Janus Henderson
INVESTORS

GREAT WEALTH TRANSFER IMPLEMENTATION GUIDE

Name: ______________________________

Date: ______________________________

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Now more than ever, expanding the advice and services you provide clients has become imperative.

A key area where you can highlight the true value of your relationship is by helping clients prepare for the many difficult decisions that often affect families across generations. Beyond investing, discussions surrounding wealth transfer, heir preparedness and philanthropic planning are now an increasingly important part of the dialogue.

Including family members in wealth transfer conversations before they are triggered by a life event is vital, given that 80% of widows switch financial professionals after the death of a spouse[1] and 66% of children do the same.[2]

Cerulli Associates projects that nearly 45 million U.S. households will transfer a total of $68.4 trillion in wealth to heirs and charity over the course of the next 25 years.[3] Will you be the financial representative whom families continue to trust when the time comes? It's never too soon to start having meaningful conversations and raising critical questions.

This program from Janus Henderson will help bridge the communication gap between you, your clients and their heirs. Our experts share strategies to help you better prepare your clients and their loved ones for the future.

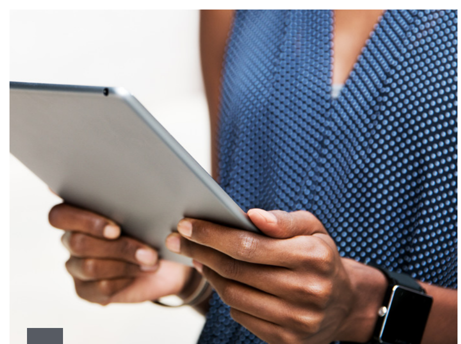
1 KEY SKILLS & BEST PRACTICES

2 SAMPLE FAMILY LEGACY QUESTIONNAIRE

3 FAMILY MEETING AGENDA & DISCUSSION EXAMPLES

4 WEALTH TRANSFER TOPICS FOR MULTIPLE GENERATIONS

5 IDEAS FOR ENGAGING YOUR CLIENTS' CHILDREN



6 FAMILY FINANCE RESOURCES

[1] Carrick, Rob. "How the financial advice industry fails women." The Globe and Mail. January 2015.
[2] Skinner, Liz. "The great wealth transfer is coming, putting advisers at risk." InvestmentNews. August 2015.
[3] Source: Cerulli Associates, "U.S. High-Net-Worth and Ultra-High-Net-Worth Markets 2018: Shifting Demographics of Private Wealth," 2021.

KEY SKILLS & BEST PRACTICES

Best Practices for Introducing Legacy Planning Conversations

1. Introduce topic as an agenda item in an annual/regular meeting.
2. Clearly articulate your value proposition to clients, i.e., as a resource to the couple and the next generation. Focus on communication of family values, health care and end-of-life directives, as well as financial training and preparation for the next generation.
3. Coach and educate about the importance of legacy conversations for the success of a wealth transfer.
4. Use a customized, client-centric approach in the meeting. Tie your value proposition to the clients' family circumstances using specific examples in the meeting.
5. Use active listening to understand the clients' resistance or objections.
6. Validate and discuss the clients' anxiety, worry and/or concerns.
7. Help partners articulate individual and then shared goals, such as family values and plans for legacy conversations. If time and scheduling permit, have each partner complete a questionnaire individually as homework. Then meet with them as a couple in a follow-up meeting to discuss their answers and set the agenda for the first family meeting.
8. Practice self-management by letting clients set the agenda.
9. Use the couple's conversation in the second meeting and the questionnaire to build a mutually agreeable family meeting agenda.
10. Keep the agenda specific and brief in the first meeting.
11. Set a date for the family meeting and act as an accountability partner.
12. Follow up in writing. After meeting, follow up with a written note to both partners about what was agreed upon and next steps.

