From Wealth Creation to Wealth Preservation: Planning for Generations

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Market volatility, taxation, and economic uncertainty may not be the biggest threat to generational wealth. It can be the belief that future generations will be able to handle what earlier generations worked so hard to create.

Wealth preservation and wealth generation are frequently viewed as complementary aspects of the same financial goal. However, there is still a significant gap between building wealth and making sure it is passed down through the generations. Families spend a lot of time and money creating enterprises, collecting assets, and diversifying their interests, but far less focus is placed on preparing the next generation to run them.

This raises an unsettling question: Can wealth truly be considered preserved if the people inheriting it are not prepared to take responsibility for it?

The Illusion of a Smooth Wealth Transfer

Families can own businesses and real estate in addition to holding wealth in multiple locations. As a result, handling enormous riches might be particularly challenging. Successful management therefore requires not only financial expertise but also an understanding of how these many aspects of wealth interact, including knowledge of taxation, liquidity, risk, and succession difficulties.

Failure to educate the young generation in these areas can lead to serious issues. Think of a family that ran a successful company for three generations and made a great deal of money. When the future generation stepped into their shoes, the family-owned numerous firms, property investments and financial assets across multiple countries. But with the wealth had come no clear idea as to how to manage it. The younger generation was not involved in decision-making, had received no lessons in accountancy and had no agreed basis for resolving disputes over ownership and control.

Within just a couple of years, arguments, short-sighted investments, and disorganisation began to chip away at what the grandparents had spent so long building.

The family had successfully passed on its wealth but had not prepared its heirs to continue its success. It also raises a question: are families doing enough to prepare their next generation for wealth, or are they concentrating only on what they will receive?

Succession Must Begin Before Ownership Changes

Many families simply don't get into succession planning until quite late in the game – either because of ill health or so that the assets can be passed on. There simply isn't always enough time to properly educate the young people.

Ideally, families would go through a succession process. The present generation would still be active, and so education and financial advice could be given at that stage. The processes could be put in place, and the next generation would be progressively educated in the art of wealth management.
Depending on whether the family have a business and/or a wide range of investments, the education will be in the form of getting involved in business decision-making, understanding accounts, having an appreciation of risk and being involved in the strategic planning process.

Alternatively, it may be in the form of understanding the construction of an investment portfolio, having an awareness of international locations and an understanding of taxation as well as an appreciation of future financial objectives.

Education should therefore be geared towards enabling the young generation to be competent in the management of wealth.

Wealth Structures Cannot Replace Family Governance

Trusts, foundations and/or companies may be used to determine ownership, whether for purposes of continuing trading or to meet the relevant legal requirements. However, the effectiveness of these tools still depends on the quality of the family's decision-making and leadership.

While wealth tools may be useful in recognizing and applying wealth ownership, they cannot, alone, act to mediate conflict over who stands to benefit from wealth, to teach collective monetary values, and to prepare people to effectively assess and decide on matters.

For example, family governance can assist by helping to define family function, encourage communication and identify function and decision-making.

Additionally, when family assets and entitlements are dispersed across different places, one must also contemplate how the inter-generational wealth tool is functioning in harmony with the local laws in the areas of inheritance and tax residency, as well as declaration and regulatory compliance. If these are not considered, the inter-generational wealth tool that may be efficient in respect of assets and taxes may not work as intended.

The Real Measure of Generational Wealth

The key to wealth preservation is only possible if the following generation is equipped to make good decisions and to manage finances.

Better family conversation ought to follow, and current singletons ought to be more included in monetary management. In addition to possessions, families ought to be really prepared to hand on their very own understanding, several years of experience and to be handed down commonly.

Ultimately, Intergenerational Planning will allow future generations to understand what they are entitled to, the functions that come with that entitlement and the decisions they will need to make.

The real failure of wealth preservation is not necessarily losing what one generation has built. It is transferring wealth without transferring the understanding required to sustain it.