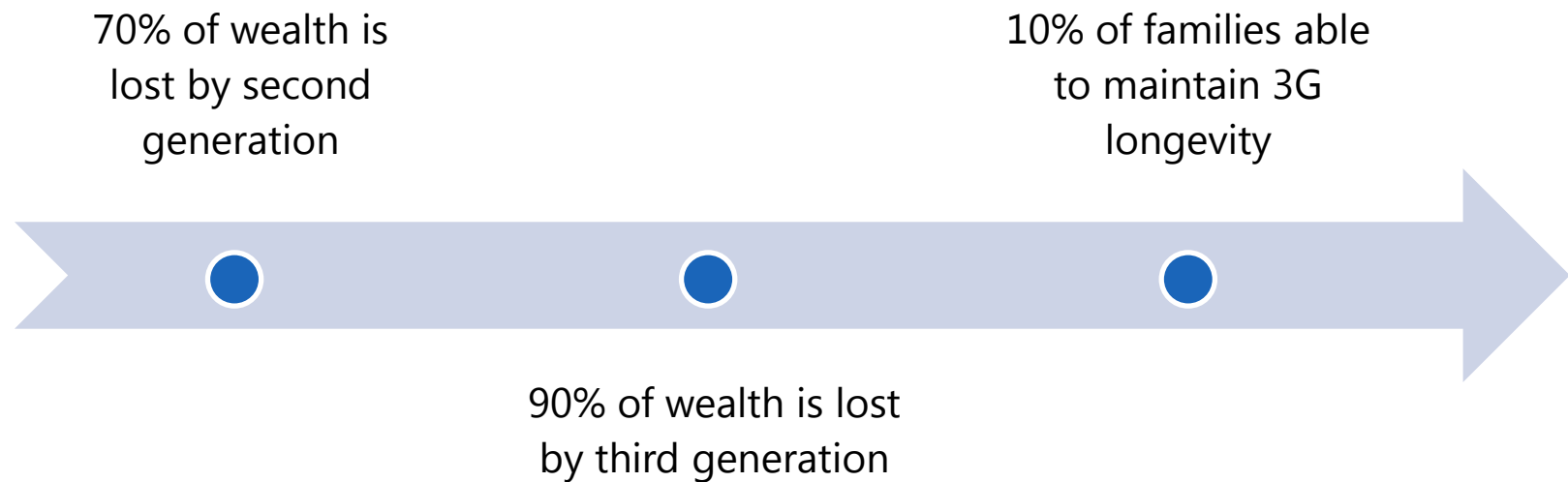
# The Challenge for Wealthy Families

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## The Natural Destruction of Wealth – Shirtsleeves to Shirtsleeves

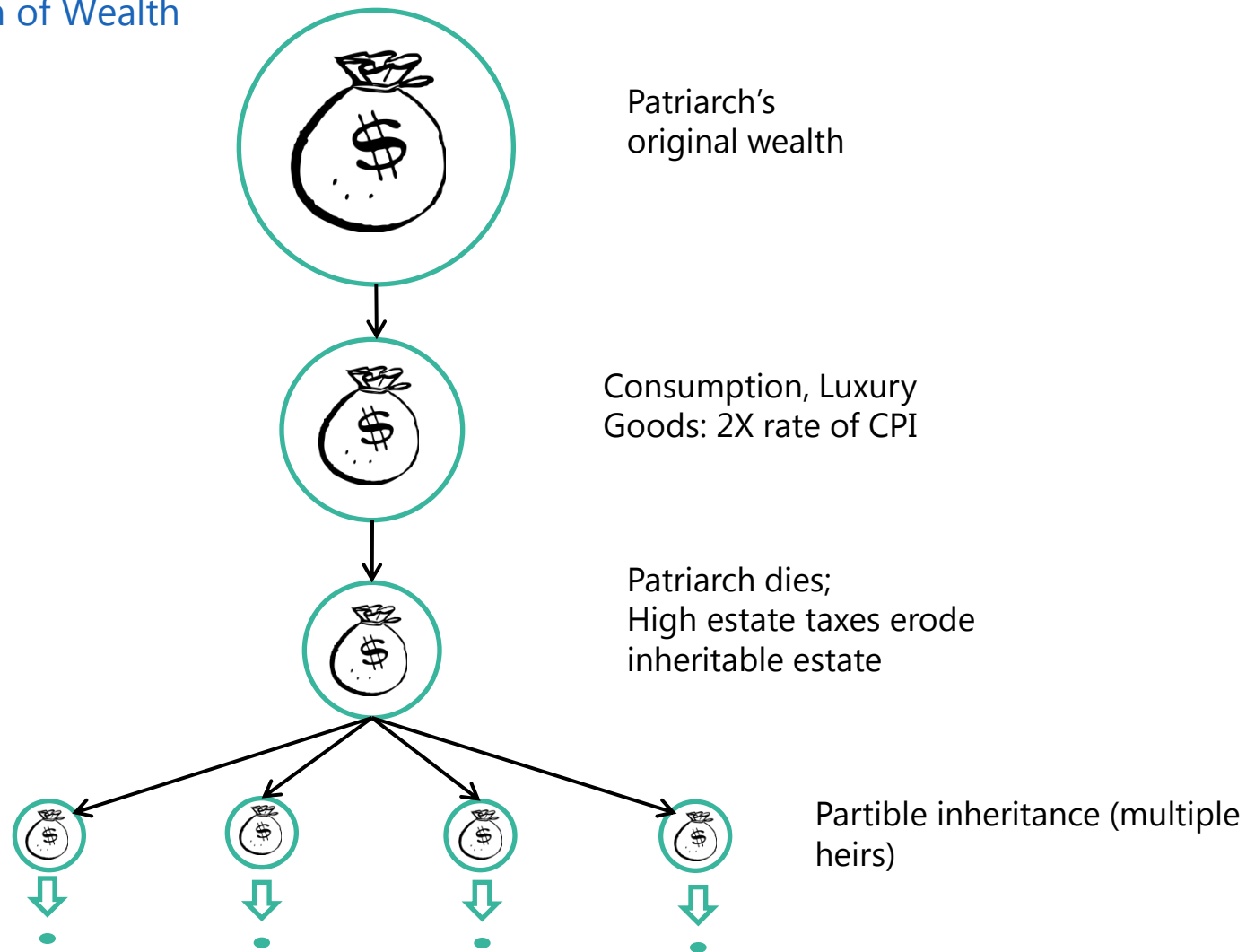
*"It requires a great deal of boldness and a great deal of caution to make a great fortune; and when you have got it, it requires ten times as much wit to keep it."*