Key Skills

ACTIVE LISTENING

Ask curious, open-ended questions to solicit information from the clients, followed by reflecting back what is communicated when possible. Then use the clients' exact words to ensure you accurately understand the clients' intended message. Validate the emotional content of a client's communication and demonstrate benevolent trust, i.e., that you care.

SELF-MANAGEMENT

Be aware of your blind spots and triggers when working with clients and be able to always put the clients' needs before your own. Example: Don't assume your clients' family operates by the same rules and values as your family.

BALANCING PARTNERS' NEEDS

Maintain eye contact with each partner, asking questions of each, working with the couple to identify and clarify any differences of perspective while maintaining neutrality.

GENDER SMARTS

Use collaborative language to notice and validate the emotional state of the clients and offer an opportunity to explain the feelings in more detail. Let go of assumptions based on traditional gender roles.

COACHING AND EDUCATION

Be able to gently guide and educate the clients toward a family meeting to discuss legacy planning. Show empathy and understanding for couple and family dynamics, while at the same time holding the couple accountable for next steps.

SAMPLE FAMILY LEGACY QUESTIONNAIRE

The following sample questions can be used to create a questionnaire to help your clients identify their wealth values and specific areas they would like to discuss with their children.

Please answer the following questions to determine what areas of your family legacy planning have been completed and what areas may need more attention.

1. Family Values

How would you like your children and family to view your wealth?

What important values do you hope live on within future generations?

What would you like your legacy to be?

What do you hope your family remembers about you?

2. Family Financial History

How has your family history affected the way you view money?

Are there money lessons you'd like to pass on to the next generation?

3. Philanthropy

Is charity something that is important to you? Why?

What organizations, charities or community projects would you like to leave money to?

Are you charitably inclined? Are these values you'd like to pass on to the next generation?

How would you these charitable values to live on into the future?

4. Family Gifts

What are your plans for leaving money to them? What do you hope they do/accomplish with their inheritance?

Do you feel your children are financially mature?

Are there areas where disagreement may exist?

5. Business Succession

If you become incapacitated, do you know who you would want to step in and run the business?

Is there a succession plan in place?

Are family members part of the business currently or will they be in the future?

6. Health Care Directives

What are your end of life wishes?

What healthcare directives would you like to have in place?

Do you worry about your spouse being able to manage your finances if you should pre-decease him/her?

Have you shared your estate and health directives with your family? If not, why?

7. Estate Planning

Do you have a will?

Do you have a durable power of attorney?

When were they last reviewed/updated?

Have you given thought to what would happen if you were to become incapacitated or pass away suddenly?

Does your spouse and family know where important financial, legal and medical documents can be found?

What have you learned as you've thought about your wealth transfer plans?

FAMILY MEETING AGENDA & DISCUSSION EXAMPLES

Welcome

Welcome all the family members to the meeting.

The meeting attendees include Karl, Elena, Nick and Bella. It is best to start with the family of origin and later, as warranted, include significant others and grandchildren.

Purpose of the Meeting

Review the goals and purpose of the meeting, including educating the family about legacy conversations as a process rather than one-time event. Briefly highlight that this meeting is NOT about airing family grievances or working through past conflicts, but instead it is a forum for parents to communicate information to the next generation and for the next generation to ask questions about this information. Review the logistics, i.e., duration of meeting and the specific goals for the family's time together.

Karl and Elena have two goals for this meeting. These include sharing their success story with their children and introducing the idea of participating in philanthropy as a family.

Guidelines for Healthy Financial Conversations

Review the rules for a healthy financial dialogue. These include being respectful, not interrupting, taking turns speaking, actively listening, focusing on trying to understand each other's perspectives and, sometimes, agreeing to disagree.

Family Success Story

Encourage the parents to share their success story, highlighting their family values. The story answers the questions, "How did they accumulate wealth?" and "How do they use their wealth to express their core values?" Include mistakes and lessons learned.

