



Preparing your family to inherit your wealth

A holistic approach to transitioning your assets

Vanguard[®]

AN INTRODUCTION

As a high-net-worth investor, one of your goals may be to transfer and preserve your wealth for future generations. But statistics show that doing so is easier said than done. In fact, according to the Institute for Preparing Heirs, only 30% of high-net-worth families succeed at transferring wealth from one generation to the next.

To ensure you're part of that 30%, we believe you should take a holistic approach to your wealth. Focusing on both the tactical side (trusts and investments) and the "softer side" (family communication) can help ensure you successfully transfer your wealth to your loved ones, establishing a legacy for years to come.

We're here to help

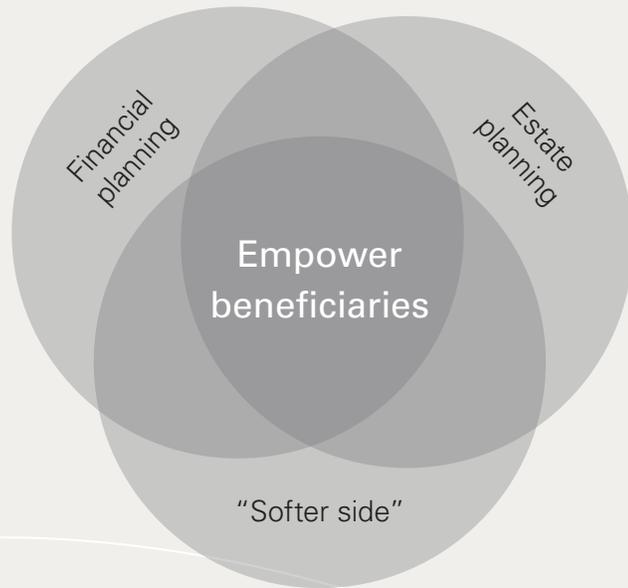
Keep in mind that as you read through this brochure, you have a team of Vanguard specialists ready to help you with any questions you may have. We can partner with you to implement any of the suggestions regarding our holistic approach, whether it's with the softer side of wealth, financial planning, or estate planning.

TAKING A HOLISTIC APPROACH

Your wealth has many different moving parts. There's the investment side, with components like your investment philosophy, financial portfolio (retirement and nonretirement assets, for example), and real estate. Then there's the estate planning portion, with your trusts, philanthropic goals, life insurance, and long-term care. And finally, there's the "softer side" of wealth, which includes communicating your values through a family purpose and mission statement, maintaining governance, and understanding family dynamics.

All of these are important parts of an overall wealth plan. And when you look at them as a whole, you realize that every move has consequences. It's like the Rubik's Cube, the well-known puzzle from the 1970s. When you move one side of the cube, you can affect the rest of the puzzle. The same can be true with your wealth plan: Making a minor change to your estate plan could have ramifications on your investments.

If one of your goals is to transfer your wealth to the next generation, we believe the key to success is through holistic planning. So before you make a change, be sure you review the other parts of your plan as well. And remember to always keep in mind the softer issues like family communication, which can keep your family together and informed. Doing so will help ensure your wealth, goals, and legacy stay intact for generations.



Empowering your beneficiaries

As we mentioned earlier, the success rate for wealth transfer isn't high. Research has shown that families fail because of three reasons: lack of communication and trust (60%); inadequate preparation (25%); and taxes, legal, and other implications (15%).* What this says is that your advisors can create a financial plan and your attorneys can draft documents to establish a comprehensive estate plan, but when it comes to wealth's complexities, there's more to it than that. By also focusing on communication, trust, and preparation—the softer side of wealth—you can help empower your beneficiaries for success.

To get started on this path, we recommend creating and communicating a mission for your wealth. By starting with a mission, you give your wealth a purpose. You begin to communicate the “why” to your family. This, in turn, can guide how you invest (your investment philosophy), how you plan your estate (your estate planning strategy), and what values you'll focus on as a family.

Take a look at this sample mission statement:

We're committed to family bonding, community outreach, and fun. We'll grow the family assets and provide for the family's education, growth, and security.

As you can see, a mission statement doesn't have to be complicated. This one outlines the family's values like bonding and community outreach, but it also explains the family's ultimate goal for their wealth: to provide for education, growth, and security.

We'll get more into mission statements later, including details and guidance on how to create them. But for now, know that by establishing a purpose for your wealth, you're taking the first step to empowering your beneficiaries and preparing them to carry on your legacy. Engraining that purpose is the next step.

Empowering through investment education

As part of your wealth plan, you have financial goals. How you go about meeting those goals is called your “financial plan.” As we mentioned earlier, it’s important to have a financial plan. But to ensure successful wealth transfer, it’s also important to go a bit further than that.

Start with an investment philosophy

Earlier, we recommended having a mission statement, or purpose, for your overall wealth. That mission statement can then dictate how you invest your wealth. In other words, it can help you take the next step, which is to create an investment philosophy.

As a company, Vanguard has its own investment philosophy, which we’ve documented in our research paper titled *Vanguard’s Principles for Investing Success*. This paper outlines four key principles that we believe all investors should focus on when creating their financial portfolios: setting goals, staying balanced, focusing on cost, and being disciplined.