—Nathan Rothschild, London Financier



# The Challenge for Wealthy Families

## The Natural Destruction of Wealth



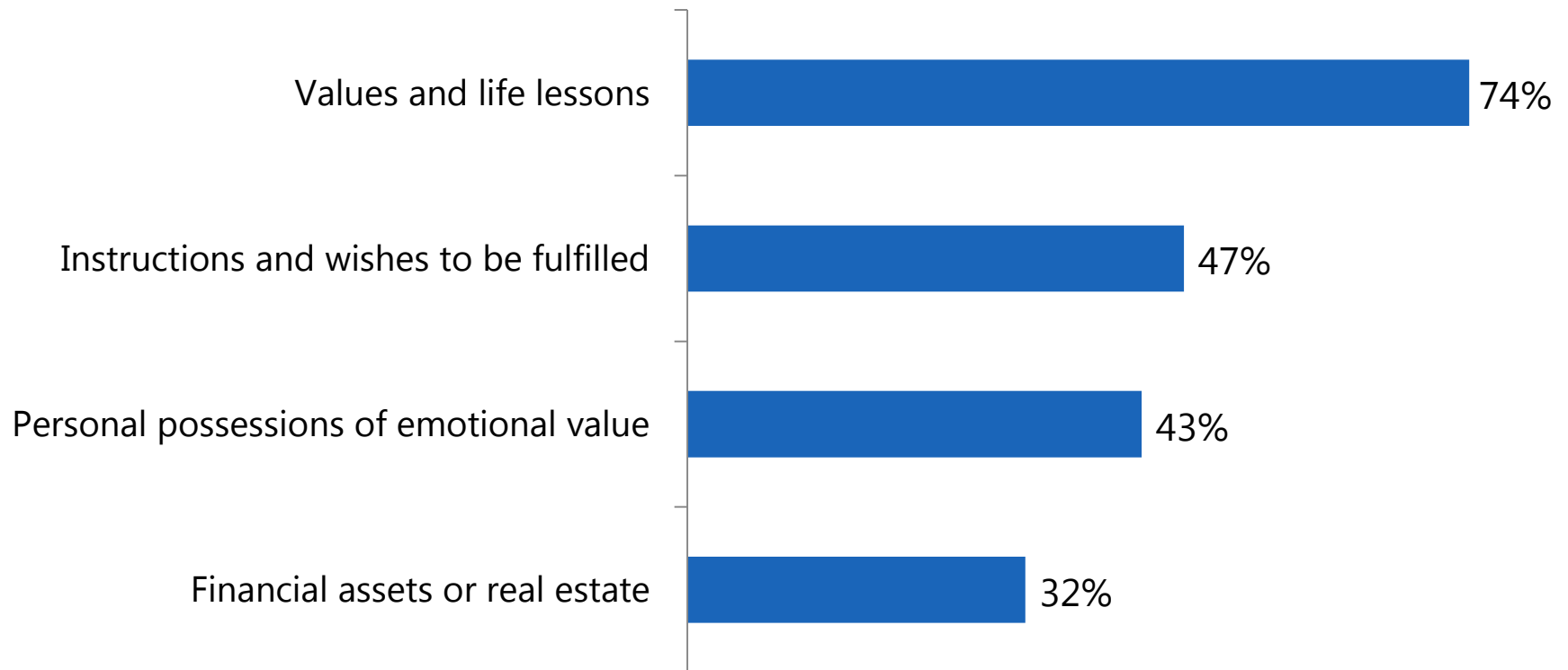
Source: Cerulli Associates, High-Net-Worth and Ultra-High-Net-Worth Markets, 2010; *Lost Inheritance*, Wall Street Journal, March 7, 2013.

# The Challenge for Wealthy Families

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## Pass It On

**When asked what is most important to pass on to future generations** (surveyed adults age 45 and older)



Note: Includes multiple responses

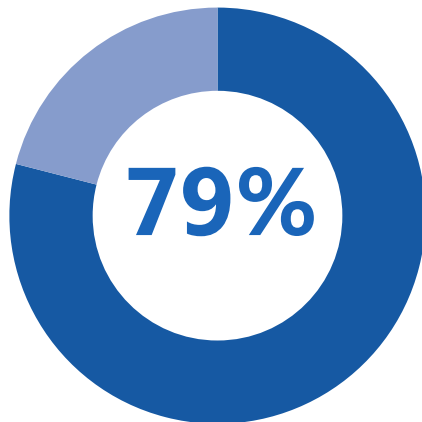
Source: The Wall Street Journal; Merrill Lynch/Age Wave's "Americans' Perspectives on New Retirement Realities and the Longevity Bonus"

# The Challenge for Wealthy Families

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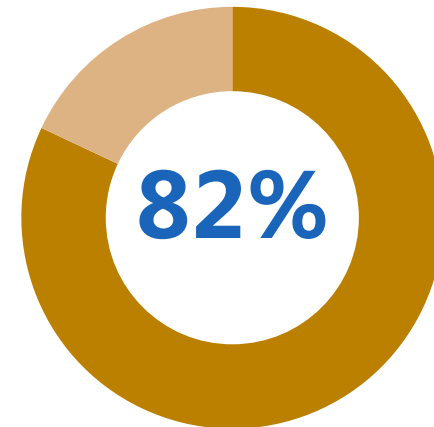
## Cost of Helping Young Adult Children

### Providing financial support



Today's parents serve as the family "bank," with 79% of parents whose oldest child is 18-34 providing some financial support

### Choosing children over self



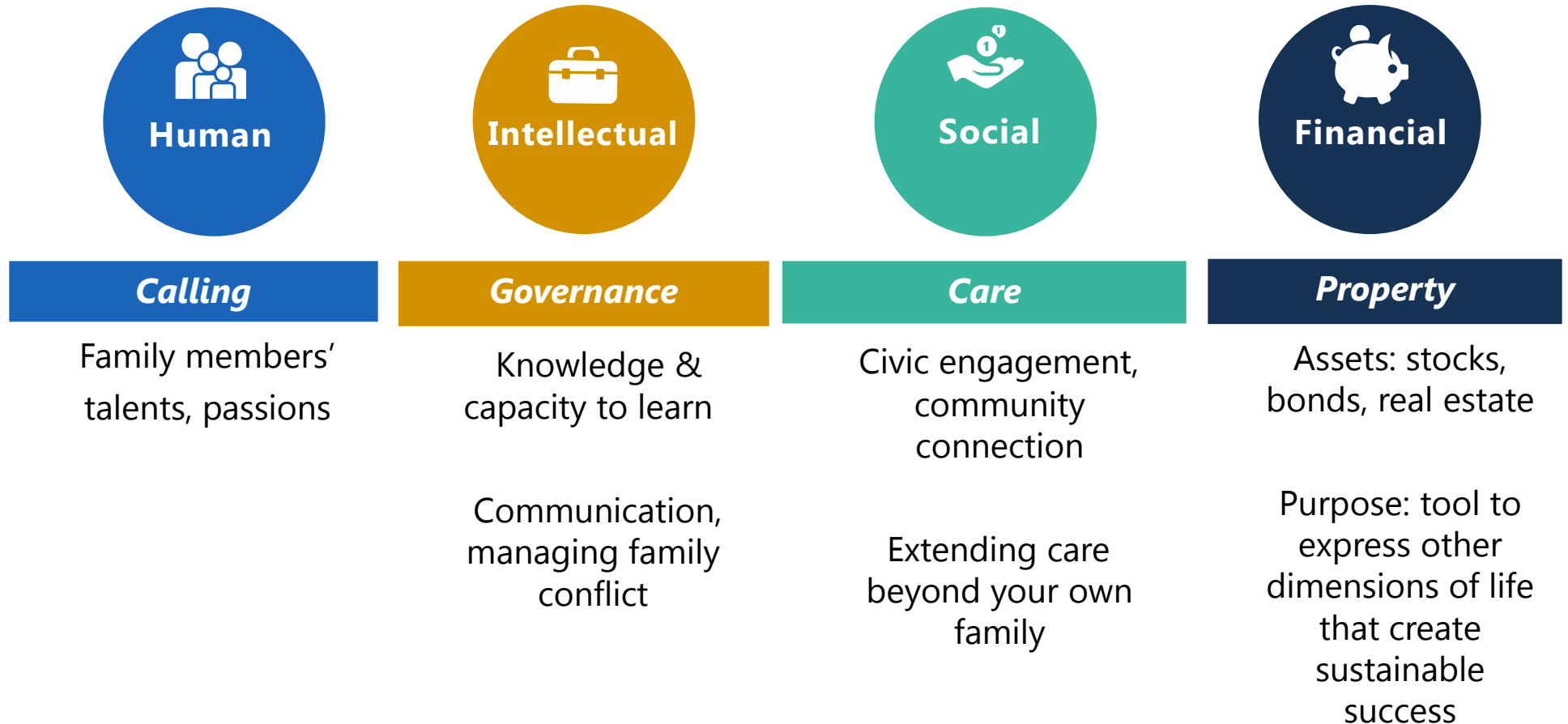
82% of parents surveyed said they would make a major financial sacrifice for their adult child