Karl discusses his business and the successes and struggles he has experienced building his real estate agency. Elena shares how she supported Karl in the early days of the business and why she loves teaching and charitable work. Together they share their core family values – hard work, education and philanthropy – with Nick and Bella.

Family Discussion

Facilitate a family dialogue and encourage the next-generation attendees to ask questions.

Nick and Bella share their individual reactions to the family success story and note that some of the information is new. They know that hard work and education is a family value, as their parents' daily actions demonstrate these values. Both are surprised by the philanthropy value, especially as it relates to Karl.

Family Philanthropy

Introduce the concept of gifting as a family and explain how family philanthropy is a great tool for learning more about finance, investing and how to talk about money as a family.

Amy, the financial professional, shares with Nick and Bella her recommendation that Karl and Elena include them in some philanthropic decisions. Karl and Elena each say why this would be important to them and what they hope their children will learn. Nick and Bella ask questions. The family decides to take $10,000 out of their savings and use these funds to begin teaching the children about philanthropy and gifting as a family.

Next Steps

Ask all attendees to ponder these questions:

- What is one small action step you will take as a result of our meeting today?
- How can I help you in taking this step?
- When would you like to meet again to follow up on this discussion?

Karl and Elena agree to put $10,000 aside to be used for family philanthropy. Nick and Bella agree to identify and research two charitable organizations that they feel passionate about and share these causes with their parents. If they have any questions, they will contact Amy directly. All family members agree to meet in three months to continue this discussion and decide where to gift the money.

Summary and Follow-Up

Summarize the meeting, reiterate the action steps each attendee has agreed to take and explain his/her role as the family's accountability partner. Set a tentative date for the follow-up meeting.

After the meeting has ended, send an email to all family members reiterating the outcome and action items identified in the meeting.

WEALTH TRANSFER TOPICS FOR MULTIPLE GENERATIONS

Cerulli Associates projects that nearly 45 million U.S. households will transfer a total of $68.4 trillion in wealth to heirs and charity over the course of the next 25 years. With the stakes this high, it is imperative that your clients have a plan in place that will ensure the successful transition of wealth to their family members.

This starts with meaningful conversations with clients of all ages, including your clients' heirs. Preparing and educating heirs ahead of time can put them in the best position to make informed and healthy decisions regarding their inheritance.

Below are some themes to incorporate into your conversations with your clients and their heirs:

Modest Lifetime Gifts

Giving lifetime gifts has long been a strategy suggested to clients when estate planning for tax purposes. But, for many of your clients, the non-tax related benefits may be just as important. By making modest gifts earlier in their lives, many clients feel a sense of enjoyment as they are able to witness how the recipients benefit from their generosity. Other clients may use modest lifetime gifts as an opportunity to gauge the emotional and intellectual maturity of the recipient, depending upon how the funds are used. Poor decisions regarding modest wealth transfers can provide clues regarding how to structure larger gifts of inheritance.

Philanthropy and the Use of Donor-Advised Funds

Donor-advised funds can be a convenient, cost-effective way to help teach children about philanthropy by establishing the fund in the family's name. Clients can make tax-deductible contributions while delegating grant-making authority to a child (either informally or formally, depending upon the age of the child and other circumstances). Many donor-advised funds offer searchable databases regarding specific causes and can help your client determine suitable grants depending on their interests.

If your clients have small private foundations, they may have the option to convert their foundation into a donor-advised fund. Once the money is converted to a donor-advised fund, the clients can still use that money to benefit the charities of one's choosing, similar to the private foundation. By converting to a donor-advised fund, though, all of the administration that came with a private foundation goes away. This could become a cheaper and easier option for charitable family giving.

