

Heritage Design

The 3rd Element of Successful Multi-Generational Planning



by

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For centuries, the process by which most families have planned for their futures has consisted of two traditional planning elements: financial planning and estate planning.



And for centuries, 9 out of 10 of those plans have ultimately failed the families they were supposed to protect. In 70% of families, both the assets and the family unity are demolished by the end of the second generation. By the end of the third generation, 90% of families have seen their unity and their assets disappear.

The difference between the 90% of families who fail and the 10% who successfully keep their family unity and their assets together for multiple generations is not in the quality or thoroughness of the financial or estate planning that they do. Most professionals deliver good planning to their clients. The difference is that successful families do something in addition to financial and estate planning. They add a 3rd 'element' to their planning. That element is known today as Heritage Design. Successful families do good financial and estate planning, of course, but they also work diligently to pass their stories, values and life lessons to their heirs along with the money. They focus on building strong communication and trust within the family, and they prepare their family members for both kinds of inheritances that are passed on from one generation to the next—the financial inheritance and the emotional inheritance.

Two kinds of inheritance

We receive and pass on two kinds of inheritance, not one. The first, the financial inheritance, is the one with which we are most familiar. It is the one around which advisors have built their practices for centuries.

But, multiple studies tell us that there is a second, even more important inheritance that we also receive and pass on. That is the emotional inheritance, the sum total of the values, stories, life lessons, and family traditions.

In 2012, a study by the Allianz Company found that leaving a legacy (an emotional inheritance) was far more important to peoples than leaving an inheritance, and that 86% of both “baby boomers” and their parents rated “values and life lessons” as the most important legacy they could receive or leave. financial assets or real estate were important as an inheritance. The study concluded that money is a ‘minor’ component of legacy to parents and their heirs.

Only 10% of boomers said that financial assets or real estate were important as an inheritance. The study concluded that money is a ‘minor’ component of legacy to parents and their heirs.

"Many people wrongly assume that the most important issue among families is money and wealth transfer -- it's not," said Ken Dychtwald, a gerontologist and survey designer. "What we found was the memories, the stories, the values were 10 times more important to people than the money."

Things change slowly

Still, most professional advisors approach planning from a purely financial perspective. “What is your net worth?” “How much money do you want to pass on to your children?” and “How should we plan to minimize your estate taxes?” To be sure, those questions are important in the context of the services you need. They always will be important. But, they do not complete the picture.

If we have learned anything from decades of experience and studies, it is that planning for the future of your money is not the same as planning for the future of your family. And, when people define real success in the context of what they want for their children, grandchildren today and for generations to come, money is just about the last thing they mention.

The emotional inheritances noted above are different for every person, and unique to every family. In the Heritage Design process, the advisor helps people to ‘discover,’ articulate, share and then utilize what matters most to them as the foundation for all of the financial and estate planning the family will do.

Bottom line: going back for centuries, a host of studies and the practical experience of advisors overwhelmingly support the fact that passing values and life lessons to future generations and working to enhance trust and strong communication within the family are the keys to multi-generational success.

Background

9 out of 10 plans fail. They always have. You have probably seen or heard about the studies that conclude that 90% of the time family unity and assets are lost by the end of the 3rd generation. (This statistic was most recently referenced in a March 7, 2013 Wall Street Journal Article, titled 'Lost Inheritances.')

And, this is not new. Since ancient times, the majority of inheritance plans have failed. Two thousand years ago a Chinese scholar penned the adage: "fu bu guo san dai," or "Wealth never survives three generations." In thirteenth century England they said "Clogs to clogs in three generations," and in nineteenth century America the expressions became "From shirtsleeves to shirtsleeves in three generations." Over 200 years ago, Adam Smith – of "specialization and division of labor" fame – summed it up in "The Wealth of Nations" when he said: "Riches, in spite of the most violent regulations of law to prevent their dissipation, very seldom remain long in the same family."

Which raises the obvious question:

If 90% of families fail to keep the family unity and the family assets together for more than two generations, what do the successful 10% do differently?

That question was my inspiration for cofounding the Heritage Institute, for spending two decades researching the answers, and for developing practical solutions for families based upon our research.