Source: The Wall Street Journal; Merrill Lynch/Age Wave's "Americans' Perspectives on New Retirement Realities and the Longevity Bonus"



# The Challenge for Wealthy Families

## Defining Wealth More Broadly



Source: Based on the ideas of Jay Hughes, author of *Family Wealth: Keeping it in the Family* and *Family: The Compact Among Generations*.

# The Challenge for Wealthy Families

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## Key Lessons:

- Earn
- Save
- Spend
- Invest
- Share
- Financial Competency

87% of parents believe their children learn everything they need to know about money at school.

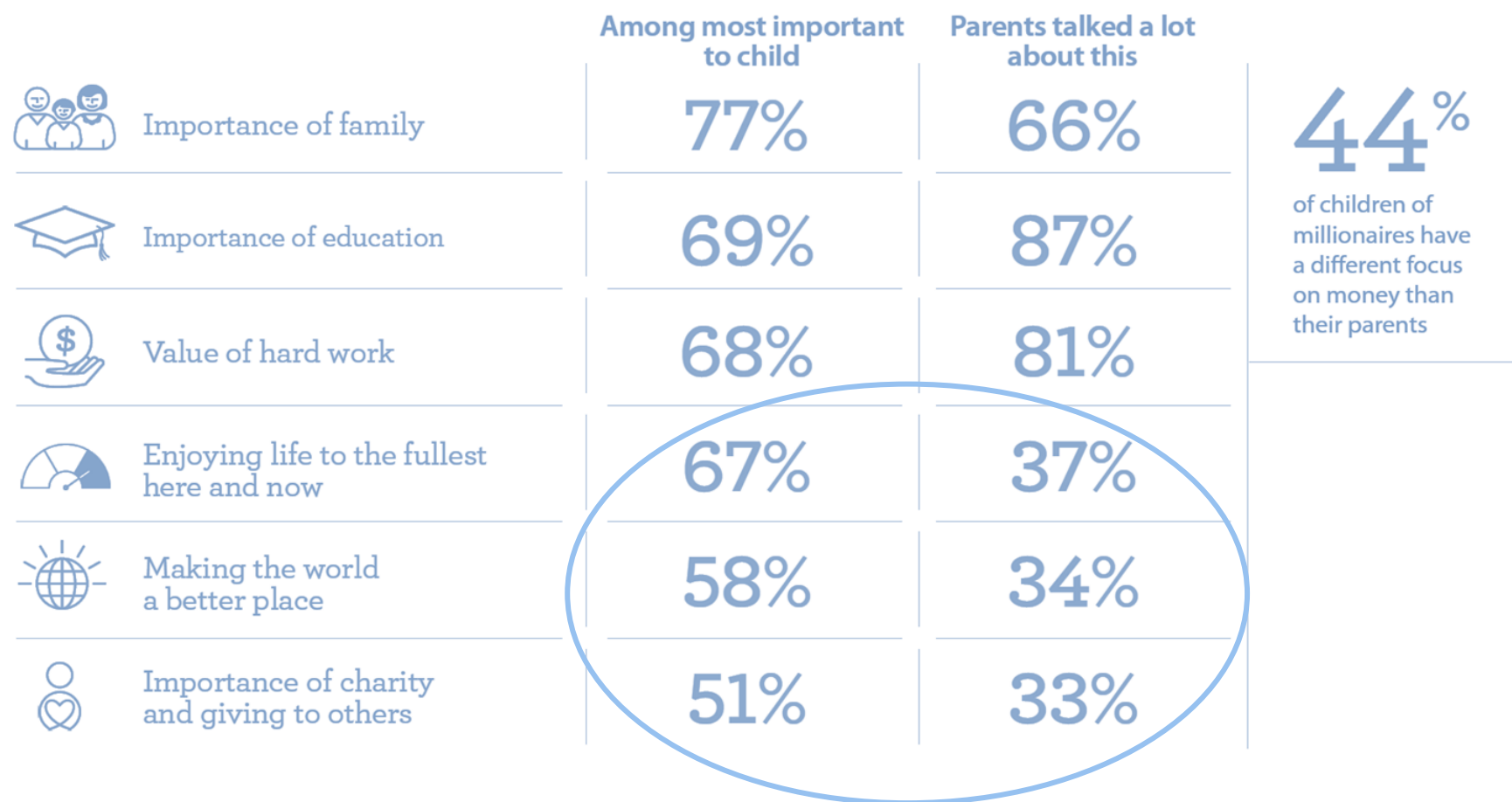
90% of students say they learn everything they know about money from their parents.

Source: JumpStart Coalition for Personal Financial Literacy, 2011.

# The Challenge for Wealthy Families

## Mind the Gap

There are some differing values between the children of HNW families and their parents



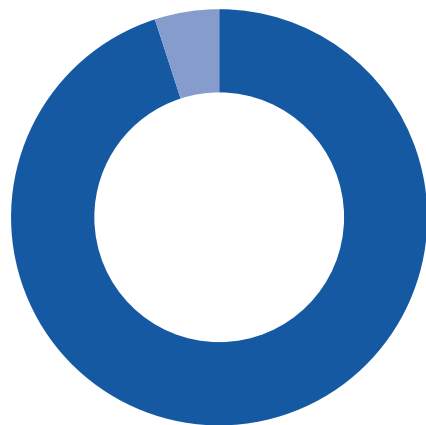
Source: Children of Millionaires—What Matters Most, Wells Fargo 2019

# The Challenge for Wealthy Families

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## Families are Not Gathering About Finances

**1 in 3**  
report ever having a formal  
meeting to discuss finances



More than  
**90%**  
Say they do not meet  
regularly to discuss  
family finances

Surprise!