Business Succession Planning for Your Clients

Less than one-third of family businesses survive into the second generation, and only 13% make it to the third generation.[4] Thorough succession planning can help to increase the survival rate of your client's business by implementing three different phases:

PHASE 1: PRE-BOARDING

- Succession planning is a process, not an event
- Position at the company is an option, not an obligation
- Children should obtain outside experience

PHASE 2: ON-BOARDING

- Hire into an existing, defined job
- Teach the historical, cultural and strategic foundations of the business
- Work with a mentor rather than a parent

PHASE 3: POST-BOARDING

- Develop complementary skills
- Draft the succession plan, business plan and estate plan together
- Set an exit date and stick with it

Appointing Executors, Trustees and Agents

Making a mistake in the representatives your clients choose as their executors, trustees and agents could prove more harmful in the long run. Obviously, they want to choose someone who is smart, reliable and trustworthy. Those characteristics go without saying. But there are several other characteristics that are very important that are often overlooked by clients.

CONSISTENCY

Naming the same person on a health care proxy and the durable power of attorney can help avoid potential conflicts. By doing so, the person making medical decisions will be the same person who pays the medical bills.

SINGULARITY

Unless there are unique circumstances, one appointee is usually better than multiple appointees. Sometimes parents will name all of their children appointees as a way to avoid hurt feelings among the family. Instead, thought should be given to who is the best choice. One potential problem that could arise with multiple representatives is how disagreements are handled. Not only can these disagreements cause friction among siblings, but they also can result in additional costs and delays in the handling of your affairs.

INFORMED

It's important to encourage your clients to inform their representative of their choice along with the necessary coaching on what he/she will need to do to satisfy their responsibilities. It's also important to provide an opportunity for the representative to decline the appointment. Becoming aware of an appointment only after the fact or not being prepared is a very difficult situation for a family member.

COMMUNICATING WEALTH TRANSFER INTENTIONS

According to recurring studies conducted by the Institute for Preparing Heirs since 2008, 70% of wealth transfers fail. They define failure as the removal of assets, involuntarily, from the control of the beneficiary. Most people think the reason for this is taxes, but in fact, taxes account for only 15% of failures. The majority of failures occur because of trust and communication breakdowns within the family and because heirs are simply not prepared to receive their inheritance.

Many heirs will learn about their inheritance only after the parent passes away. With certain decisions, such as the division of assets among siblings, disposition of family heirlooms and the use of a trust with restrictions on the timing or reasons for distributions, comes resentment. Communicating the rationale for why certain decisions were made and allowing the children to ask questions can help to mitigate bad feelings and family discord.

We find it helpful if the family's values regarding wealth are passed down to future generations before actual money is transferred. Depending on different clients' families, these values may include giving back to the community, philanthropic involvement or allowing each heir the opportunity to use the family's wealth to achieve his or her fullest potential. It also may be helpful to encourage your clients to memorialize these feelings into a document we call a Family Mission Statement that is shared with family members and reviewed periodically.

[4] The Family Firm Institute, "Family Business in Transition: Data and Analysis," 2016.

IDEAS FOR ENGAGING YOUR CLIENTS' CHILDREN

When working with your clients' children, no age is too young to start discussing the importance of financial education. Helping children and young adults create a solid foundation of financial skills can be critical to establishing good money habits for life.

Incorporate the following themes into your conversations with younger clients:

Career Development

Although many of your clients' children may not possess large financial sums, their greatest asset is their ability to earn and save money. As an individual ages, this "human capital" diminishes, while their financial capital increases. By investing in their human capital through higher education or technical training, younger adults can build a foundation of skills to increase their ability to earn more later.

With an established career, younger clients should focus on maximizing the benefits provided by their employer, such as disability insurance. There is a one-in-three chance that any given 20-year-old will become disabled prior to reaching retirement age. The staggering reality is that four in 10 workers currently have no disability insurance. Without disability insurance in place, unexpected costs, reduction of work hours and other health issues can drastically affect their future earning potential.

Another topic of conversation for young clients is salary negotiation. According to a study by George Mason and Temple universities, individuals who negotiate by using a collaborative and competing strategy – using open discussion of issues and perspectives – received starting salaries $5,000 higher than those who used avoiding, accommodating and compromising approaches. Starting a new job at a higher rate today can lead to higher earning potential, and savings, tomorrow.

