



Family Wealth Planning: Preparing the Next Generation



For investment professional use only

A company of **Allianz** 

Introduction



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

Agenda

- The opportunity for advisors
- The challenge for wealthy families
- Best practices of successful families
- Next steps for advisors and clients
- Resources and appendix



The opportunity for advisors

Improve client satisfaction

Wealthy families and goals regarding their children

79%

Feel it is **important** for their children/grandchildren **to meet their advisor**



78%

Feel it is **important** that their financial advisor have **programs to educate** their children/grandchildren on wealth



72%

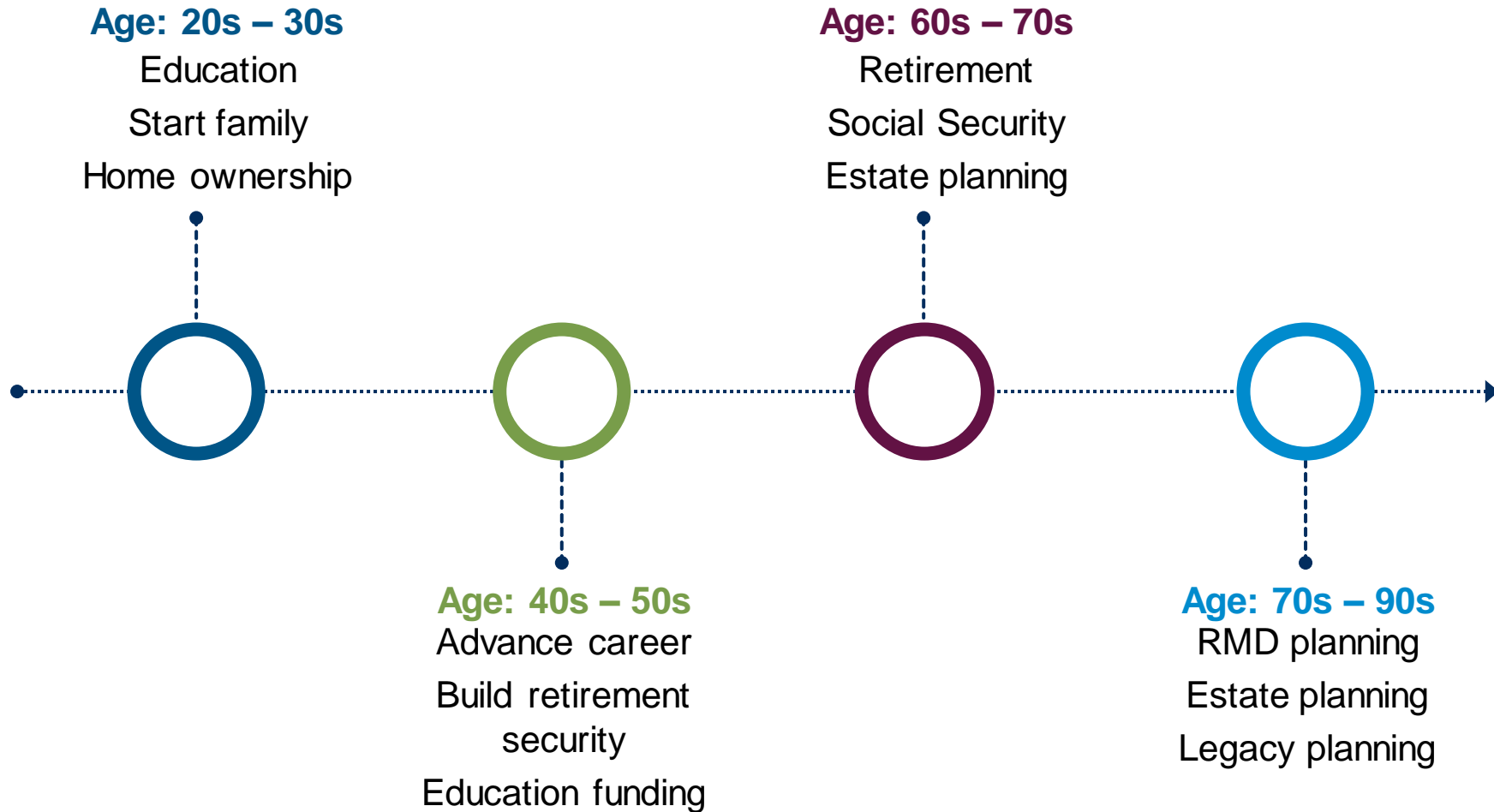
Are **concerned** about **next generation being wasteful** with money they pass on



Source: Spectrem Group, \$25 Million Plus Investors 2021

Strengthen relationships through a needed capability

Addressing relevant client priorities

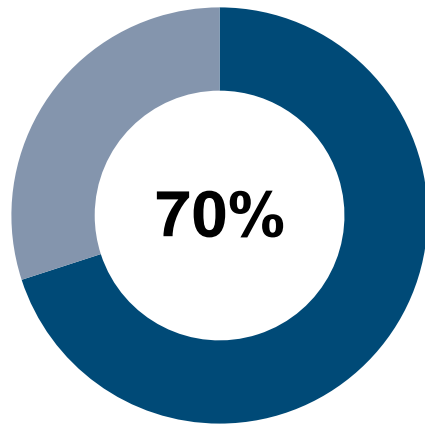


Source: PIMCO

Increase client retention

Limit attrition

More than 70% of heirs likely to fire or change financial advisors after inheriting wealth¹



Financial planning services	All advisors ²
Retirement income planning	88%
Retirement accumulation planning	85%
Education funding	65%
Insurance (e.g. life, health, disability)	64%
Cash management or budgeting	55%
Intergenerational planning	42%

KEY TAKEAWAY

- Only 42% of advisor practices offer intergenerational planning
- Advisors can limit attrition when assets change hands by building connections early

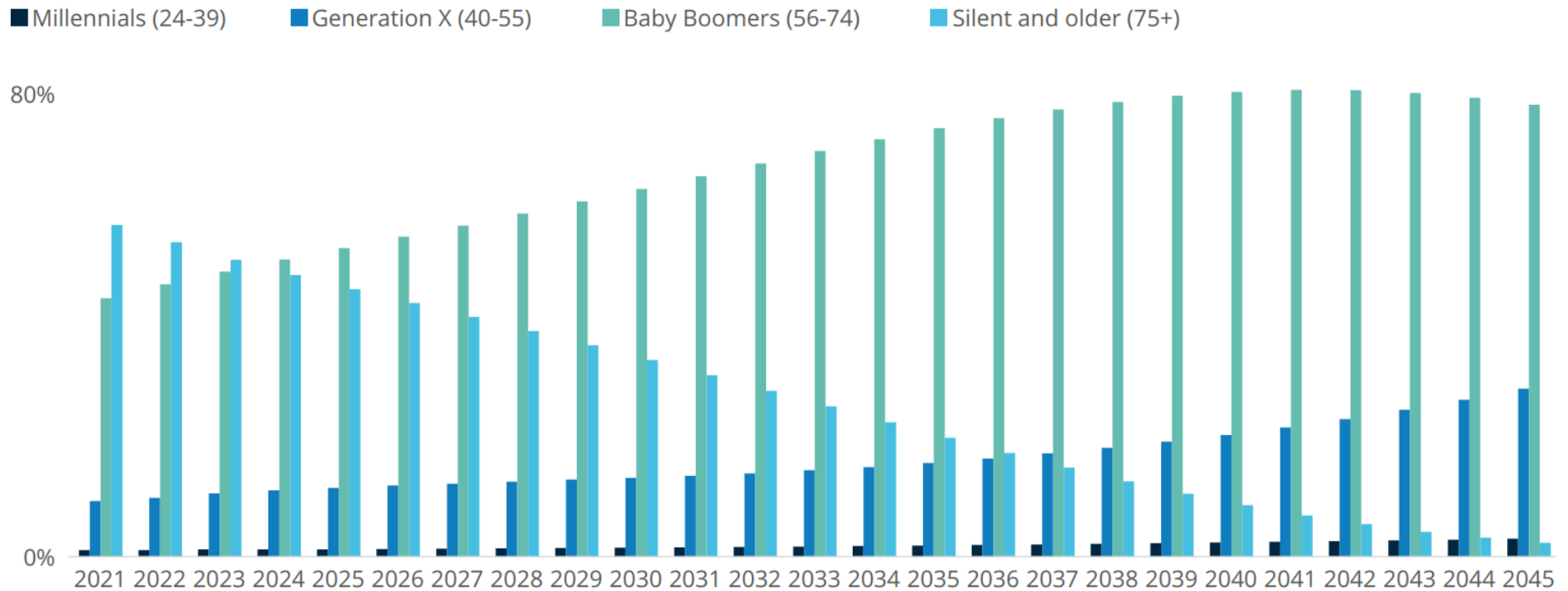
Source: 1 Cerulli "U.S. High-Net-Worth Marketplace: Shifting Wealth Dynamics and Service Models" 2Q2022; 2 Cerulli Edge U.S. Advisor Edition 2Q2022

