Rose, Snyder & Jacobs LLP
ACCOUNTANTS & ADVISORS

TOO MANY PLANS, NOT ENOUGH PLANNING:

Why Most Wealth Plans Fail to Preserve High Net Worth Across Multiple Generations

Tony A. Rose
Senior Partner
Rose, Snyder & Jacobs LLP
15821 Ventura Blvd., Suite 490
Encino, CA 91436
818.461.0600
www.rsjcpa.com

Table of Contents

INTRODUCTION

Wealth planning for families of high net worth often focuses heavily on investment decisions and milestone events, such as retirements and deaths. While these considerations are certainly important, they fail to address a fundamental need of families that want to create a financial legacy that will support current and future generations.

To maintain and grow the wealth accumulated in the current generation, families need to engage in an ongoing process of values-based wealth management focused on effective wealth transitions.

The development and maintenance of a family's financial values does not start with a review of a family's financial capital. Instead, high-net-worth families can do more to promote the growth of family wealth by focusing on four other types of capital.

These four other capitals are:

1. Human capital,
2. Intellectual capital,
3. Social capital, and
4. Structural capital.

Financial capital thrives as a result of rich human, intellectual, social, and structural capitals. If the first four capitals are ignored or devalued, the fifth capital—financial—will eventually and most certainly wither.

"Effective wealth management involves a more comprehensive approach within and across the generations to keep the family healthy as an institution"

THE OLD ADAGE:

Shirtsleeves to Shirtsleeves in Three Generations

Most wealth planning for high-net-worth families concentrates on tax-minimization as a means to preserve and transfer wealth from one generation to the next through an estate plan. To be certain, a tax-considerate estate plan is a critical piece of a family's wealth management strategy. But if this were the sole means of transferring wealth, why is so much generational wealth lost?

There exists no shortage of heirs who misuse, squander, or simply fail to protect generational wealth. Almost always, the original wealth-holders—and their advisors—place copious attention on the family's financial assets. This leaves the generations to come ill-prepared for wealth transfers, and it compromises the family's ability to maintain its collective wealth.

The multitude of cautionary tales about families who go from rags to riches, and then back to rags, proves that preparing family members to deal with a wealth transition is at least as important, if not more important than managing the family's financial assets.

Effective wealth management involves a more comprehensive approach applied within and across the generations to keep the family healthy as an institution. To grow wealth, families of high net worth need a team quarterbacked by an advisor who can help them transition wealth by overseeing the application and execution of strategies and tactics aimed at protecting all five of the core capitals. This "quarterback" can be an accountant, attorney, or other enlightened advisor.

A five-capital approach is the most effective strategy for managing wealth.

HUMAN CAPITAL

Arguably the most important of all the capitals is a family's human capital, which includes:

1) A family's values, motivators, and priorities, defined both as individuals within a family and as a collective.

The preservation and management of wealth begins with a clearly defined set of values that are shared throughout a family. Defining a family's set of values relative to wealth accumulation, protection, and distribution creates an atmosphere of unified effort towards a common goal.

2) The intelligences of your family members.

All people have multiple intelligences, a concept that was best considered by Harvard psychologist Howard Gardner in his book Multiple Intelligences. One family member could be intelligent in her capacity to think in musical notes, hear patterns, and manipulate them. She might also have the ability to solve physical problems but lack the ability to understand other people, resulting in less-than-strong verbal skills. Her cousin, on the other hand, might be articulate and highly aware of other people's feelings, strengths, weaknesses, and abilities, all the while lacking in spatial-relations skills.

All of these intelligences are needed within a family.

Identifying these intelligences helps a family access and allocate the right human resources in the right setting at the right time. More importantly, identifying each person's specific intelligences provides a means of showing every family member that he or she is recognized and appreciated as unique

Recognizing that all family members have unique values and intelligences is an important part of honoring and strengthening the bonds within a family. In turn, the more intimate the web of relationships amongst the members of a family, the more likely a family (qua an institution) can access a member's resources when the need arises.

The process of identifying a family's human capital begins by asking four questions:

1. What are the five central values that have characterized your family's past successes?
2. What values—spoken and unspoken—have shaped the family's relationships, both internally and externally?
3. Can you identify those values that enrich the relationships within your family?
4. What aspirational values do the leaders of the family believe each member should strive for so as to sustain the family over time?

Core values, once identified, become the thematic background for a family's future decision-making, both financially and non-financially.

SOCIAL CAPITAL

Social capital comes from building relationships with family members, friends, employees, advisors, and the community. These can be seen in terms of participation in charitable organizations and charitable giving. Moreover, a family's set of relationships with non-family members can lead to greater family financial security. Positive relationships and the reputation they support can be accessed to enhance the growth, protection, and distribution of a family's wealth.