**14%**

of inheritors received  
their inheritance as a  
surprise

**43%**

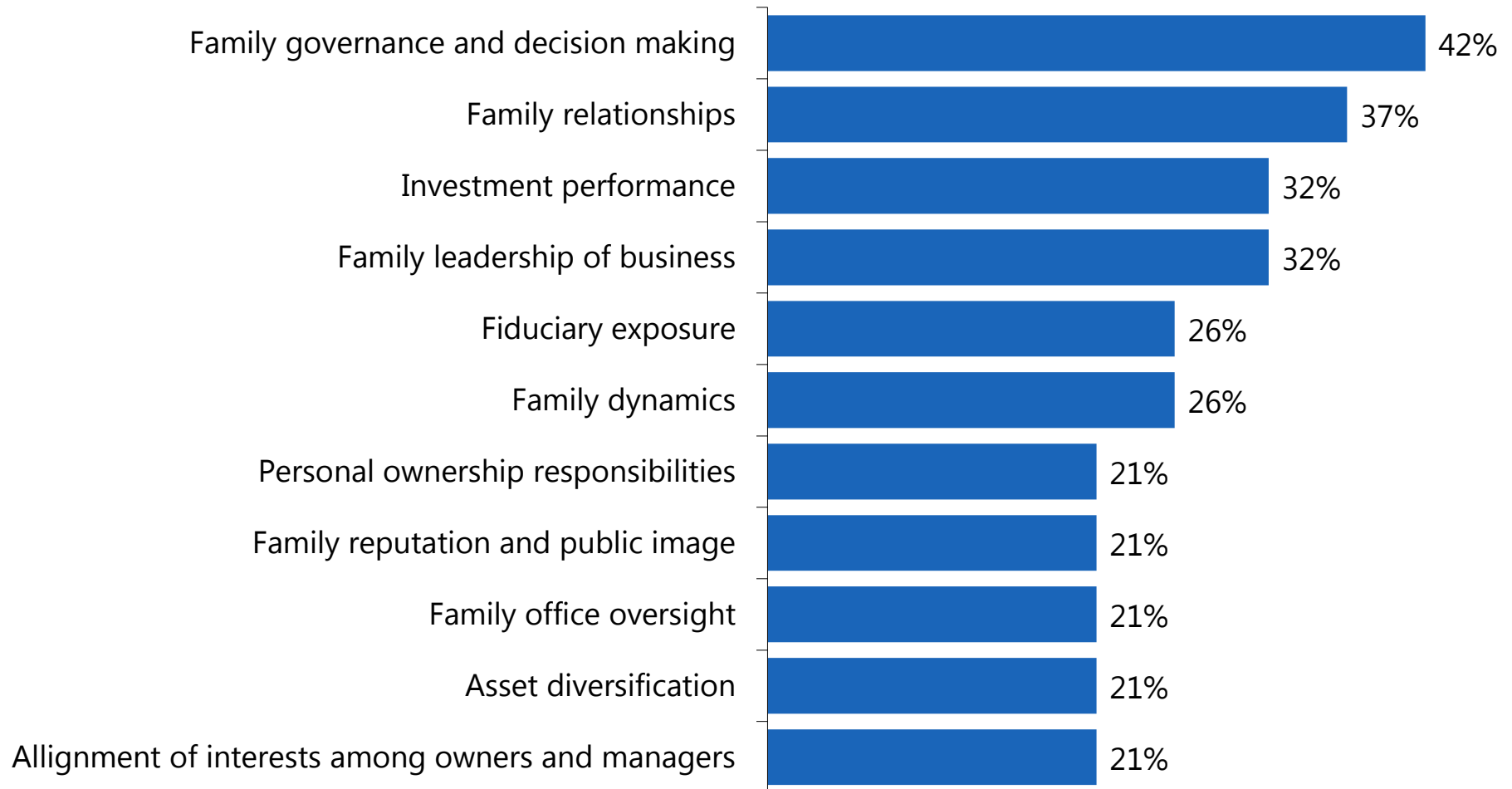
of those received  
\$1 million or  
more in their  
inheritance

Source: *Children of Millionaires—What Matters Most*, Wells Fargo 2019; Spectrem

# The Challenge for Wealthy Families

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## Risks That Threaten Family Longevity



Source: Cerulli Associates, High-Net-Worth and Ultra-High-Net-Worth Markets, 2008.

# The Challenge for Wealthy Families

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## Wealthy Families and Concerns Regarding Their Children

*"Parents are concerned about making sure that their children have meaningful lives, lives of significance, and they don't want their financial fortunes to hurt that. They want to help, and that's a very hard balance."*

—Nathan Rothschild, London Financier

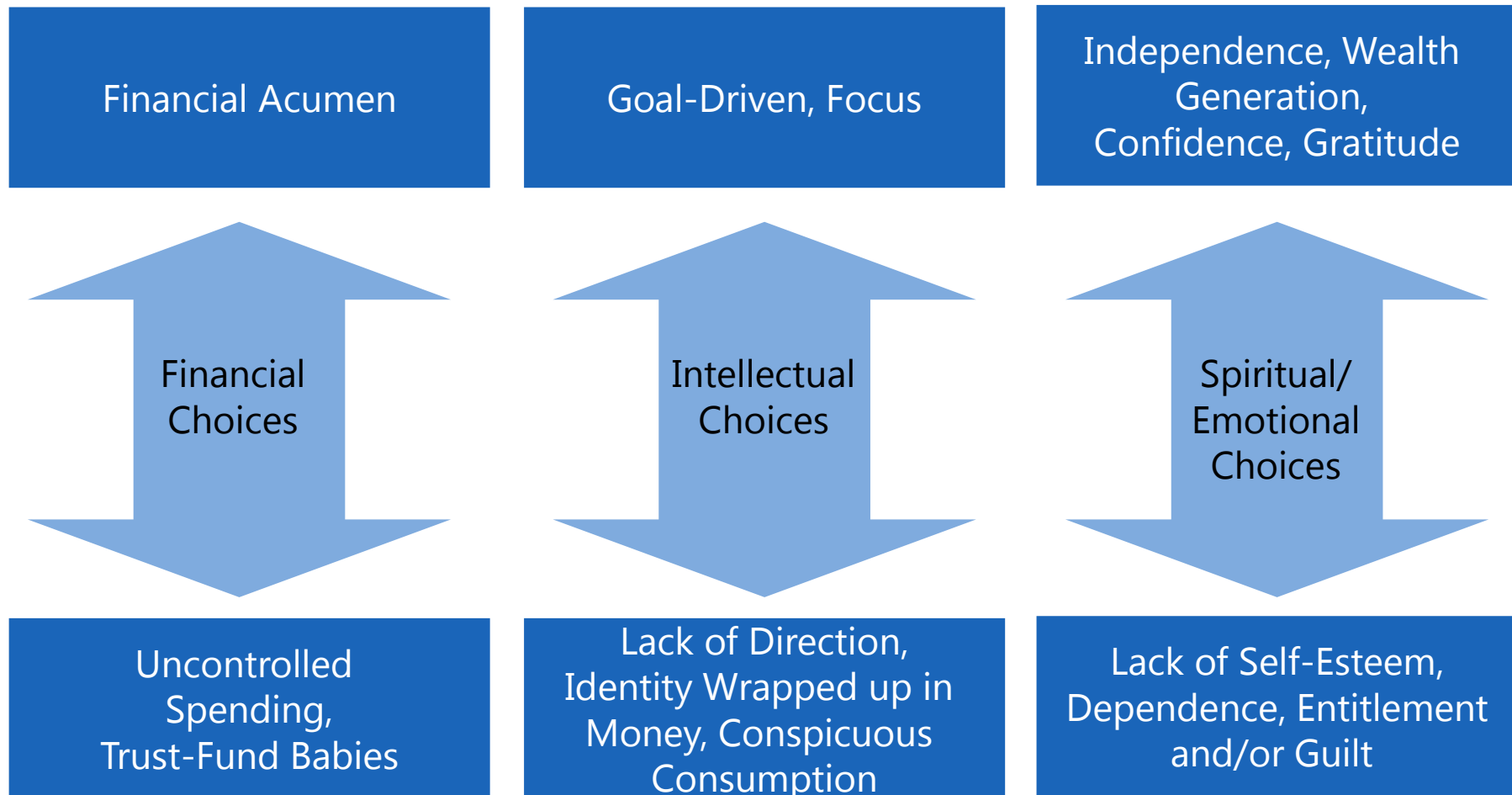
- Not well prepared to handle the financial and emotional responsibilities of wealth
- Wealth will negatively impact their children (entitlement, motivations, materialism, arrogance, etc)
- Future generation may quickly squander wealth
- Will not be able to handle the inheritance they plan to leave them
- Unable to work together to make decisions to manage the family wealth/business after they are gone
- Will not reach a level of financial maturity to handle the family money they will inherit until they are at least 35 years old