Opportunity to capture new assets

The “great transfer of wealth”

- More than \$53 trillion will transfer from Baby Boomer households in the next 25 years (63% of all wealth transfers)
- Baby Boomer households will pass on more than \$3 trillion annually to heirs and charities by late 2030s

Annual percent of wealth transfer by source generation, 2021-2045



Source: Cerulli Edge U.S. Advisor Edition 2Q2022

Differentiation through a valued service

Business planning: Expanding the opportunity set

Q: What have clients been demanding more of in the past year?¹



27%

**EDUCATING FAMILY MEMBERS
ABOUT INVESTING**

ADVISORS NEED TO BRING CLIENTS' KIDS INTO THE CONVERSATION²

35%

Advisors who say they proactively bring up discussing money conversations with clients' children

71%

Investors who say they have never discussed the topic of education family members/children with their financial advisor

Source: 1 Natixis 2020 Global Survey of Financial Professionals; 2 "The War on Stress: A look at what's keeping financial advisors and investors up at night and what they're doing about it" Financial Planning Association, Investopedia, Janus Henderson 2019



The challenge for wealthy families

The challenge for wealthy families

Wealthy families and top 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 family wealth/business after they are gone
- Will not reach a level of financial maturity to handle family inheritance until age 35 years old

The challenge for wealthy families

Desirable and undesirable characteristics

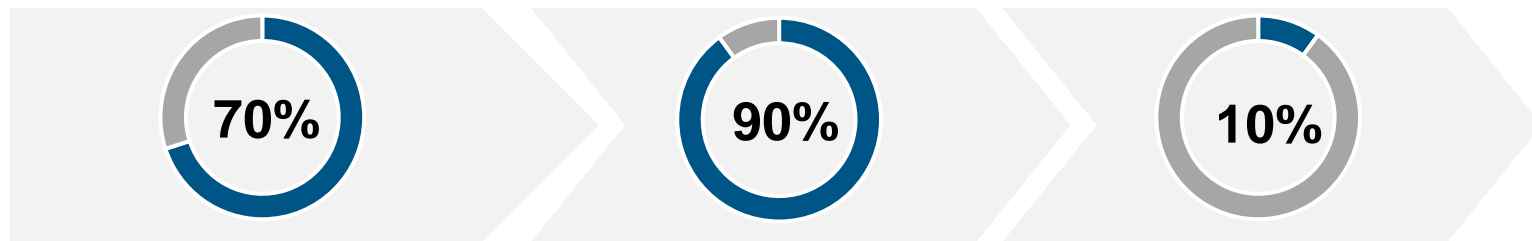
Negative characteristic	Positive characteristic
Entitled	Appreciative
Materialistic	Self secure
Enabled	Independent
Unmotivated	Productive
Arrogant	Modest
Insecure	Confident
Self-indulgent	Socially aware
Stingy	Charitable

