

## LEGACY PLANNING: IT'S NOT ABOUT THE MONEY

*What Does Family Wealth Really Mean?*

### **The Wealth Strategies Group**

at Atlantic Trust integrates estate, financial and investment planning through sophisticated assessment of goals with the objective of multigenerational capital preservation, family business continuity and strategic philanthropic objectives.

Edmund Burke, the British writer, said that “Society is indeed a contract. It becomes a partnership not only between those who are living, but between those who are living, those who are dead, and those who are to be born.” The same could be said of the partnership between generations in a family. And nowhere is this compact more full of life—and love—than in the process of family legacy planning.

Family legacy planning is an opportunity to define, reflect on and express what wealth really means to the family. For most families, it means identifying the core values that make the family who it is. For some, it is an opportunity to groom the family’s future leaders. If done well, for all families, it may be what makes estate planning’s legal and tax provisions understandable and meaningful.

Affluent families certainly face complexity, not the least of which is how to preserve and manage tangible wealth in a complex and uncertain world. They also face concerns about the meaning of wealth, often expressed in several specific ways:

- “We want to pass wealth to our children in a way that ensures their well-being.”
- “We want to tell and preserve the story of how our family wealth was built and the importance of the family’s history.”
- “We want to create both a philanthropic philosophy and a vehicle to carry forth the values we hope our children and grandchildren share.”
- “We want to structure a plan that will allow future generations to make their own imprint on the wealth we’ve created.”

These concerns underpin, and often drive, the desire for a legacy plan. According to best practices recommended by the Family Office Exchange, wealth owners have the responsibility of family legacy and leadership with the goals of developing:

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- Strategies to preserve and perpetuate the family legacy
- Clear roles and responsibilities for owners
- Development of family leaders
- Management of change in the family and industry
- Alignment of advisor or family office values with family values

As part of broader wealth management, planning for, developing and protecting the family legacy can be thought of as what sociologist Elise Boulding called “the 200-year present moment.” The present, she said, is a continuously moving moment, always reaching 100 years in either direction. When you begin thinking about your legacy planning as a “200-year moment”—in simple terms, think of it at the moment as stretching from your grandparents to your grandchildren being born today—it will help you incorporate what shaped you, give you a broader perspective on family and wealth, and put you and your family in closer touch with the family’s values and priorities.

### A Mission of Preservation

Families energized about legacy planning should keep in mind the Old French, late 14th-century origin of “legacy,” derived from “legacie,” meaning the “legate’s office”: a body of persons sent on a mission. Legacy is truly the path forward for the mission of preserving a family and all its nuanced definitions of wealth.

### Defining Family Wealth

Although legacy planning goes “beyond the numbers,” it must be based on the foundation of the first-generation wealth owners’ financial security. Yes, putting yourself first is important, at least in this case. Legacy planning involves developing ways to pass down the tangibles infused with the individual’s and the family’s intangibles. However, the strategies shouldn’t put your own financial security at risk. Once that’s been addressed, the most important goal for legacy planning is wealth transition with expressed intent and meaning.

Family wealth should be looked at holistically. Once the strategy for asset protection is developed and tactics for moving wealth down to the generations in a tax-efficient manner have been implemented, the holistic examination of wealth includes addressing the “from the heart” issues. Each family has its own issues, including **defining what wealth means** to them. A broad definition of the family’s “assets” is essential to legacy planning: What does this family hold most dear? What are our core values and our core competencies? What are our promises about investing in each other?

After examining the family’s assets, a next step in the legacy planning process is to develop a family mission or vision statement that spells out shared values and describes how the family’s wealth should be used to support and further the family’s legacy. The **vision statement** can evolve over time, but it can certainly fulfill a primary objective that many first-generation wealth creators have when thinking about legacy: clarity and inspiration for the generations that will follow them. This goal is what makes legacy planning far more than just “blue sky” thinking or a purely introspective exercise that simply feels good. Legacy planning must include concrete outcomes, ranging from a family vision statement to a written family history to a letter to trustees, each of which gives more meaning to estate planning’s legal strate-

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## BRIDGING THE GAP OF LEGAL LANGUAGE

Consider the personal power of this language: “To my way of thinking, the best way to live your life is to do the best you can at whatever you are doing right now. Whether you are an investment banker or a poet is of less importance than what you give to it. If you are a great poet and you pursue life with a vigor that distinguishes you against all of your peers, you will find remarkable opportunities coming to you. It is more about being your best, being passionate and being someone who is distinctive in their pursuit of whatever it is at that moment, than having a master plan for the next twenty years.”<sup>1</sup>

gies. Most importantly, the thinking, talking and writing allow your wealth management advisor to better understand your heart when creating specific wealth strategies plans such as trusts and gifting strategies.

