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WEALTH ADVISER

Voices: Brian Luster, on Preserving Family Wealth with Heritage Design

Research has shown that in most families, 90% of inherited wealth is lost by the third generation

Jan. 16, 2015 11:26 a.m. ET



Brian Luster

Voices is an occasional column that allows wealth managers to address issues of interest to the advisory community. Brian Luster is chief executive of the Abernathy Group II Family Office in New York.

When wealth is passed down through generations in a family, the long-term prognosis generally isn't very good. Research has shown that in most families, 70% of inherited wealth is lost by the second generation, and 90% by the third. So it's clear that the model for preserving wealth across generations is broken.

Heritage design, a new approach to perpetuating family wealth, aims to fix that model. It focuses on helping families communicate better about their family

values and traditions, and how they want the inheritance to be managed.

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Historically, grantors who want to instruct their heirs on how to spend the family inheritance do so through what's called an ethical will, a nonbinding document drafted by an attorney. The document is typically written in legalese—not in the style or words of the grantor—and contains a set of instructions that may provide little or no context for interpreting the grantor's wishes.

Heritage design, in contrast, incorporates a set of experiences shared over a lifetime between the older and younger generations. I like to compare it to fishing. Suppose that your grandfather is an excellent fisherman, and he wants his heirs to be great at it, too. He could have his attorney write up a set of instructions: step one, put the fishing line on your rod; step two, attach a hook; and so on. However, if he really wants his heirs to learn how to fish, he's better off taking the entire family to Montana for a fishing trip once a year for 40 years.

At our firm, we engage clients and their heirs in this kind of a multiyear journey. Using a process called guided discovery, we interview the grantors in great depth, encouraging them to share the stories that reveal how they became the people they are. The end result is the heritage statement. It's a succinct distillation of the family's stories, values, and traditions, providing rich context

for how the grantors want the inheritance to be managed. This is a living document, and it can take the form of a website, video, or book.

From there, we set up an initial inheritance day, the first meeting of all of the intended heirs, after which the family will ideally gather at least once a year, both before and after inheritance. Ongoing engagement can take many different forms, expressing the unique values of the family. For instance, if the grantors want their heirs to learn about business, they might decide to create a family bank, and heirs that want to build a business would then present a formal plan to the family to be considered for a loan.

If your firm handles multigenerational wealth management, consider hiring or training a certified heritage design professional. Many people spend their whole lives accumulating wealth, and engage financial advisers and estate planning experts. However, unless they take the time now to prepare their heirs to inherit the wealth, much of that effort may ultimately go to waste.

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