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# HEARD FROM CLIENTS

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## WHY “WHY QUESTIONS” MATTER MOST

As an advisor to families of great wealth, we encourage clients to consult with attorneys and other experts in estate and tax planning. Understandably, during these meetings no one likes to discuss his or her own death. Invariably, we often hear similar questions from our clients when broaching the subject of wealth planning. “What plans do I currently have in place?” “How much money should I leave to my children?” Or, my personal favorite, “How much do I have to pay the government to die?”

However, before asking any of the questions we often hear, we should first ask a more important question - “*Why* should I care about leaving money to my children, to other family members, and/or to charity?” It turns out that the “why” questions are the most important.

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How much money you leave, to whom and the types of plans put in place are secondary and tertiary results of answers to the “why questions.” I vividly recall early conversations with a senior partner at the first independent advisory firm I joined. When I first met him in the late 1990s, he and most of his partners had been counseling families regarding their wealth for more than 30 years. On my very first day with the firm he invited me to his office, telling me to take notes. He was going to impart important lessons learned from having spent more than three decades advising CEOs of Fortune 100 companies and others from among the wealthiest families in Silicon Valley.

Among the many lessons imparted that day, two stand out as particularly surprising: “When it comes to giving money to children, just give it to them and get out of the way, ” and, regarding timing, “If they haven’t figured out how to manage their affairs by age 40, they probably never will.”

But what about generational tax planning? The senior partner’s perspective at the time was direct: “Parents shouldn’t try to rule from the grave.” Despite the obvious tax benefits, he believed

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that parents should let their children decide how best to pass wealth on to the next generation. It was at this point that his view and mine diverged.

I was particularly focused on multi-generational planning, noting the tremendous benefits of compounding a family's wealth over many generations without a 40%-50% loss to transfer taxes at each generation's passing. It seemed to me that such a powerful planning tool is something my learned partners should be recommending. My opinion then and now is that trusts that avoid transfer taxes are an essential tool in helping families avoid the infamous "shirt sleeves to shirt sleeves in three generations" curse that befalls many wealthy families.

### **A Prior Question**

I only learned over time that there is a prior question that must be answered before deciding how much, to whom and when one passes control of one's wealth to the next generation. That question is, "*Why* do you want to preserve your wealth? Is it to provide your heirs with a common legacy to care for and preserve? Or is it to provide your heirs with a comfortable lifestyle through your children's generation and perhaps the next? By answering the "why" behind each planning question, we can identify what type of planning is best for a family. No matter what the solution, experience demonstrates that it's important to discuss wealth transfer early, and to begin with the "why questions."

My personal opinion became and remains that there are a few key reasons why we all should want to leave as much as possible to our grandchildren, great grandchildren and future generations. Simply put, one needs comprehensive healthcare and a good education to compete in our society. With strong family discipline, and family values focused on handing down the family's legacy, future generations may be positively affected by careful planning and foresight. In my personal experience in advising clients, they all agree that it should be a priority to fund a trust to provide for the very best medical care and future educational needs. Future family members need to be healthy and well-educated to pursue their chosen careers. Further, future family members may suffer from a disease like MS, or a mental disability, which can rob them of their ability to care for themselves and their families. I haven't met anyone who wouldn't want to prepare for this possibility, even if for a future family member he or she will likely never know.

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Well, the senior partner didn't immediately agree with my perspective. After all, with my limited experience at the time, what did I know about advising wealthy families? But, he did appreciate my perspective and began to share it with our clients. Actually, from that day forward, whenever he would discuss estate and wealth transfer planning with a client, he would invite me to join him so that we could each share our respective opinions on the topic. Almost all of our clients chose to fund multigeneration-skipping dynasty trusts in support of healthcare and educational needs. In time, that same senior partner did as well for his own family.

Asking the "why" questions has been a great way to begin conversations with clients around the topics of wealth transfer and how best to support future generations. It's been a real eye-opener for most of them to even consider supporting grandchildren, much less future generations they may never know. Some agree that they want to make a difference in a beloved grandchild's life. But what about that grandchild's future children and grandchildren, whom they will never know, but whom their grandchild in turn will love just as much? When it comes enhancing their perspective on wealth transfer, asking the "why" questions is essential to broadening their perspective.

In my next piece, I'll circle back to tackle some of the "learnings" from decades of collective wisdom on the topic of wealth and family.

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