Source: U.S. Trust Insights on Wealth and Worth, Survey of High Net Worth and Ultra High Net Worth Clients: 2011.

# The Challenge for Wealthy Families

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## Choices and the Effect on Children



Source: Richard A Morris and Jayne A. Pearl, *Kids, Wealth, and Consequences*, 2010

# Introducing Family Wealth Education

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## Desired Attitudes Toward Children and Personal Wealth

- Teach children to manage wealth
- Encourage entrepreneurial values in children
- Instill sense of independence
- Impress on children the importance of philanthropy
- Teach children wealth is a social responsibility
- Maintain appropriate self esteem
- Foster motivations
- Demonstrate humility and concern for others



# Introducing Family Wealth Education

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## Understanding Money Attitudes Through Discovery

- How do you define success?
- What were the key factors attributed to your success?
- How did you learn about money?
- What were the key money messages you learned growing up?
- What does money mean to you? To your family?
- Tell me about your background and any significant events.
- What does “a financially responsible child” mean to you?
- What money messages have you passed on to your children?
- What are your expectations for the money you give your children?
- How do your children view your success?
- What impact has your wealth had on your children?
- What concerns do you have about your children?
- Who else is a primary influence on your child and what is their attitude about money?
- What ideas do you have to help prepare your children?
- How would you like to engage in this effort?

# Introducing Family Wealth Education

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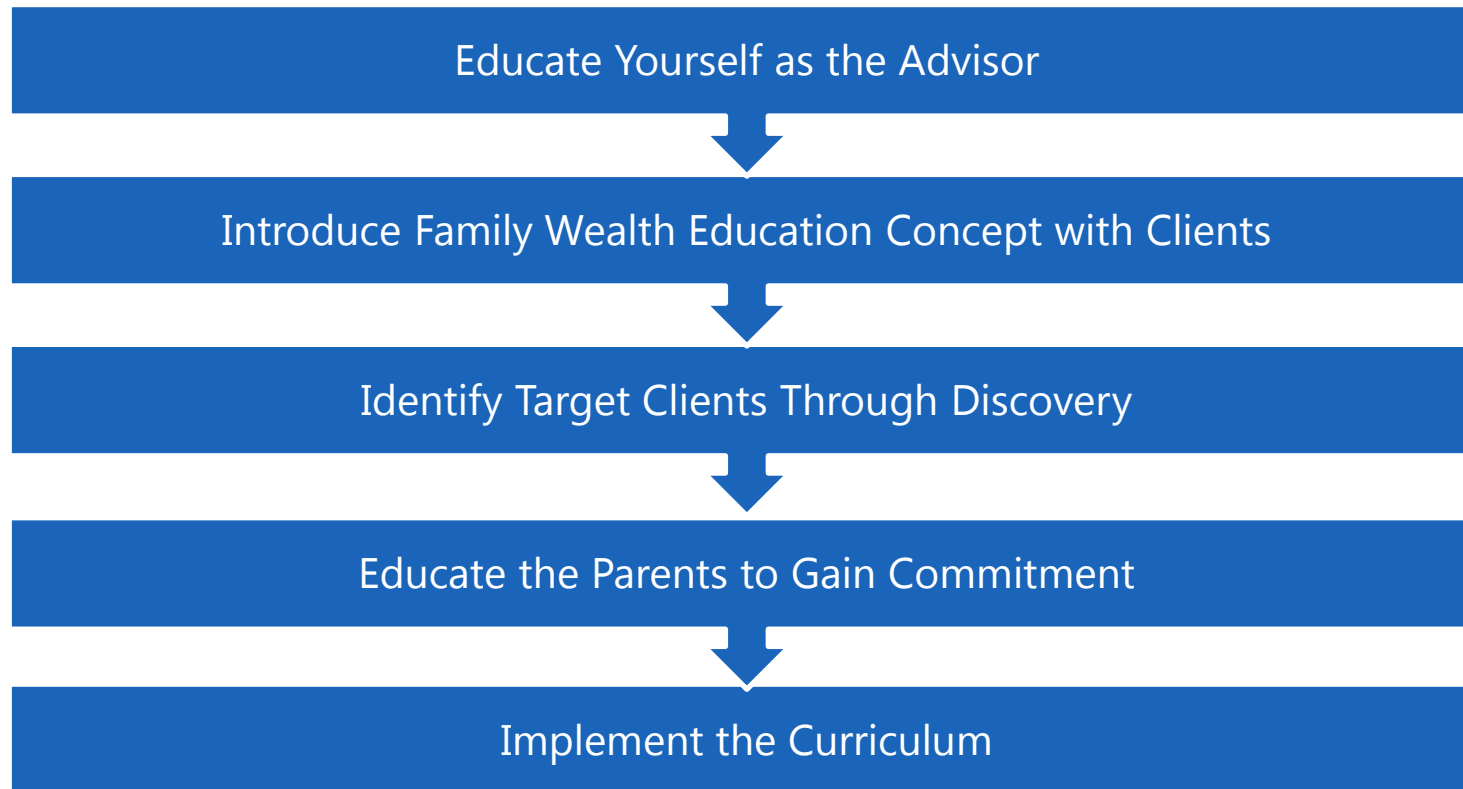
## Surprising Initial Responses From Clients

- "I don't want my children to know how much money we have and the details of our financial affairs.'
- "Our children are now older, and I feel as if we missed the chance."
- "I don't have the time or the experience. I'm hoping that my children will acquire this knowledge through others."
- "I grew up with nothing, and intend to leave my children with nothing as well. Let them achieve their own success."
- "Our family finds it to be inappropriate to discuss financial matters among ourselves and with others."