One of our most important findings was that the difference for the 10% is not in their financial or estate planning. The difference is that they have a 3rd element to their planning: they *consciously* prepare their family for both their financial and their emotional inheritance.

Where Heritage Design Fits

In the early 1980's, nearly all estate planning was done with Wills. (Which by the way, had not changed substantially in form or purpose since the year 1540, when King Henry VIII of England codified estate planning and

inheritance custom into the system that would be used for nearly 400 years!) Trusts were generally believed to be applicable only to very large and complicated estates.

In the mid-1980s the National Network of Estate Planning Attorneys was formed, with a goal to "Change how America Plans" by using Living Trusts and avoiding probates in even modest estates. When I joined that



group in the late 1980s, there were less than 90 members. Within 10 years, the Network had grown to over 1,500 members, and Living Trusts were becoming the norm in all estate plans.

The National Network of Estate Planning Attorneys helped change the way America did its estate planning; which was a

wonderful accomplishment. But, why still didn't complete how America plans.

Now, with the increasing recognition of the importance of better relationships between advisor and client, and bolstered by numerous studies and practical experience validating the 90% inheritance failure rate, it is clear that there are not 2, but 3 elements to successful planning.

The three elements of successful multi-generational planning are very distinct and separate, but work together to provide success for generations. The three elements of planning are:

- **Financial Planning**, which prepares and protects your assets during your lifetime;
- **Estate Planning**, which prepares your assets for your family; and
- **Heritage Design**, which prepares your family to receive their inheritance (which includes far more than just your assets).

A powerful question

You may have done a great job of financial and estate planning. But, have you prepared your family for the inheritances they will receive as a result of that planning?

Do this thought exercise: imagine that you could look fifty years into the future, and see your family gathered together in the living room. Ask yourself, “what would I like to see happening there, and what would I like to hear them talking about?”

Few people answer that they’d like to see their grandchildren focusing their lives on money. For many people, seeing things like family unity and individual family members living full, productive lives comes to mind.

Describing the things you wouldn’t want to see or hear is pretty easy, of course. No one wants to see family discord, or individuals who are leading trouble-filled lives.

The next question to consider is: how far will the financial and /or estate planning that you have done to date take your family towards the picture of family harmony, individual accomplishment, community involvement, etc., that you just envisioned when you look into the future?

The fact is, most people (90%, according to the studies!) have made no such provision as part of their planning. Their financial and estate planning will pass money and assets to future generations, but not the tools, training or mentoring to effectively use those assets to live full, productive lives. Money is an extraordinarily powerful tool – that, like fire, can be a wonderful servant or a terrible master. Ironically, the better you are at financial and estate planning, the more important it is that you prepare your family for the inheritances (financial and emotional) that they will receive.

As the Allianz study points out, this is the most important outcome that people want from their planning. It is also what has helped the ‘successful’ 10% maintain their family unity and their assets together across generations, including through war, depressions and every other kind of economic and political upheaval—including times so rough that today’s market and economy roller coaster looks tame by comparison.

Heritage design completes the picture that most people envision when they look into the future and answer the questions above..

Through heritage design, people can prepare their family to get together, play together, and work together and support each other so that each family member lives a fulfilled life. With heritage design as the foundation for all of the other planning, the family and the assets they have worked so hard to gather can remain intact for generations.



Heritage design was developed to help families and individuals achieve their dreams across generations. It has been used successfully for over two decades, by families with estates ranging from a few hundred thousand to billions of dollars.

The principles of heritage design have nothing to do with money. They apply to people of all income and asset levels because, as

history proves, planning for the future of the money is not the same as planning for the future of the family.

For financial planning there are various processes used by financial and investment advisors, CPAs, CFPs, and other advisors to help people determine which tools, strategies, products and services will best prepare and protect their assets during their lifetime. Similarly, there are processes that those same advisors and estate planning attorneys use to help people determine which estate planning tools and strategies will best prepare and pass the assets when they die. For heritage design, The Heritage Process is used by professional advisors who are specifically qualified to help guide their clients to identify, articulate and pass their story and life lessons, and prepare their family for their inheritance.