### Putting your voice into legacy planning

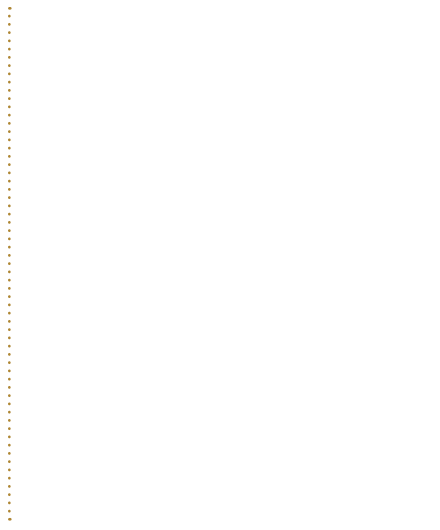
While vision is critical as a touchstone, legacy planning tools such as ethical wills, letters to trustees and the family story can bring the family’s vision to life.

**Ethical wills** – An ethical will is part family history, part love letter and part self-reflective exercise. Traditional wills involve what you want your loved ones to have; ethical wills involve what you want them to know. A non-binding document that should complement and mesh with the traditional estate planning documents, an ethical will is fundamentally optimistic and forward-looking, even though it implies a future without the writer. Beyond its benefit as an exercise in self-reflection, the ethical will can be used by parents or grandparents to open the door for a discussion on the other estate planning documents. Wills, trusts and philanthropic vehicles don’t exist in a vacuum. The ethical will can be the place to begin the conversation about why what is in the documents is in there.<sup>1</sup>

**Letters to trustees** – What does “appropriate in the trustee’s discretion” really mean in regards to a trust beneficiary’s health, education, maintenance and support? Is a post-college trip around the world considered education? Are legal fees for the beneficiary’s divorce considered “support”? How important is it for the trustee to understand the beneficiary’s pattern of decision-making, success—or failure—in relationships, dreams for his or her own life? Most important, how do family members bridge the gap between statements made in legal language in a trust document and the richness of perspective on their intent that only they can provide?

It can be difficult to really “get at” the feelings and thoughts of clients who set up a trust as part of legacy planning solely by the technical and legal language of a will. As people—and their wealth—evolve over the years, so does their thinking about what they want to express to the beneficiaries of trusts they set up. Writing a separate letter to trustees can help your voice on intent come through and can be highly valuable to trustees—the letter gives more perspective and guidance, going beyond the trustees’ skill and experience in using professional discretion. While a letter to trustees is not a binding legal document, it can be an extraordinarily meaningful piece of estate and legacy planning, bringing forth strong and deeply held feelings for the benefit of you, the beneficiary and the trustee.

**Family story** – Values, vision, a promise. Where you’ve come from and where you’re going. Pivotal choices that define you. Decisions you made that created your path. Celebrations, mysteries, inspirations. Marriages, babies, homes, businesses. These can all be a rich part of your family story. And they all require intimate, in-depth conversations that come from, and center on, the heart. Families who place a priority on what sustains and enriches them as a family—which has little to do with material wealth—will have intentional, purposeful conversations to begin developing and preserving their family story. But where to begin?



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First, start with the understanding that to have a conversation about your family story as part of what your family legacy will mean, both now and in the future, can result in the entire spectrum of emotions—from hope and longing to fear and regret, from a sense of accomplishment to a sense of disappointment. Your conversation may cover everything from reflections on where the wealth came from to the people, institutions, ideas, work, and experiences that have shaped the family, individually and collectively.