The challenge for wealthy families

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



Second generation

- Percentage of wealth lost by second generation

Third generation

- Percentage of wealth lost by third generation

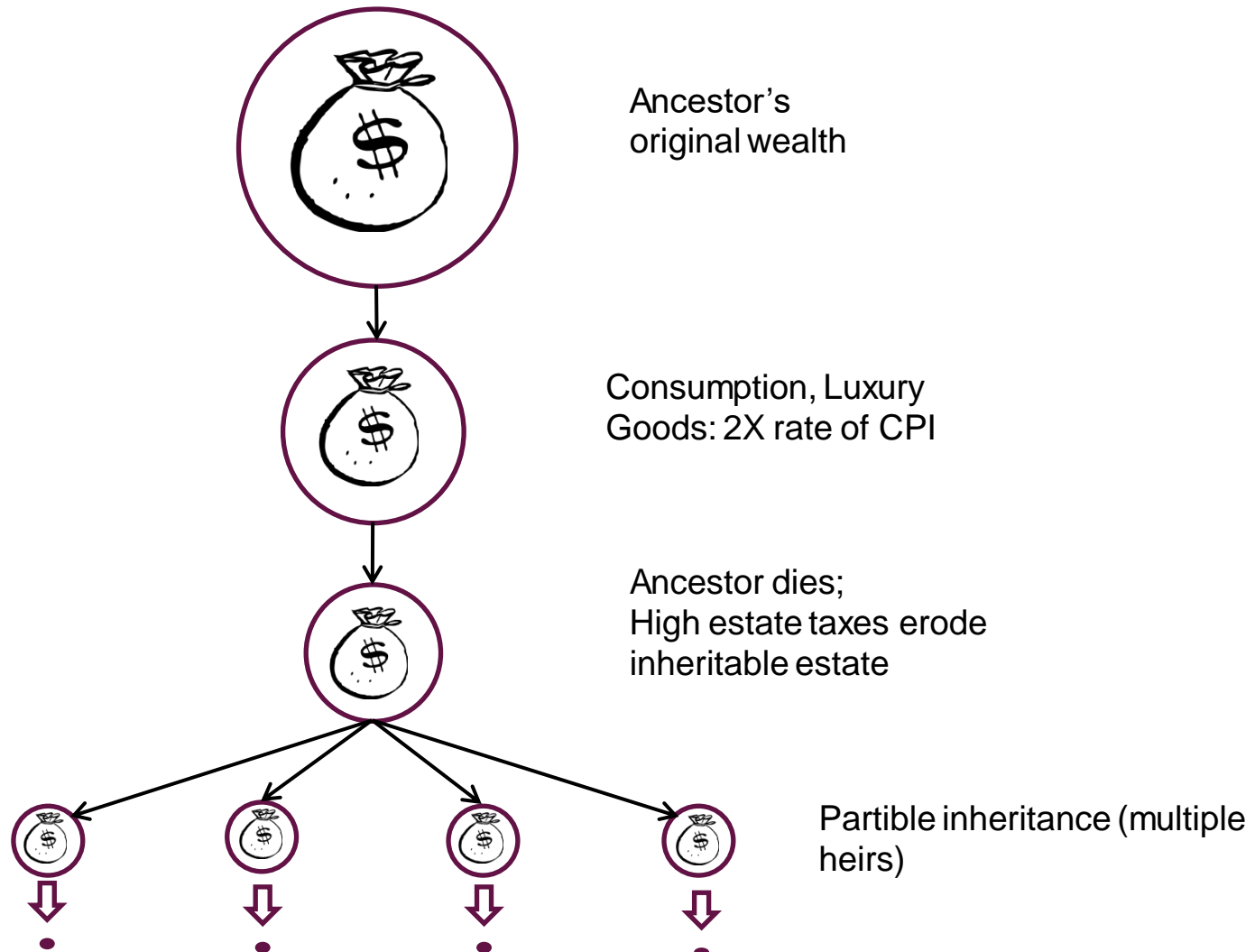
Third generation+

- Percentage of families able to maintain third generation longevity

Source: Nasdaq.com; *Generational Wealth: Why do 70% of Families Lose Their Wealth in the 2nd Generation* Oct. 19, 2018.

