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Origins and Legacy:

The Changing Order of Wealth Creation

Wealth and Investment Management

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Section 3

Legacy and planning

The rise of entrepreneurial wealth and the shifting centre of economic power have profound consequences for the way in which wealthy individuals plan for the future and think about a legacy for their wealth. As inherited wealth declines and as fortunes are made at a more rapid rate than ever before, the challenges facing newly wealthy individuals and families around planning for the future become more pressing and acute.

Wealth planning encompasses a variety of areas, including tax-efficient financial planning, the structuring of businesses, insurance strategies and international investment structures. But for many wealthy families, a key consideration is how and when they should share their wealth — either with friends or family, or through charitable donations and philanthropy. "It's important to think about succession planning at the right point so that families and individuals can plan for what happens to their money in the future, even if the unexpected occurs," says Ms. Grum. "Unfortunately however, these discussions are frequently put off until tomorrow which in some cases may be too late."

Allocating the time to think through the purpose of wealth creation can be a real challenge, particularly for entrepreneurs, business owners or those who are in the midst of building a career. "A good wealth plan should describe your values and mission for that wealth, and serves as an anchor that enables you to move on and consider how to spend, invest and give that money in a grounded and structured way," says Ms. Grum.

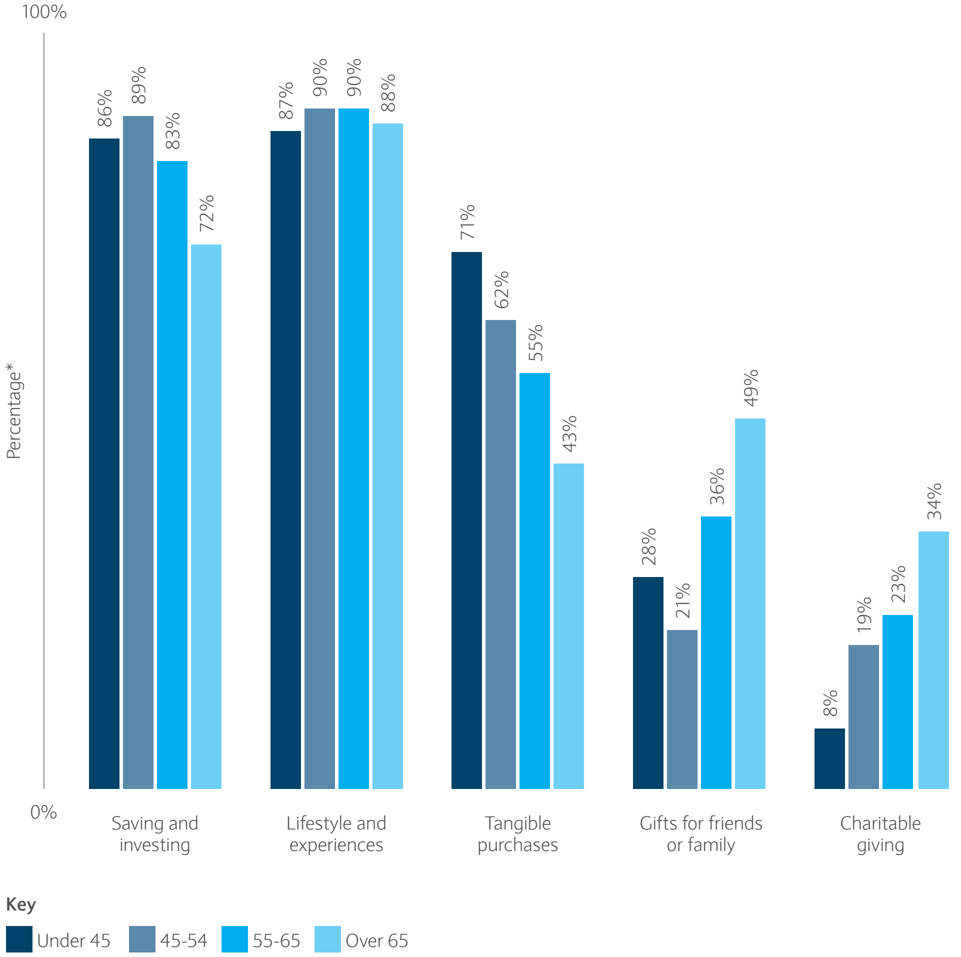
A common barrier to a more systematic approach, according to Christian Stewart, Managing Director of Family Legacy Asia, is that wealthy families tend to focus on the quantitative aspects of wealth, rather than the qualitative. "There's very often an emphasis on preserving the financial wealth and making sure it's properly invested," he says. "That's fine, but legacy is also about the qualitative issues. How are the family members as individuals doing in life? What's the nature of your family relationships? What role does each family member play and what is an appropriate governance model for the family?"