A professional facilitator or interviewer can conduct research, interviews and conversations that will ultimately yield your family story. At a minimum, the story developer can help you begin the process of thinking about your family story by guiding the family through three types of questions—the fun ones, probing ones and challenging ones. Here are some you could consider for you and your family:

#### **The fun questions:**

- How did you get that nickname?
- What was a perfect day for you when you were growing up?
- Do you have any favorite stories from your first job?
- Do you believe in love at first sight?

#### **The probing questions:**

- Who has been the biggest influence in your life – and what lessons did that person teach you?
- What are you most proud of your family for doing?
- Where will the family be in 20 years?
- Do you—the younger generation—understand the provisions we—the older generation—have made in our estate planning documents? Is there something you want to ask that you haven't?
- How do you—the younger generation—feel about the trustees we—the older generation—have selected?

#### **The challenging questions:**

- For each of us, what do we think really binds us together? And what do we most fear that could actually tear us apart?
- Do you feel we've all been responsible wealth owners? If not, why not?
- Can we all clearly articulate our family philosophy on wealth?
- Do we have a balance between family members who are wealth proprietors, stewards, risk-takers, risk-avoiders and consumers?

Your family legacy conversations should also include covering the “practical” ground—the things that older family members need younger ones to know to help the older ones as they age. This includes explaining the covenant relationship in a medical and financial power of attorney and specific wishes regarding end-of-life care.

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### Bringing together “philos” and “anthropos”: And bringing it into the family

“Philanthropy,” from the Greek words “philos” and “anthropos,” means “the love of humanity.” In modern, practical terms, it is defined as “private initiatives for public good, focusing on quality of life.” For many people, it is a highly rewarding philosophical focus that feels like a “call”—in part because the act and art of giving presents the opportunity for a family to explore and identify their passions for improving humankind. For a multigenerational family, philanthropy can be a cornerstone of legacy: “For many families, their philanthropic activities are the most important source of their identity, unity and personal reward. In responding to the question ‘What makes your family different from others?’ the philanthropic side of family life frequently comes first in a description of what makes a larger family both unique and special.... Philanthropy is as much about who a family is, as what that family does.”<sup>2</sup>

According to Foundation Center, there are more than 38,700 grant-making family foundations. Although their assets are sizeable—in 2009, family foundations controlled more than \$247 billion in assets—most foundations are small, with 64% reporting less than \$1 million in assets.<sup>3</sup> No matter what their size, these foundations center on one thing: family involvement. According to the National Center for Family Philanthropy, “Giving families are personally invested in the public achievements of their philanthropy. Sometimes, this connection is literal: Family members may share the foundation or fund’s name, but the connection to the family’s legacy is often deeply felt. As the field of philanthropy becomes increasingly professionalized, family philanthropists represent grantmakers for whom charity is not simply a career but a part of who they are.”<sup>4</sup>

Developing and nurturing a conscious culture of philanthropy across the generations of a family can minimize the anxiety that the first generation may feel about “not giving it all” to children and grandchildren. Your family may decide to simply model philanthropic giving, and support younger generations as they, in turn, get involved with their own causes and interests. Your family may decide to mentor younger generations by having them be part of a family foundation. Or your family may decide to mobilize all of the generations, channeling the family’s resources of time, knowledge, and money into one area of passion. However you and your advisor decide to structure your philanthropic intentions, keep in mind their valuable place in legacy planning: a way to carry your family’s values forward—and with impact on others.

#### PHILANTHROPY IN ACTION

Family foundations have enabled a number of important, high-profile achievements in the last 100 years:<sup>4</sup>

- The first successful vaccine for yellow fever, 1938, was funded by the Rockefeller Foundation
- The polio vaccine, 1953, was developed by Jonas Salk and funded by the Sarah Scaife Foundation
- Life-saving white lines on highway shoulders, 1950s, was developed by Dr. John Dorr and made a national cause by the Dorr Foundation.
- The hospice movement, which revolutionized care for terminally ill patients, 1970s, was supported in part by the van Ameringen Family Foundation.