The challenge for wealthy families

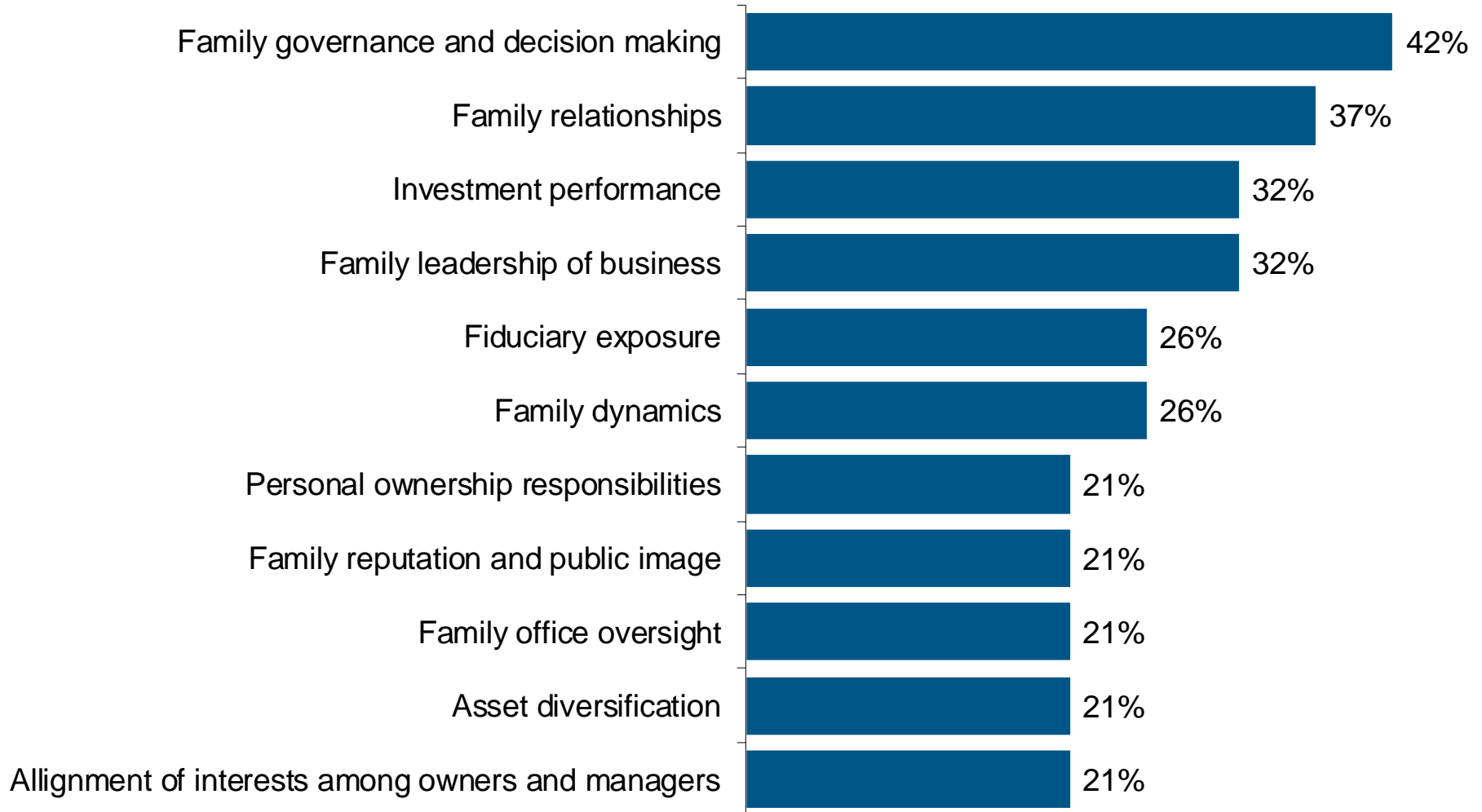
The natural destruction of wealth



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

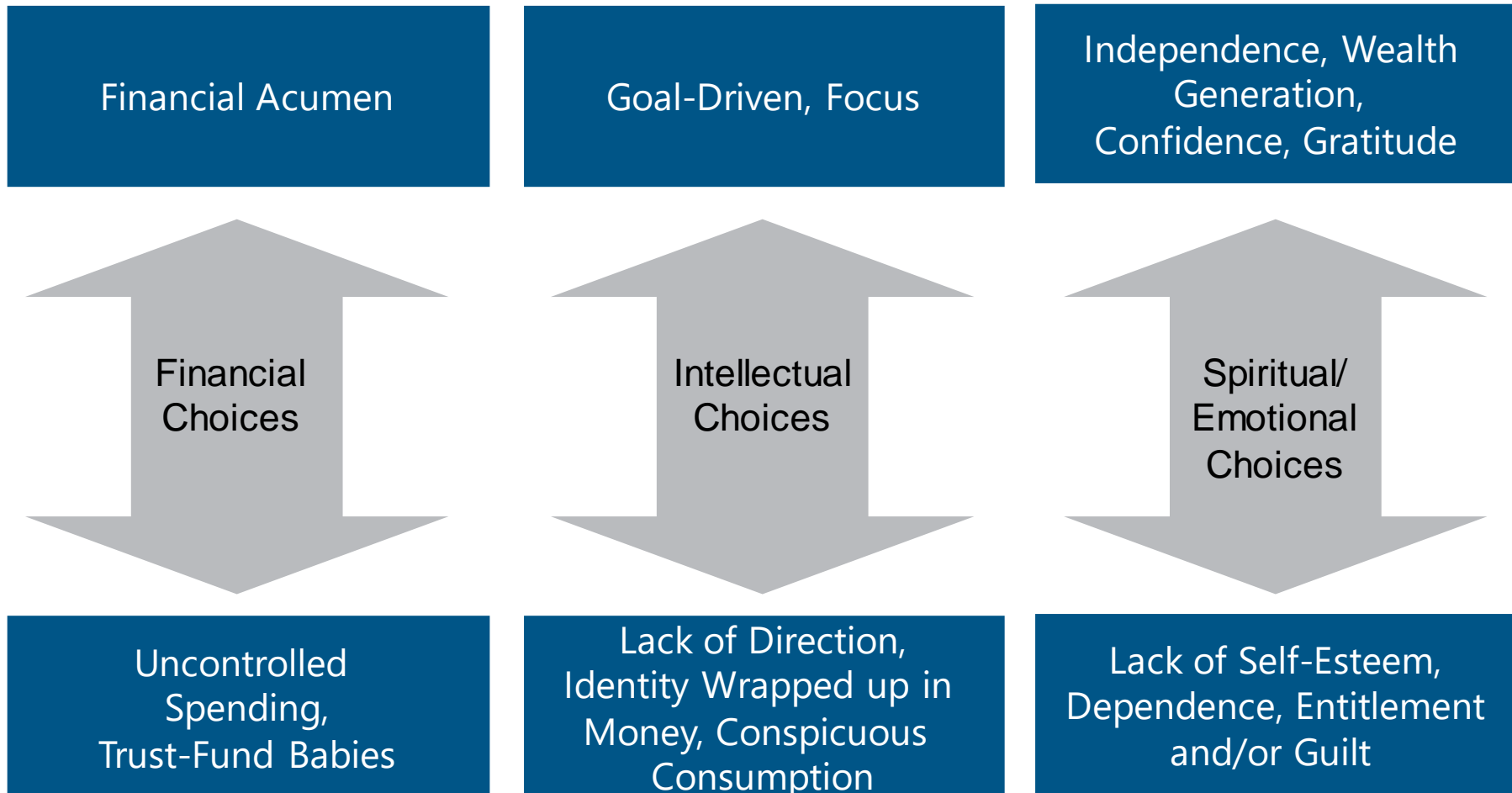
Risks that threaten family longevity



Source: Cerulli Associates, High-Net-Worth and Ultra-High-Net-Worth Markets, 2018.

The challenge for wealthy families

Helping children to make good choices



Source: PIMCO

The challenge for wealthy families

Need for better communication

TOP REASONS INVESTORS DON'T SHARE ESTATE PLANNING AND FINANCIAL INFORMATION WITH RELATIVES



33% I don't think it's any of their business

32% I have shared some info but don't feel it's necessary to be completely transparent

18% I don't want to deal with any conflicts that might result

16% I don't want their input

Source: Ameriprise Money & Family study 2022

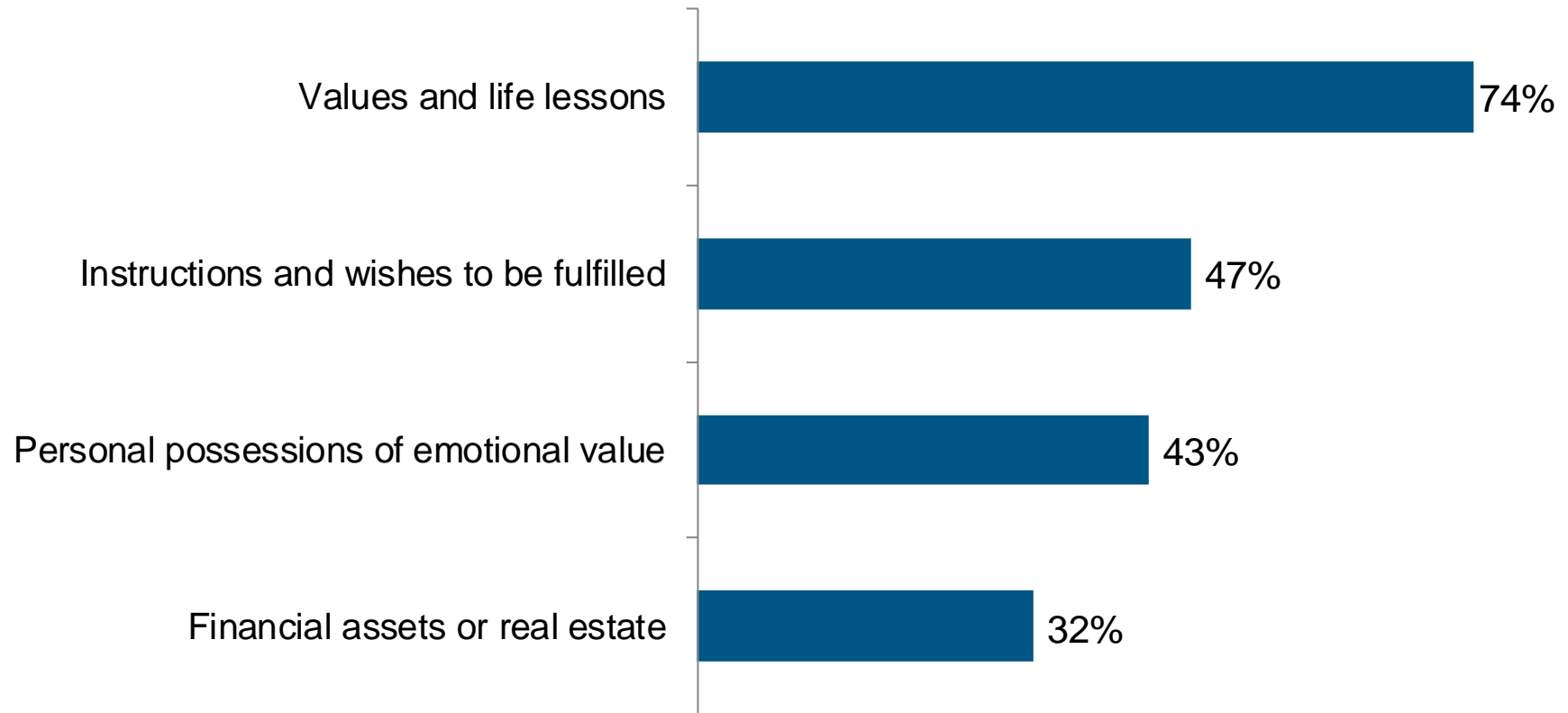


Best practices of successful families

Identify values and characteristics to pass on to children

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" 2013

Identify values and characteristics to pass on to children

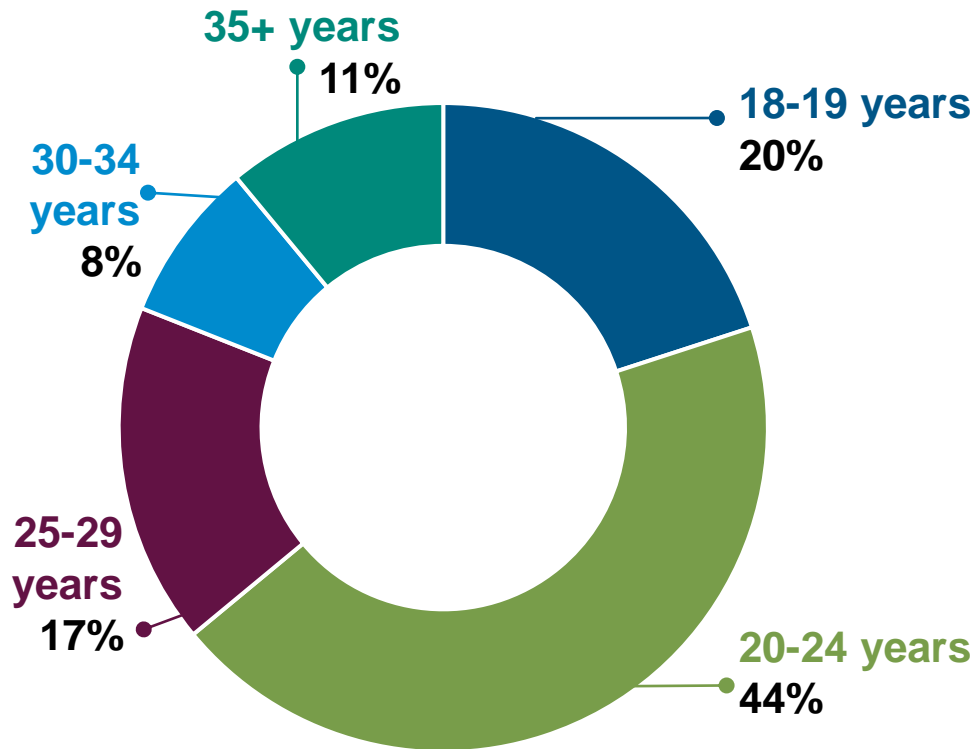
Desirable attitudes toward children and personal wealth

- 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

☑ Establish and communicate expectations and responsibilities

Family priorities – financial support for adult children

AGE OF ADULT CHILDREN RECEIVING FINANCIAL SUPPORT FROM PARENTS



Which of these would you be willing to do to support your adult child(ren)?