Another challenge can be what Mr. Stewart calls the "communication gap" between generations that can impede effective wealth planning, which he believes can be especially large in Asia. "If the first generation wants to achieve their legacy, they need to overcome the communication gap and educate their children on what the wealth structure is and how it's going to work," he says. "One of the best practices that a family can adopt is to hold periodic family meetings. Sustaining wealth across generations comes down to how the family makes joint decisions and works together toward common goals."

As chart 8 shows, considerations about how to share wealth with friends, family and charitable causes tend to increase with age. Among the under-45 age group, 28% said that gifts to friends and family are one of the three key ways in which they use their money. This proportion rises to 36% among those between 55 and 65, and 49% among the over-65s. Equally, philanthropy is also age-dependent. Just 8% of wealthy individuals under 45 said that philanthropy is one of the three key ways in which they use their money, compared with 23% of those between 55 and 65, and 34% of those over 65 (see chart 8).

In addition to thinking through how to integrate family, friends and charitable causes into their wealth planning, wealthy families also need to consider the timing of these decisions. For example, they may want to consider allowing children flexibility to spend time away from the family business or philanthropy in order to gain broader experience, giving them a chance to develop and explore their own goals and interests. "To be successful as a family, you need to allow family members to flourish, mature and develop through life-cycle stages in an appropriate way," says Mr. Stewart. "The best legacy is going to be one where everybody is helped to navigate the developmental stage appropriate for them and where no one is forced into making decisions or taking on roles that are inappropriate for their stage in life."

Chart 8
Use of money by age category



Example: 28% of respondents under 45 selected "Gifts for friends or family" as one of their top three ways of using money.

*Percentage of respondents in each age category who selected a particular use of money as one of their top three wealth usage preferences.

The values displayed sum to more than 100% because respondents could choose multiple choices.

Source: Ledbury Research

The three models of legacy planning

In general, there are three main models in which wealthy families approach legacy. In the first scenario, the family is very conservative and fears that wealth will spoil its recipients and will not be protected appropriately. “This leads families to set up restrictive trusts and then drip-feed it to the beneficiaries without ever giving them full control of it,” says Mr. Stewart, observing that this model remains common in Asia, where many families are conservative and traditional. “When you consider the impact of this model from a qualitative perspective, it is not a very healthy model.”

In the second model, the family takes a view that inherited wealth is bad for the recipients, so they decide that the bulk of it should go to philanthropy, leaving the children to earn and make their own wealth. “The best advice in this scenario is to communicate your decision to your family as early as possible so they can understand it and plan their own lives appropriately,” says Mr. Stewart.

In the third model, the family takes the view that descendants should receive the wealth, but only in the context of a robust education and governance framework. “This is the idea that, through thoughtful and wise giving of wealth, families can educate their children to use wealth wisely and take full control of it once they are mature enough, without being afraid that they will somehow waste it all,” says Mr. Stewart. “The best advice in this scenario is to find a way to institutionalise the provision of qualitative advice to help your family members should they need it.”

Christopher Johnson, Head of Wealth Advisory, U.S. at Barclays, notes that a growing number of wealthy families are establishing incentive trusts as a way of adding conditions around trusts. Under this approach, families provide money for descendants but in a way that ensures they meet certain goals in life that the family considers important. The trust may stipulate, for example, that the recipients must complete college, attain certain grades, get a job or spend some time working in philanthropy before receiving their inheritance. “Incentive trusts can be a useful way of ensuring that wealthy children live up to the values of the family and do not expect unconditional access to wealth,” he says.