## Ways to give: Charitable giving vehicles

From outright gifts to several types of charitable trusts to private foundations, there are numerous ways to give—and give well, in ways that reflect your legacy plan. Sociological researchers note that people who are regular givers are more likely to say they are happy. In addition, philanthropic giving’s effects on happiness and family unity are complemented by giving’s powerful ability to shape the way you and your family view wealth, poverty, hunger, social injustice and other issues and needs, either locally or globally. In some cases, there also are tax benefits that go along with your and your family’s giving, a benefit that may allow you to reach other personal goals. Below are some key considerations for the various charitable giving vehicles.

	What It Is	Control Features	Tax Benefits
<b>Outright Gifts</b>	You can give unrestricted gifts of cash, securities, real estate or other marketable assets.	You relinquish control of the property when you make the gift.	An income tax deduction is generally allowed for the market value of non-cash assets held for more than one year or the cost basis of property if held for one year or less.
<b>Charitable Remainder Trust (CRT)</b>	Through an irrevocable trust, you receive a fixed or variable amount during the trust’s term, with the remainder payable to qualified charities at termination.	You may reserve the right to change charitable beneficiaries during the trust’s term or through your will.	Income tax deduction equal to the present value of the remainder interest.
<b>Charitable Lead Trust (CLT)</b>	Your charity receives a fixed or variable amount during the term of the trust, with the remainder passing outright or in trust to your heirs at termination.	You relinquish control when you identify the charitable beneficiary.	Generally, no income tax deduction, but income from the assets transferred to the trust is removed from your gross income, an effective annual deduction for each year of the trust.
<b>Charitable Gift Annuity (CGA)</b>	A contract between you and a charity in which the charity pays you an annuity for life in exchange for a gift of cash or other assets.	You relinquish control of the property at the time of the gift.	Income tax deduction for the gift portion of the arrangement.
<b>Private Foundation</b>	You create a tax-exempt organization to make grants to charitable organizations. The foundation can be a trust or a corporation.	You have complete control over grant-making and may pass the control to family members or others during your life or at your death.	Income tax deductions for gifts to the foundation in the year of contribution, regardless of the year the actual funds are distributed to a charity.
<b>Donor Advised Fund (DAF)</b>	You own accounts that are set up within charitable organizations, such as a community foundation.	Your contributions are set aside in a separate account at the charity, and while you may indicate an investment objective or strategy offered by the managing charity, you don’t control the investment. You can, however, make non-binding recommendations on the recipients of grants.	Income tax deductions for gifts to the fund in the year of contribution, regardless of the year the actual funds are distributed to charity.
<b>Supporting Organization</b>	You create an exempt charitable organization designed specifically to support one or more existing public charities.	Because of regulatory requirements to achieve supporting organization status, you have less control over the activity of the organization.	You and your family receive income tax deductions for gifts to the supporting organization.
<b>Retained Life Estate</b>	You give a residence or farm to a charitable organization and retain the right to occupy the property for life, with the property passing to the charity at the end of the term or at the death of the last person who retained an interest in the property.	You and other beneficiaries continue to enjoy the property during your lives.	Income tax deduction for the present value of the remainder interest in the property that will pass to the charitable organization.

*Please talk to your Atlantic Trust relationship manager for all of the benefits, costs and considerations for these charitable giving tactics.*



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### Now what do we do?

Thoughtful and discerning affluent families understand that they have an enormous responsibility to create the framework for a family legacy plan that promotes family continuity, manages change within the family and articulates clear roles for all of the wealth owners in the family. If done well, legacy planning as a companion to estate planning can reflect one of the oldest definitions—from the 13th century—of the word “wealth”: well-being.

Talk with your Atlantic Trust relationship manager about how we can help you with your legacy planning.

#### Learn more:

Atlantic Trust has a library of white papers on various investment and wealth planning topics available from [www.atlantictrust.com](http://www.atlantictrust.com), including:

- Economic and investment updates
- Retirement and legacy planning case studies
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1 Courtesy Personal Legacy Advisors LLC. Used with permission.

2 For more on ethical wills, please request The Most Meaningful Legacy: A Gift to Giver and Receiver white paper from your Atlantic Trust Relationship Manager.

3 Foundation Center, “Key Facts on Family Foundation,” January 2011

4 National Center for Family Philanthropy, 2008.

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