Live a more frugal lifestyle	34%
Pull money from my savings or retirement account	25%
Retire later	22%
Take on debt	17%
Come out of retirement	9%
Refinance my home	7%
I'm not willing to do any of these to support adult children	5%
Other	2%

Source: Savings.com April 19, 2022

Establish and communicate expectations and responsibilities

Example



Key Lessons:

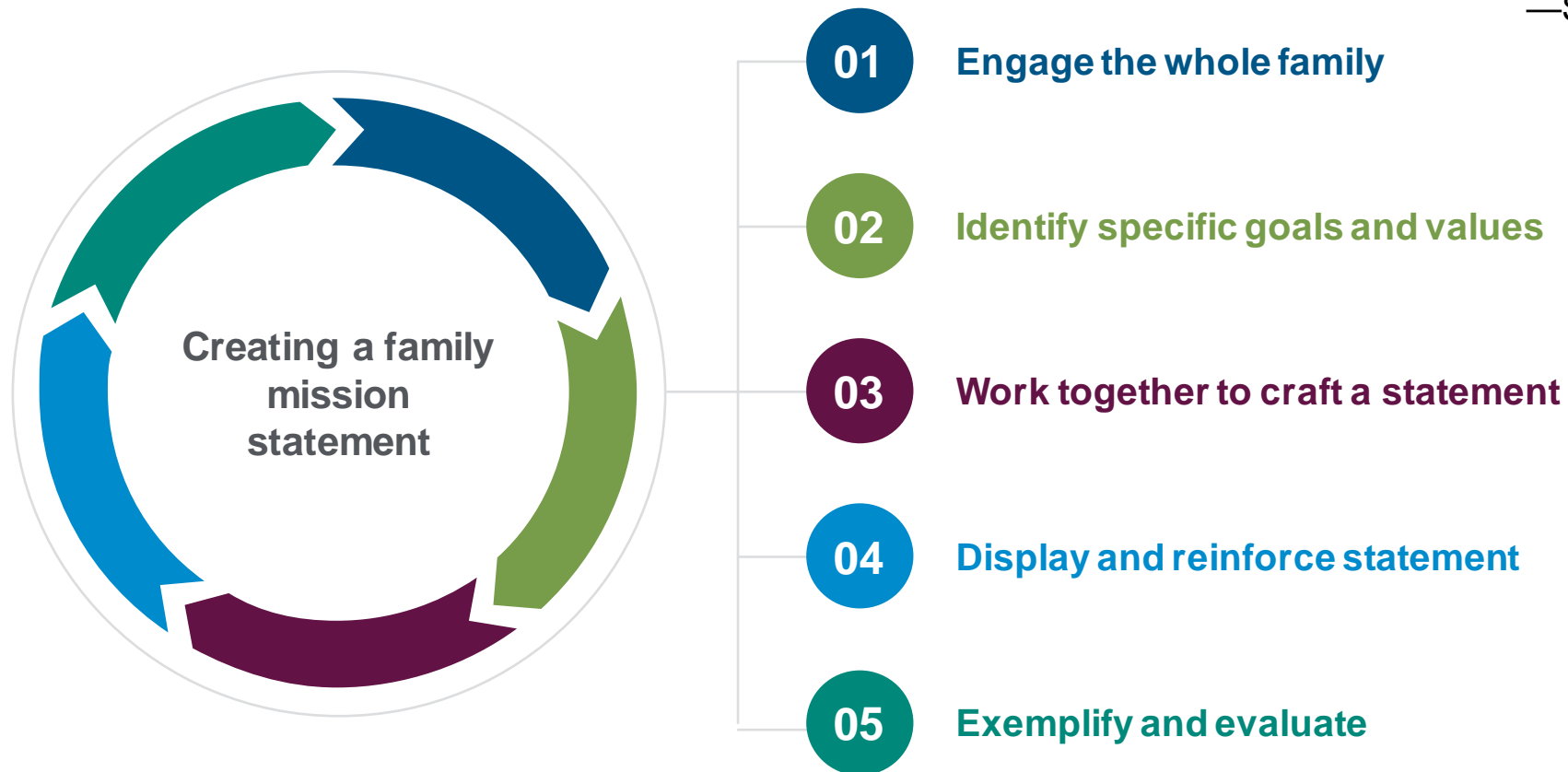
1. How to hear “no”
2. Wants vs. needs
3. Trade-offs
4. Delayed gratification
5. Common sense

☑ Write a family mission statement to identify values

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



Write a family mission statement

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?

Write a family mission statement

Samples

OUR MISSION

as a **FAMILY** is to:

Be a family that loves each other and contributes positively to our community.

We commit to support each other and work together as a team. We resolve to be caring, helpful encouraging, loving, loyal, dedicated and to enjoy each other.