Liability Management

According to the Federal Reserve Board's Survey of Consumer Finance, the average American household revolving credit card balance was $6,271 in 2019.[5] And with interest rates rising, paying off that debt continues to cost more. It's now more important than ever to help your clients' children with lessons about managing money.

Credit reports are a simple and free way for younger adults to stay abreast of their financial status. A free copy of this credit report can be obtained from three major credit reporting bureaus every year (Experian, TransUnion and Equifax). After reviewing the FICO score included in this report, you can help clients improve the score by prioritizing extra payments on maxed-out cards, talking about the importance of not missing a payment and reminding them to not neglect other payments (other than credit cards). The bottom line is a good credit score is all about making the right choices with what you have.

The average federal student loan debt balance is $37,113. Total debt outstanding = $1.75 trillion.[6] There are a number of repayment programs available, including traditional and income-driven plans. Individuals with multiple federal student loans can also combine those into a single Direct Consolidation Loan. The point is, this debt can be overwhelming, and your guidance may be welcomed to help get this debt under control.

[5] The Board of Governor's Federal Reserve System, "Survey of Consumer Finances, 1989 - 2019." September 2020.
[6] https://educationdata.org/student-loan-debt-statistics

Purpose Investing

Recently, we've seen a growing demand in the marketplace among investors, millennials in particular, to find investments that not only offer competitive risk-adjusted returns but are also sensitive to environmental, social and governance issues, or ESG. According to the Morgan Stanley Institute for Sustainable Investing, 99% of millennials are interested in some type of sustainable investing.[7] These types of "purpose investing" strategies could be a theme that resonates with your clients' heirs, increasing their engagement in the wealth transfer process.

According to the US SIF: The Forum for Sustainable and Responsible Investment, ESG captured one of every $3 under professional management in 2020.[8] And in an Oxford 2015 report titled "From the Stockholder to the Shareholder," Oxford found that there is a high degree of correlation between companies that employ ESG principles to company performance and stock returns. The key is to determine the level of impact versus the level of expected return from your clients' heirs in order to help them select strategies that best meet their needs.

[7] Morgan Stanley Institute for Sustainable Investing, "Sustainable Signals: Individual Investors and the COVID-19 Pandemic," 2021

[8] The Forum for Sustainable and Responsible Investment, "Blog: The US SIF Foundation's Biennial 'Trends Report' Finds that Sustainable Investing Assets Reach $17.1 Trillion." November 2020.

FAMILY FINANCE RESOURCES

Books

"Being Mortal" (Metropolitan Books, 2014) by Atul Gwande

"A Beginner's Guide to the End: Practical Advice for Living Life and Facing Death" (Simon & Schuster, 2020) by BJ Miller, MD and Shoshana Berger

"Breaking Money Silence: How to Shatter Money Taboos, Talk More Openly About Finances and Live a Richer Life" (Praegar, 2017) by Kathleen Burns Kingsbury

"Inspired Philanthropy: Your Step-by-Step Guide to Creating a Giving Plan and Leaving a Legacy" (Jossey-Bass; 3 edition, 2007) by Tracy Gary

"The M Word: The Money Talk Every Family Needs to Have about Wealth and their Financial Future" (McGraw-Hill, 2013) by Lori R. Sackler with Toddi Gutner

"Raised Healthy, Wealthy and Wise" (Self-Published, 2014) by Coventry Edwards-Pitt

Organizations

Aging Life Care Association
https://www.aginglifecare.org/

Association for Conflict Resolution
https://acrnet.org/

Alzheimer's Association
http://www.alz.org/

Exponent Philanthropy
http://www.exponentphilanthropy.org/resources/

National Center for Family Philanthropy
https://www.ncfp.org/

National Elder Law Foundation
https://nelf.org/

Strong Women, Strong Girls
http://swsg.org/

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