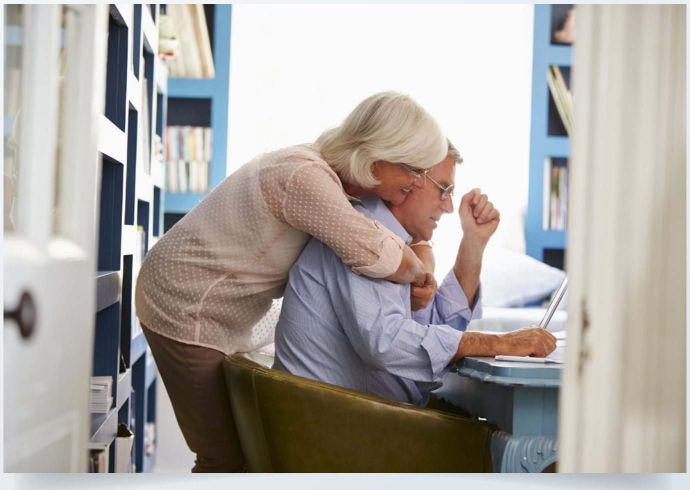
Social capital is a part of a family's brand, and it is a major variable in how a family's legacy will be defined. Social capital is strong when a family reliably and consistently acts in accordance with shared values (human capital). It deteriorates when and if values are violated or never established.

Families should identify—or establish—social capital by considering the answers to these questions:

- Who serves your family?
- Who does your family serve?
- Who does your family know?
- Do you feel that those within your sphere of acquaintance would attribute the same values to your family that your family would attribute to itself?

INTELLECTUAL CAPITAL

Intellectual capital includes the expertise, skills, and trade secrets of a family's original wealth-creator. It also includes the knowledge held by all the members of a family.



A dual opportunity is presented when a family members' intellectual capital is pinpointed and recorded across the family. Family members can: 1) More easily leverage each other's knowledge base; and 2) Create a plan for augmenting and transferring knowledge to protect the wealth.

Recognizing the uniqueness of each family member's intellectual capital honors each person, demonstrating that they are all valued, appreciated, and seen. It also helps a family institution identify who should be hired into the wealth management team. The family as a whole benefits from an honest, introspective look at what intellectual resources are available within the group and what resources need to be hired from outside.

STRUCTURAL CAPITAL

Simply put, structural capital is how the family goes about taking action. Successful families, especially those that have acquired and retained their wealth over a long period of time, have structures that promote building and sustaining that wealth. These can include structures for communication with each other, structures for solving problems internally, and structures for responding to external threats.

High-net-worth families that fail to recognize the value of a results-generating structure face added risk in that other capitals will not be protected and maintained. Many families approach their challenges in a manner that generates less-than-maximum results. This is a flaw in structural capital.

A family can enrich its structural capital (and therefore its financial capital) by acknowledging and documenting the processes and procedures that produce positive results. These structures create reliable and repeatable outcomes.

Taking the time to identify how positive results happen expands the breadth of value a family can promote. The structures by which a family deals with its members (human capital), nurtures its relationships (social capital), and uses its knowledge (intellectual capital) all help to promote a bright future for that family. Questions to consider include:

- Does your family have a process for documenting its goals, sharing its successes, and transferring its members' knowledge?
- Is human capital honored through your family's processes and actions?
- Is social capital being protected and leveraged?
- Do your family members share with each other the skills and the knowledge they possess?
- Do the leaders and future leaders of your family understand the structure of their family?
- Does the family have a system in place for bringing all the family members to the table at regular intervals?

Structural capital is the glue that holds all of the other capitals together. It recognizes that all of the capitals rely on one another, and that financial capital thrives when human capital, social capital, and intellectual capital are integrated, webbed, and linked together via a strong structure.

FINANCIAL CAPITAL

Financial capital is the result of the how, who, what and why of planning.

Wealth management places a high degree of importance on the issues of tax and financial planning. Yet the typical family wealth management process falls short because it focuses only on protecting assets from external variables like taxes and rates of return. An effective comprehensive family wealth management plan focuses on both the internal and external variables that can affect a family's wealth throughout the generations.

Enlightened families know that financial capital is the byproduct of human, social, intellectual, and structural capital. A family's ability to protect and grow its financial capital is a barometer for measuring how effective they and their predecessors have been.

Rose, Snyder & Jacobs LLP
ACCOUNTANTS & ADVISORS

and the Value-Based Wealth Transition Model

Our perspective is controversial.

At Rose, Snyder & Jacobs LLP, we believe the management of your money should only be one facet of the wealth-planning process. Much, much more important than preparing your estate to earn a consistent rate of return, or shifting assets to minimize taxes and capitalize on loopholes, ***is preparing your family to make and endure wealth transitions.***

We distinguish ourselves from our competitors by understanding and supporting the roles that the other four capitals play in creating a family wealth plan that continues and augments the success of the current generation for many generations to come.

If you're looking for an advisor to help you translate your values into a multi-generational wealth plan designed to preserve and grow your financial legacy for lifetimes to come, please contact Tony Rose at Rose, Snyder & Jacobs LLP.

E-mail: trose@rsjcpa.com

Phone: +1-818-461-0600