FAMILY MISSION

Live, Love, Learn

Always **Love** each other

Choose **Happiness**

Continually **Learn**

Seek new **Adventures**

Act with **Kindness**

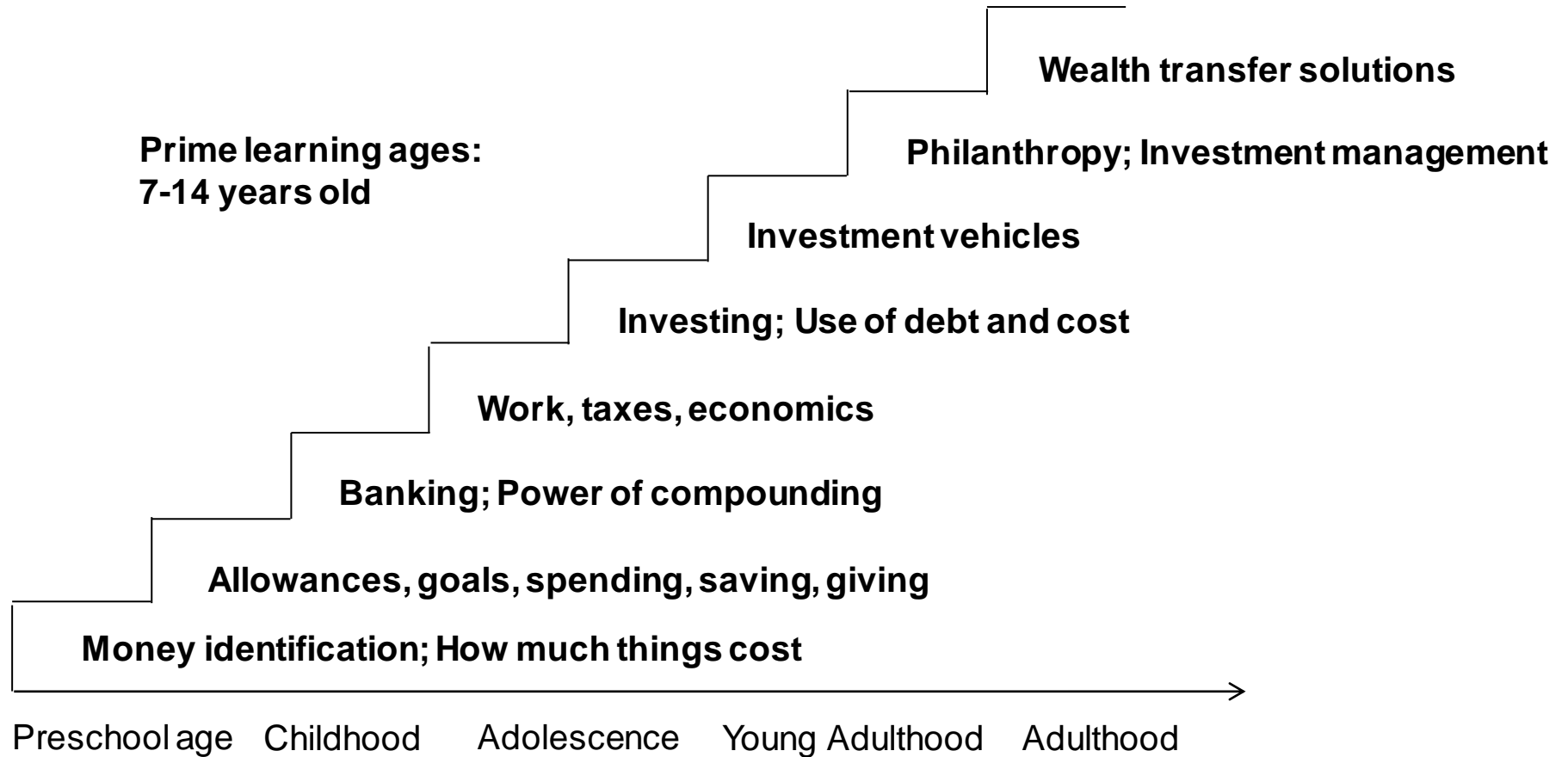
Nurture **Friendships**

Be **Respectful**

Lead with **Gratitude**

☑ Develop a family education curriculum

Educational curriculum by age

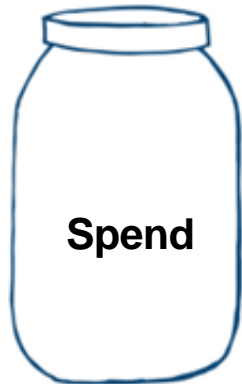


☑ Instill basic budgeting

Establish allowance guidelines

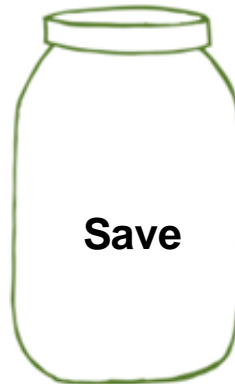
SPEND

**Allow children to make
own mistakes**



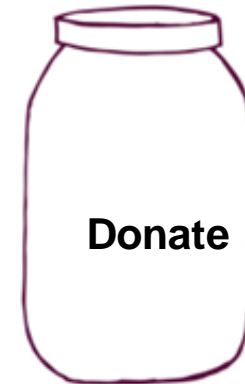
SAVE

**Identify goals and
incentivize with a
match**



DONATE

Create giving policy



Instill basic budgeting

Engage children in planning a 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

Lessons learned

- Effort required
- Cost involved
- Budgeting choices

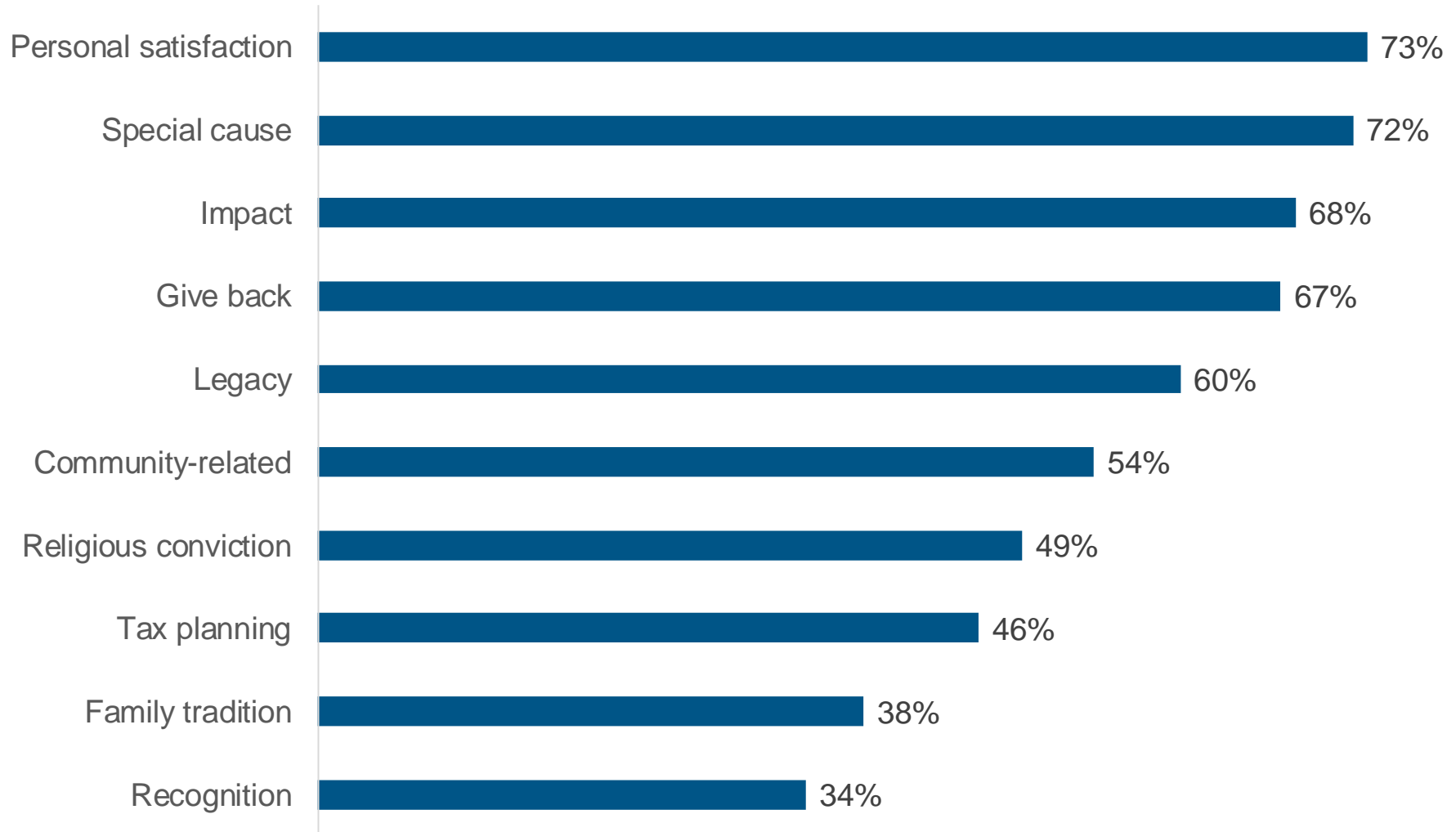
☑ Discuss family philanthropy

Discovery questions

- How do you decide how much to give each year?
- What do you currently donate (cash, property, etc.)?
- Do you typically itemize your deductions or do you claim the standard deduction?
- How important is a charitable legacy to you and/or your family?
- Are there any social causes that are particularly important to you or your family?
- What inspires you to give? How do you see this evolving in the coming years?
- How do you decide which charities to support? To big organizations or small?
- How “involved” would you consider yourself to be in charities you donate to?
- How have your children been involved in your charitable giving efforts or decisions?
- How do you feel after making donations?
- Do you feel satisfied or are there any frustrations with the giving process?
- Do you donate throughout the year or do you wait to give at the end of the year?