# Introducing Family Wealth Education

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## Path to Success



# Introducing Family Wealth Education

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## Using Client Discovery and Segmentation

Client List
Client Name:
Family Members:
Total Assets Held with Firm:
Family's Total Revenue:
Client's Wealth Potential:
Service Tier Strategy:
Current Level of Service with Family:
Interest Level:
Projected Family Participation:

# Introducing Family Wealth Education

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## Best Practices of Family Continuity

- Establish shared values
- Define family mission
- Establish boundaries
- Support family members lives of purpose
- Prepare heirs to manage inherited wealth
- Practice skilled communication
- Engage in mutual learning
- Promote wealth stewardship
- Give back
- Take a long-term view

# 1. Identify Values and Characteristics to Pass on to Children

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## Desirable and Undesirable Characteristics

Negative characteristic	Positive characteristic
Entitled	Appreciative
Materialistic	Self secure
Enabled	Independent
Unmotivated	Productive
Arrogant	Modest
Insecure	Confident
Self-indulgent	Socially aware
Stingy	Charitable

## 2. Teach Children About Financial Values and Expectations

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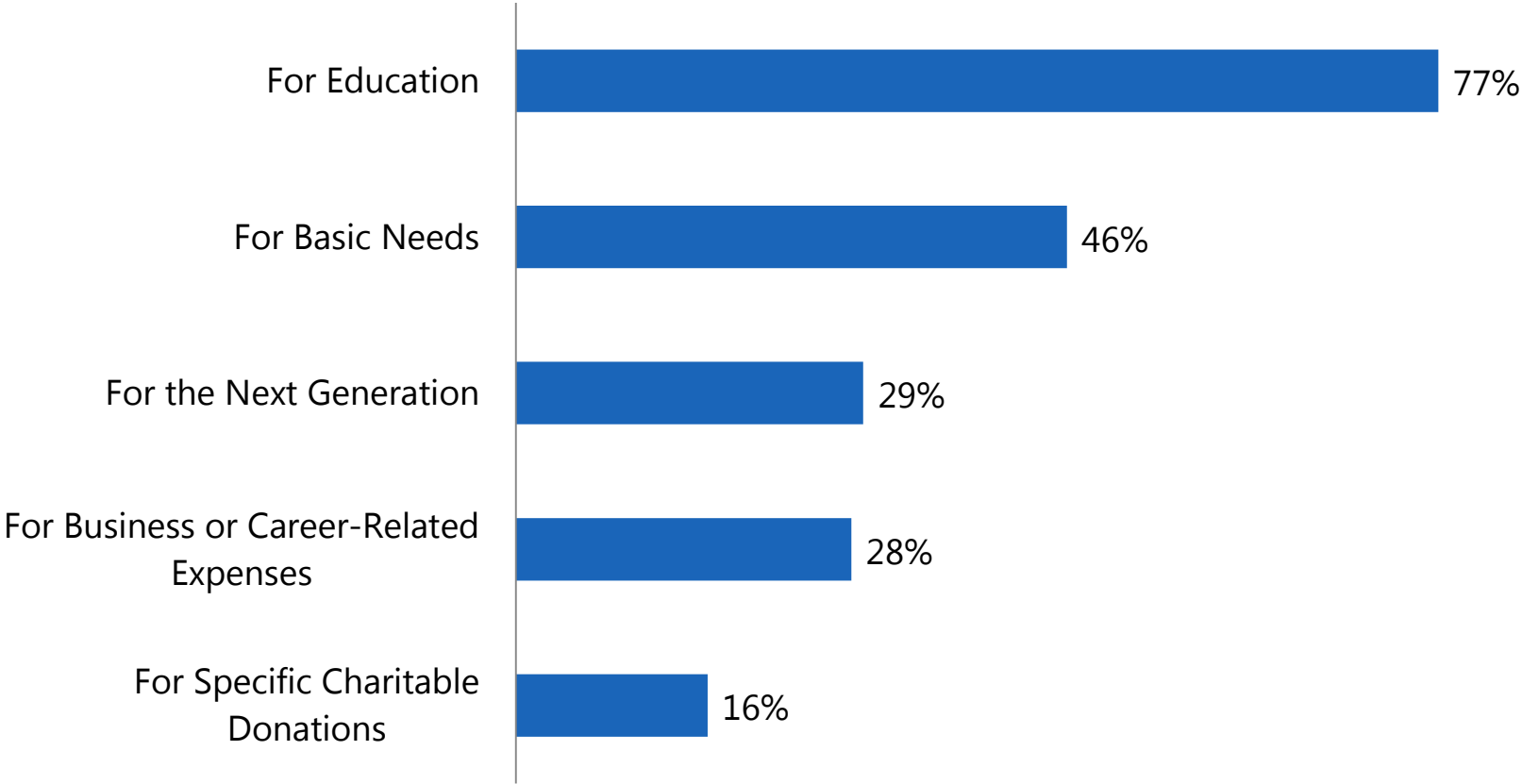
Lessons to Teach Our Children



## 2. Teach Children About Financial Values and Expectations

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### Family Priorities - Conditions on Trust Distributions



Source: Richard A Morris and Jayne A. Pearl, *Kids, Wealth, and Consequences*, 2010



### 3. Hold a Family Meeting

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#### Family Meetings - Keys to Success

- Solicit input from the entire family when setting the family meeting agenda
- Appoint a meeting director and rotate that role among family members in future meetings
- Establish rules of engagement such as “open discussion” and “respect for everyone’s participation”
- Hold the meeting in a neutral location
- Consider having the parents take notes on the meeting and circulate to family members
- Close the meeting on a positive note
- Develop an action plan and timeline including individual responsibilities
- Commit to regular meetings (e.g. monthly, quarterly, annually, etc.)

### 3. Hold a Family Meeting

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#### Family Agenda

##### **The Sample Family**

Family Meeting Agenda

Saturday, October 19

9:00 a.m. – 5:00 p.m.

Sedona, AZ

- I. Welcome
  - a. Purpose of meeting
  - b. Ground rules: what meeting is and is not about
- II. Restatement of family values
- III. Update on recent family development
- IV. Learning opportunity (e.g. asset allocation, taxes, philanthropy)
- V. Family bonding experience
- VI. Commitment to action and next steps

