



THINKING BEYOND...™



Turning Lost Affluence into Retained Influence

Universal to traditional estate planning professionals is an erroneous bias. This bias so colors the professional advisor's thinking that it often prevents them from considering all the possible planning options. Further, this bias undermines the professional's ability to see such options in a broader perspective.

Have you ever seen a workhorse with blinders on? The owner puts these blinders on to keep the horse from being distracted by what is on his right or left so he can focus his attention on what is straight ahead. Blinders may be effective for a workhorse, but they are a decided disadvantage when attempting to do creative planning for wealthy families if an advisor wants to help them accomplish all their life and financial goals.

Here is the traditional estate planner's bias: *The only thing that matters in planning is to get the maximum amount possible to the heirs. What happens to the rest of the family's accumulated wealth (whether it goes to the IRS or to charity) is irrelevant.*

We routinely see this bias in advisors as

they evaluate our plans. Here is just one example. We proposed that the client establish a \$6 million Deferred Inheritance Trust (DIT) at the death of the last spouse. This trust would pay income of \$4.2 million to the family's charitable foundation for

seven years and then the trust would terminate and the \$6 million in the trust would pass estate tax free to their children.

The objection of the advisor was that he thought the family would be better off paying the \$3.3 million in estate taxes and then growing the remaining \$2.7 million for the next seven years. Based upon his calculations his alternative would

provide the children with about \$6.4 million at the end of seven years as opposed to our plan in which they would only receive \$6 million.

Can you see the bias at work here? If the only planning goal is *to get the maximum possible to the heirs with no regard to what happens with the rest of the family's wealth*, his alternative certainly has merit. But if what happens to all the family's wealth is important and not just the part that goes to the heirs, then we must ask, "Is his alternative really superior?"

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Does the power of wealth come from the amount of wealth you personally own or does it come from the amount of wealth you personally control?

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Consider the following chart that compares where the family’s wealth will go in the two plans:

	OUR PROPOSED PLAN	THE ALTERNATIVE PLAN
Estate Taxes Paid	\$ 0	\$3,300,000
Total Wealth to Family Foundation <i>(income from DIT and future growth)</i>	\$ 6,400,000	\$ 0
Wealth to Heirs <i>(in seven years)</i>	\$ 6,000,000	\$6,400,000
Total Wealth Controlled by Family	\$12,400,000	\$6,400,000

ence.” Consider this very provocative question— Does the power of wealth come from the amount of wealth you personally

own or does it come from the amount of wealth you personally control? Wealthy people always know the

You see, with the advisor’s bias (blinders), all he could see was the one line right in front of him that says “Wealth to Heirs *(in seven years)*.” And since his alternative gives slightly more to the family outright, then his proposal, he concluded, must obviously be preferable. But there is a fundamental question that must be asked, “What about the rest of the family’s wealth, the wealth that is *not* going to the heirs? What happens to it?”

This part of a family’s wealth is what must be used to support the general welfare of this country— what we call a family’s **Social Capital**. Where will this family’s Social Capital go? With our plan, the family in their own foundation will retain 100% of all their Social Capital and all of its future growth. With the advisor’s alternative plan, the family’s Social Capital will be turned over to the federal government in estate taxes never to be seen or heard from again.

Hence, the title of this article, “*Turning Lost Affluence into Retained Influ-*

answer to this question; power comes from the amount of wealth you personally control.

In other words, a family will have more influence in their community and America by owning \$6 million outright and controlling another \$6.4 million in their family foundation than if they owned \$6.4 million outright and had a copy of an estate tax return that says their parents paid \$3.3 million in estate taxes to the federal government.

It could be safely argued that this family is not \$400,000 poorer in *lost affluence* with our proposed plan, but they are actually \$6.4 million richer in *retained influence*.

If you believe the concept of “*turning lost affluence into retained influence*” is a superior approach to planning your family’s wealth, the Family Wealth Counseling process is the answer.

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