Discuss family philanthropy

Motivations for giving



Source: BNY Mellon Charitable Giving Study March 2022

Discuss family philanthropy

Charitable structures

Least complex



Direct gifts

- Cash
- Personal property
- Life insurance
- Real estate
- Qualified charitable distribution (QCD)



Philanthropic structures

- Donor advised funds (DAF)
- Community foundations
- Supporting organizations



Split interest vehicles

- Charitable remainder trusts (CRT)
- Charitable lead trusts (CLT)
- Pooled income funds

Most complex



Private foundations

- Private family foundations
- Private operating foundations

☑ Hold a family meeting

Family meetings - keys to success

- Solicit **input** from the entire family when setting the family meeting agenda
- Include both **educational and bonding** experiences
- 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**: retreat, office, virtual, holiday event
- Consider taking **notes** on the meeting and circulate to family members
- Develop an **action plan** and timeline including individual responsibilities
- Close the meeting with a **positive tone**
- Commit to **regular meetings** (e.g. monthly, quarterly, annually, etc.)

Hold a family meeting

Key objectives

Purpose

Goals for the family wealth

Process

How the assets will be managed

Plan

How the assets will be transitioned

Role of the advisor

- Facilitator
- Family ally
- Voice of objectivity
- Educator

Avoid

- Mediator
- Family member
- Psychologist
- Decision maker

Hold a family meeting

Sample agenda

The Sample Family

FAMILY MEETING AGENDA

October 19
9:00 a.m.-5:00 p.m.
Sedona, AZ

- I. Welcome
 - a. Purpose of meeting
 - b. Ground rules: what meeting is about/not about
- II. Restatement of family values
- III. Update on recent family development
- IV. Learning opportunity
 - a. Taxes
 - b. Philanthropy
- V. Family bonding experience
- VI. Commitment to action and next steps

Hold a family meeting

Sample 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.

Hold a family meeting

Developmental activities

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

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



Next steps for advisors and clients

Introducing family wealth education

Path to success



Educate yourself as the advisor



Introduce family wealth education concept with clients



Identify target clients through discovery



Educate the parents to gain commitment



Develop and implement program

Introducing family wealth education

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

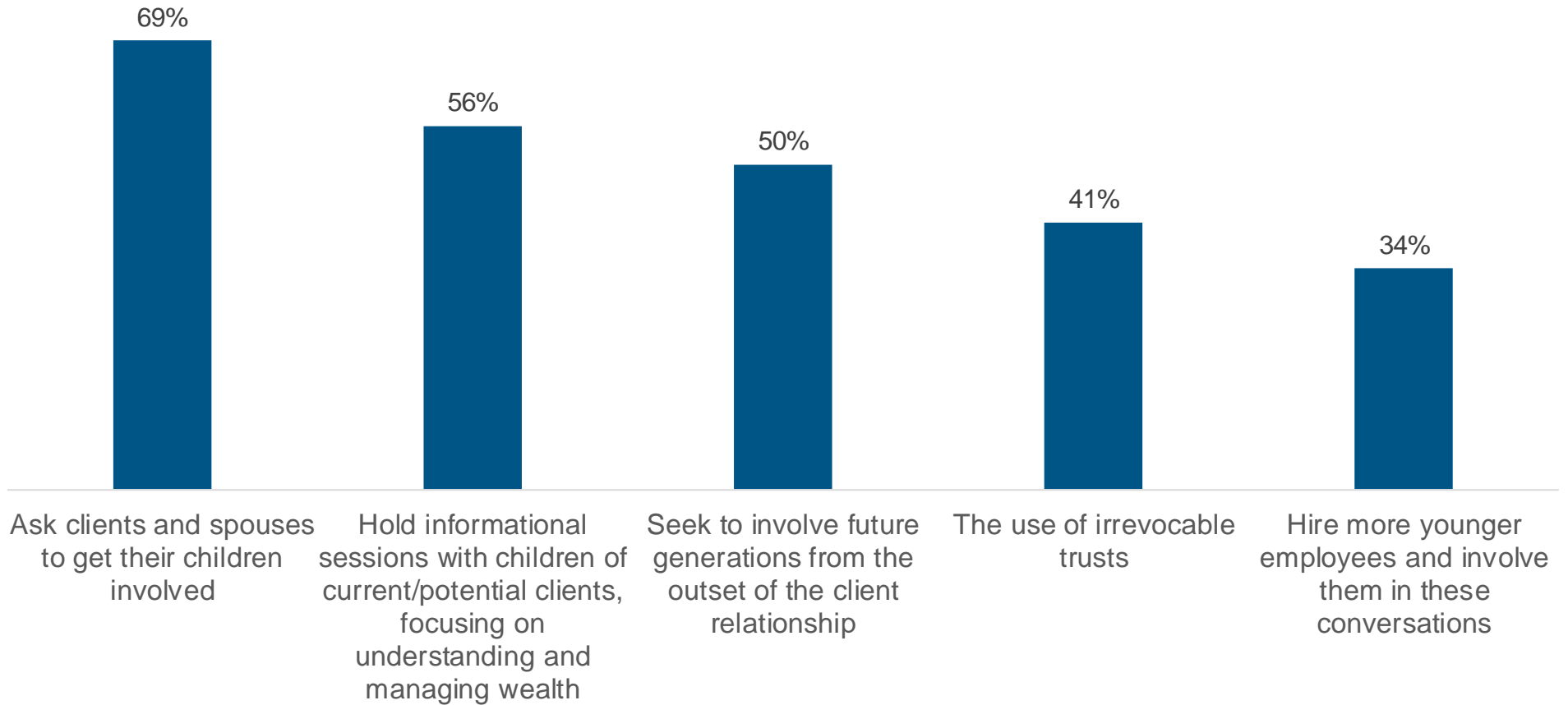
Surprising initial responses from clients

- “I don’t have the time or the experience. I’m hoping that my children will acquire this knowledge through others.”
- “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 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.”

How would you respond to these objections?