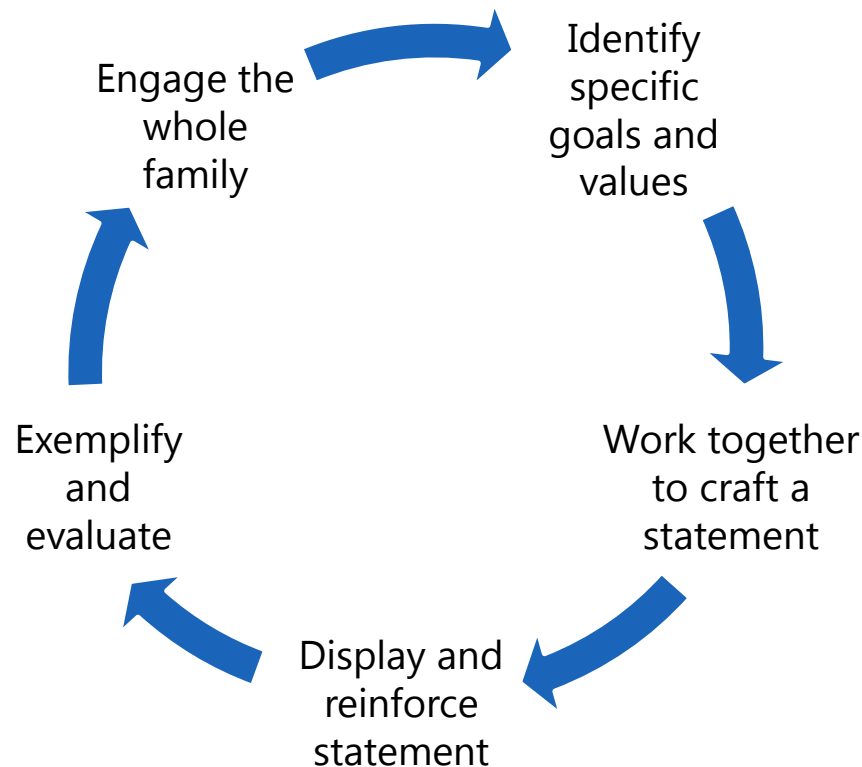
## 4. Write a Family Mission Statement

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### Family Mission Statements – Keys to Success

*“A family mission statement is a combined, unified expression from all family members of what your family is all about – what it is that you really want to do and be – and the principles that you choose to govern your family life”*

—Stephen Covey



## 4. Write a Family Mission Statement

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### Family Mission Statements – Developmental Thoughts

1. What is the purpose of your family?
2. Define your family goals, values, priorities
3. What are your family's strengths and weaknesses?
4. What is most important to you about your family?
5. What are each family member's most important values?
6. Describe important qualities that members of the family should possess.
7. How do you hope to build relationships in your family?
8. How can you support each other? Others outside your family? Society?
9. Name three things you think you could do better as a family.
10. What would people say about your collective family today?
11. Which families inspire you and why do you admire them?
12. What would you like your family to be remembered for in the future?
13. What legacy would you like your family to leave?

## 4. Write a Family Mission Statement

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### Family Mission Statements – Samples



## 5. Discuss Family Philanthropy

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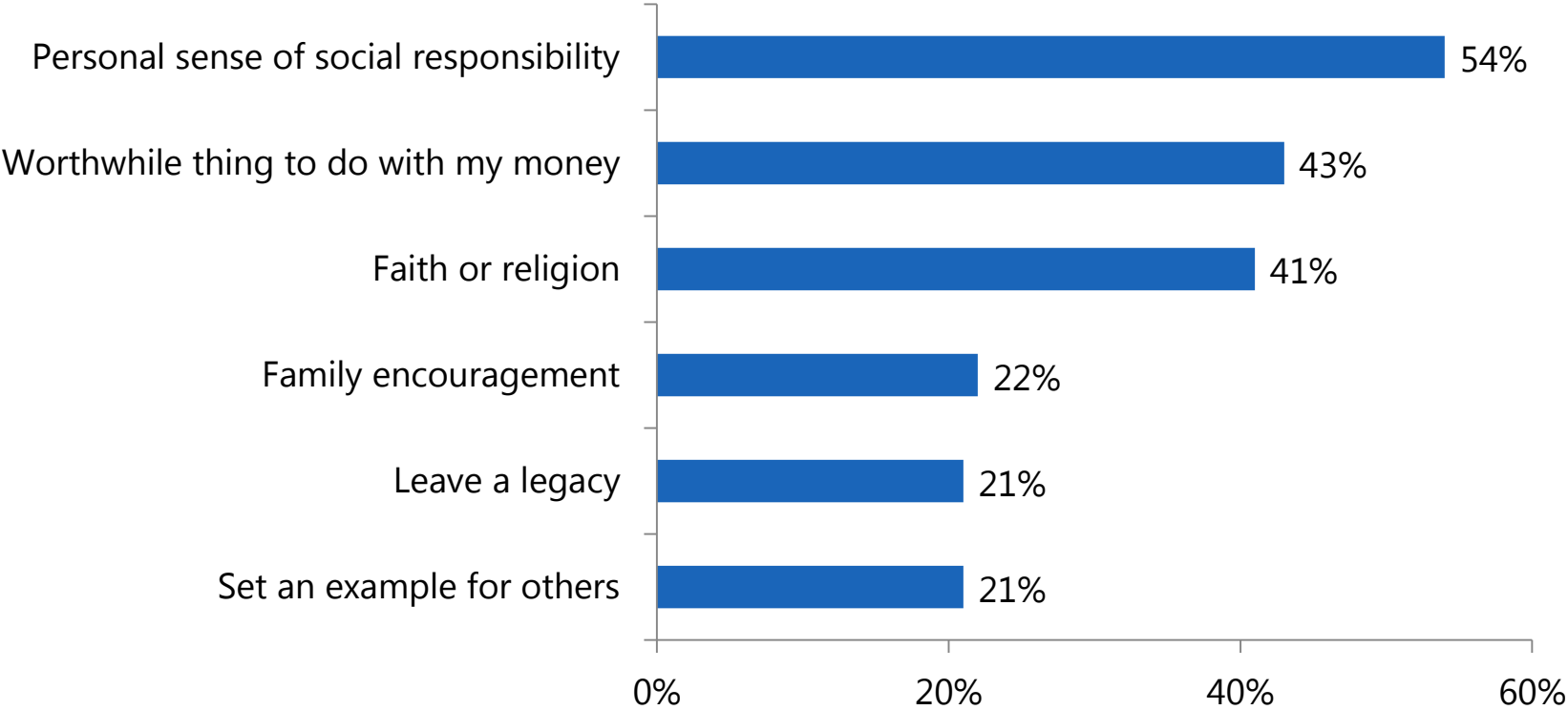
### Involve Children in Charitable Process

- What causes do we support as a family?
- Who do we give to?
- How do we give (e.g. cash, donor advised fund, CLT, etc.)
- How much are we giving?
- How often?

# 5. Discuss Family Philanthropy

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## Motivations for Giving



Source: Spectrem Group 2016

## 5. Discuss Family Philanthropy

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### Donor Advised Funds

#### Benefits

- Contributions tax deductible in year they are made
- Deductions subject to more favorable AGI threshold
- Capital gains taxes are not paid on donated appreciated securities
- Appreciation within a DAF is not taxable
- Contribution removed from donor's taxable estate
- Low minimums for a donor's initial contribution and for ongoing grants

#### Considerations

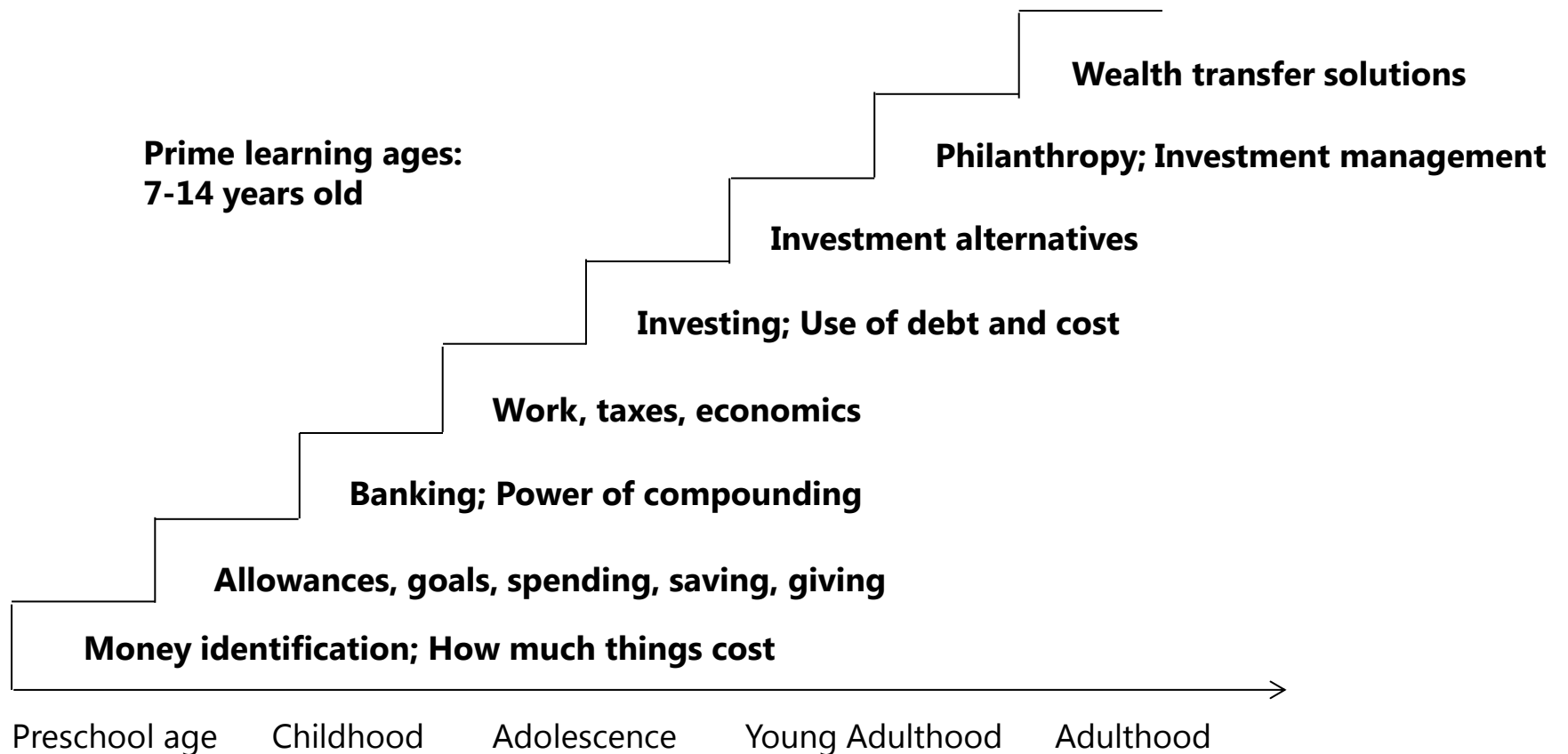
- Assets irrevocably removed from donor's resources
- Do not provide an income stream
- Less donor control over assets
- May not be suitable for more complex assets



## 6. Develop a Family Education Curriculum

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### Educational Curriculum by Age



# 6. Develop a Family Education Curriculum

## Establish Allowance

**SPEND**

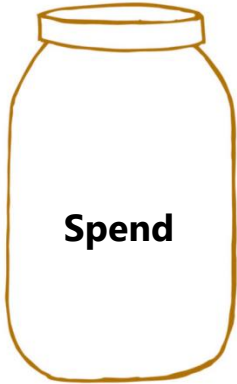
Allow children to make own mistakes

**SAVE**

Identify goals and incentivize with a match

**DONATE**

Create giving policy



# 6. Develop a Family Education Curriculum

## Engage Children in Planning a Family Vacation

Vacation Budget	
BUDGET: \$8,500	
Airfare	\$2,000
Hotel	\$4,900
Food	\$1,400
Activities	\$1,000
Total	\$9,300

Choices	
<input checked="" type="checkbox"/> 5-star hotel	<input type="checkbox"/> 3-star hotel
<input type="checkbox"/> First-class	<input checked="" type="checkbox"/> Coach
<input type="checkbox"/> Fine dining	<input checked="" type="checkbox"/> Fast casual
<input checked="" type="checkbox"/> Personalized / Private activity	<input type="checkbox"/> Group

## 7. Organize Family Activities

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### Sample Family Activities



List customs and traditions that the family would like to maintain. Discuss new traditions that the family would like to establish.



Schedule regular learning experiences that incorporate field trips (i.e. ancestry or heritage tours, religious affiliation facilities, New York Stock Exchange, etc.)



Consider skills-based activities that the family can attend together. Compare skills that multiple family members would like to develop and schedule courses.



Create a family web site or Facebook/Google group to stay connected. Encourage sharing of family photos and events.

## Resources

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- *Family Wealth*, Jay Hughes
- *Kids, Wealth and Consequences*, Richard Morris
- *Intentional Wealth*, by Courtney Pullen
- *The Millionaire Next Door*, Thomas Stanley
- *The Opposite of Spoiled* by Ron Lieber
- *Silver Spoon Kids*, Jon and Eileen Gallo
- *Preparing Heirs*, Vic Preisser and Roy Williams
- *Wealth in Families*, Charles Collier
- *A More Beautiful Question*, Warren Berger
- *Money Sanity Solutions*, Nathan Dungan
- *The 7 Habits of Highly Effective Families*, Stephen Covey

## Appendix: Additional Developmental Activities

Qualities	Exercise	Results
Shared values	<ul style="list-style-type: none"><li>▪ Individually write down on a separate sheet of paper the top 7 values that are most important.</li><li>▪ Hang each sheet from each person on the wall.</li><li>▪ Arrange the values in categories that are common among the group.</li><li>▪ Eliminate the categories that family does not share.</li></ul>	List the common values on which you all agree:
Traditions that define our family	<ul style="list-style-type: none"><li>▪ Have a playful discussion to uncover traditions that the family enjoys and wants to maintain.</li><li>▪ Discuss new traditions that the family wants to develop.</li></ul>	List current or new traditions:
Activities to strengthen relationships	<ul style="list-style-type: none"><li>▪ Have family members list any day trips, outings, or activities they have found fun, and meaning in the past.</li><li>▪ Compare lists and vote on annual, quarterly, or monthly activities you can enjoy together.</li></ul>	List planned activities:
Willingness to learn and grow	<ul style="list-style-type: none"><li>▪ Have each person write down any skills (athletic, artistic, musical, business, financial, language, or spiritual) they would like to acquire or improve.</li><li>▪ Compare everyone's lists and develop affinity groups of those who share a desire to learn a particular skill.</li><li>▪ Find courses or workshops you can attend together.</li></ul>	List who will take each course and take workshops together:

Source: Richard A Morris and Jayne A. Pearl, *Kids, Wealth, and Consequences*, 2010

# Appendix

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## TAX

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