Introducing family wealth education

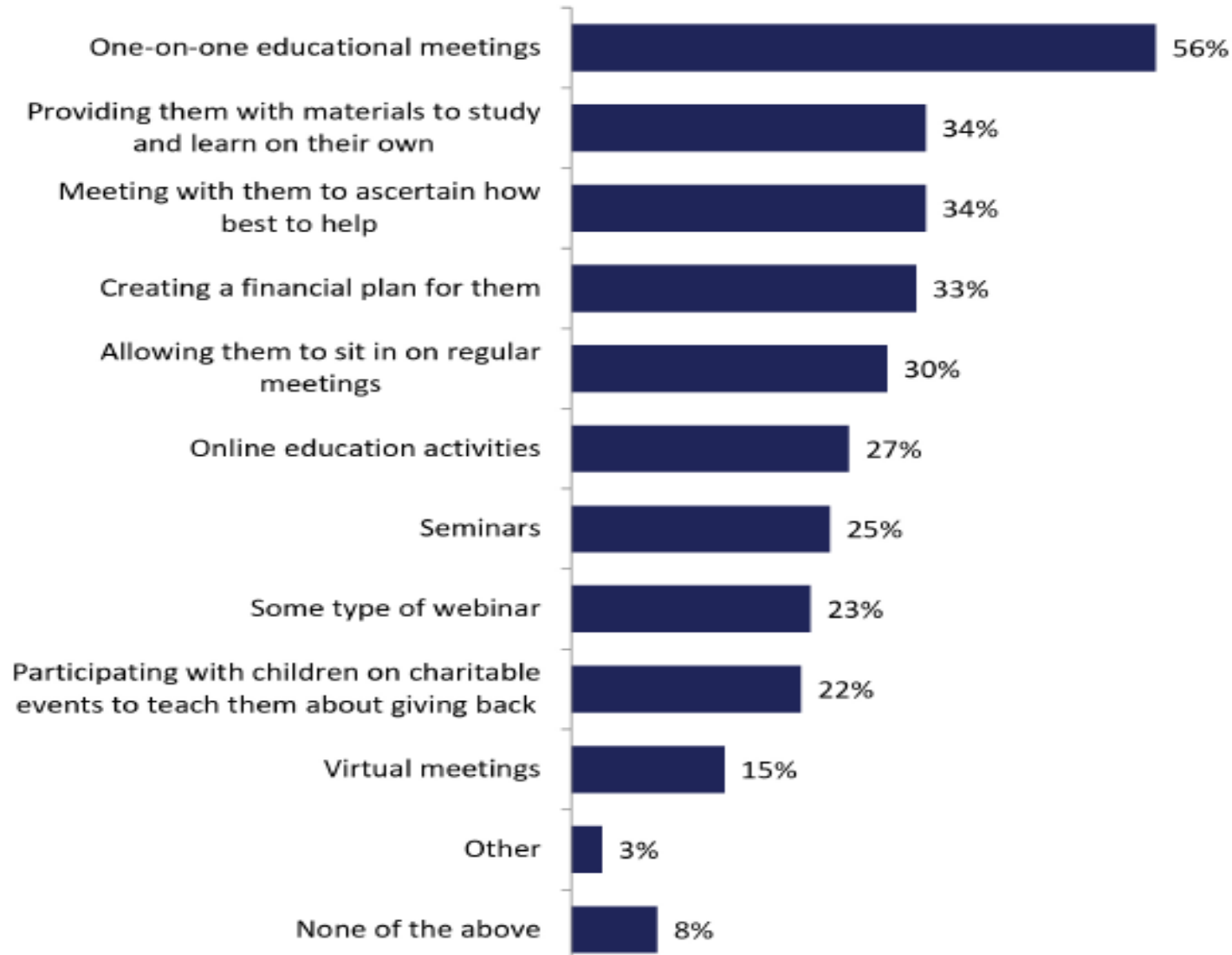
Top 5 strategies to strengthen relationships with clients' children



Source: Cerulli Edge U.S. Advisor Edition 2Q 2022

Introducing family wealth education

Best methods for educating children/grandchildren on financial situation



Source: Spectrem Group, High Net Worth Insights Journal (March 2022)



Resources and appendix

Resources

- *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

Defining wealth more broadly



Human

Calling

- Family members' talents, passions



Intellectual

Governance

- Knowledge & capacity to learn
- Communication, managing family conflict



Social

Care

- Civic engagement, community connection
- Extending care beyond your own family



Financial

Property

- Assets: stocks, bonds, real estate
- Purpose: tool to express other dimensions of life that create sustainable success

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

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

Source: PIMCO

Appendix

PIMCO does not provide legal or tax advice. Please consult your tax and/or legal counsel for specific tax or legal questions and concerns. The discussion herein is general in nature and is provided for informational purposes only. There is no guarantee as to its accuracy or completeness. Any tax statements contained herein are not intended or written to be used, and cannot be relied upon or used for the purpose of avoiding penalties imposed by the Internal Revenue Service or state and local tax authorities. Individuals should consult their own legal and tax counsel as to matters discussed herein and before entering into any estate planning, trust, investment, retirement, or insurance arrangement.

The information contained herein is current only as of the date set forth in the presentation and neither PIMCO nor its consultants has any obligation to update such information. **This presentation is for general and informational purposes only.** No PIMCO representative is providing any tax, legal, financial planning, insurance or investment advice to you as part of this presentation and no recommendation of any particular security, investment or tax strategy or product is being made. Any such advice or recommendation must be received from appropriate tax, legal or financial advisors, wholly independent of this presentation. This material has been prepared without taking into account the objectives, financial situation or needs of any specific investors. The information is summary in nature and is not intended to be all inclusive.

PIMCO as a general matter provides services to qualified institutions, financial intermediaries and institutional investors. Individual investors should contact their own financial professional to determine the most appropriate investment options for their financial situation. This material contains the current opinions of the manager and such opinions are subject to change without notice. This material has been distributed for informational purposes only and should not be considered as investment advice or a recommendation of any particular security, strategy or investment product. Information contained herein has been obtained from sources believed to be reliable, but not guaranteed. No part of this material may be reproduced in any form, or referred to in any other publication, without express written permission. PIMCO is a trademark of Allianz Asset Management of America LLC. in the United States and throughout the world. ©2024, PIMCO.

These materials are being provided on the express basis that they and any related communications (whether written or oral) will not cause Pacific Investment Management Company LLC (or any affiliate) (collectively, "PIMCO") to become an investment advice fiduciary under ERISA or the Internal Revenue Code, as the recipients are fully aware that PIMCO (i) is not undertaking to provide impartial investment advice, make a recommendation regarding the acquisition, holding or disposal of an investment, act as an impartial adviser, or give advice in a fiduciary capacity, and (ii) has a financial interest in the offering and sale of one or more products and services, which may depend on a number of factors relating to PIMCO (and its affiliates) internal business objectives, and which has been disclosed to the recipient. These materials are also being provided on PIMCO's understanding that the recipients they are directed to are all financially sophisticated, capable of evaluating investment risks independently, both in general and with regard to particular transactions and investment strategies. If this is not the case, we ask that you inform us immediately. You should consult your own separate advisors before making any investment decisions.

These materials are also being provided on the express basis that they and any related communications will not cause PIMCO (or any affiliate) to become an investment advice fiduciary under ERISA or the Internal Revenue Code with respect to any recipient or any employee benefit plan or IRA because: (i) the recipients are all independent of PIMCO and its affiliates, and (ii) upon review of all relevant facts and circumstances, the recipients have concluded that they have no financial interest, ownership interest, or other relationship, agreement or understanding with PIMCO or any affiliate that would limit any fiduciary responsibility that any recipient may have with respect to any Plan on behalf of which this information may be utilized. If this is not the case, or if there is any relationship with any recipient of which you are aware that would call into question the recipient's ability to independently fulfill its responsibilities to any such Plan, we ask that you let us know immediately.

The information provided herein is intended to be used solely by the recipient in considering the products or services described herein and may not be used for any other reason, personal or otherwise.

CMR2024-0227-3415869