Your investment philosophy doesn’t have to be as high level as ours. Instead, it can highlight the specific goals you’ll be investing for—business ventures, retirement, philanthropic giving, asset preservation for future generations, etc. And maybe part of your philosophy will be to always consider the advice of your financial advisors before making investment decisions. You might also include that you’ll only invest in low-cost investment options and that you’ll remember to rebalance your portfolio once a year.

A family’s investment philosophy can take any number of different approaches. Consider documenting one and communicating it to your family. Then continue to reinforce it over time. That way your loved ones know how you prefer to invest, and they’ll keep that in mind after you’re gone.

Giving them the education to succeed

When you have significant wealth, you, your spouse, and your children will undoubtedly have various financial matters to handle over time. Advisors and attorneys can help along the way, but by having a solid financial background, you can better understand your plan and ensure your goals are being met appropriately. That’s why it’s important for wealthy families to understand investing and become financially literate.

We believe that financial education is a slow and steady process. It starts with communicating your mission and investment philosophy to your family, while covering the specifics and intricacies of your overall financial plan. But it also means providing some more formal education, and there are some best practices you can follow.

You can start by teaching your children early (ages 5 to 10), using simple exercises like setting parameters around their weekly allowance. For example, have them split their allowance into thirds: a portion to save, a portion to donate to a good cause, and a portion to spend on themselves.

As they reach their adolescent years, you can focus on things they're passionate about. We'll talk more about the power of philanthropy later, but you could create an educational opportunity by focusing on giving. Provide them with a sum of money, allow them to choose a charity to donate to, and let them select a mutual

fund within a donor-advised fund. They'll begin to understand the value of giving, and by allowing them to choose their own investment and helping them understand how the markets fluctuate, they'll also learn about investing.

As they get older, there's the opportunity for more formal financial education, like classes and workshops. Regardless of your children's ages and investment experience, know that your Vanguard relationship team is here to help determine and implement the best approach for your family's financial education needs.

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Empowering through planning

You have a financial plan and you're providing education for your loved ones so they have the knowledge to fulfill your long-term goals. But that's just the beginning. We recommend also having a comprehensive estate plan to tie your wealth together.

Think of it like this: financial plan + estate plan = wealth plan.

Your financial plan includes your portfolio and individual investments. Your estate plan includes your wills, trusts, life insurance, long-term care, and more. It may also detail various roles and responsibilities: executors, guardians, agents, trustees, and beneficiaries.

You'll want to work with your attorney to create an estate plan that fits your mission for your wealth. But just like your financial portfolio, it doesn't stop there. The most important part is to educate your loved ones so they understand what your plan is for your assets.

Communicating your plan with your family

Where are your assets going and why? What are the roles and responsibilities of family members within your plan? These are important questions not just for you, but for the family members who will someday receive your assets.

You might be uncomfortable talking to your children about your long-term financial plans and concerns. You may do your estate planning in private with the help of lawyers, accountants, estate planners, and investment advisors. In fact, many families may never communicate their plans to their children.

But remember, when children or beneficiaries inherit a large lump sum of money, it's a huge responsibility. They may or may not be prepared to take on that wealth—and all that comes with it. In addition, complicated relationships may develop as a result of inheritance. It's unfortunate, but these types of conflicts among loved ones happen more often than you might think.

By discussing your plan and keeping the lines of communication open, your family remains informed of your intentions. You can also use family meetings as an avenue to communicate to your loved ones (we'll talk more about this later). Holding a family meeting, having an agenda to talk about your estate plan, and inviting any necessary third parties (attorneys, for example) can get you on the right path. By doing simple things like this, you're preparing your beneficiaries and you're creating an environment of openness and trust.

There will certainly be factors that affect how much you disclose to your beneficiaries, like their age and level of maturity. You can figure out the appropriate level of detail you'd like to share based on these types of circumstances. But the idea is to have a plan to discuss your intentions for your wealth. If you've been communicating with your family all along, then you'll avoid any big surprises.

In the end, more communication means more trust. Being clear about your intentions can help alleviate potential conflicts regarding your wealth after you're gone.

Empowering with the “softer side” of wealth

The softer side focuses on the nonfinancial aspects of your wealth. A lot of it is what we’ve already been talking about: trust and communication and educating your family members and beneficiaries so they have the information they need to succeed and carry on your legacy.

It’s more than just education, however. Most of what parents worry about when transferring their wealth to their children is that they’ll place too much emphasis on material things and be naïve about the value of money.* You can begin to break that barrier by using the softer side of wealth: communicating a purpose and a mission for your wealth, instilling values, understanding your family’s dynamics, establishing governance, and using philanthropy.

Creating a purpose

You can help create a purpose for your wealth by drafting a family mission statement. Here are a couple examples:

“We’re committed to family bonding, community outreach, and fun. We’ll grow the family assets and provide for the family’s education, growth, and security.”

“Our family mission is one of living by our guiding principles and building family unity for growth and development. This includes prudent financial investments and service to others, while creating our legacy and having fun together.”

As you can see, a mission statement lets you lay the groundwork for what’s important to your family—values like education, philanthropy, and financial security, for example. Consider hosting a family meeting to create and document your mission. You can involve all family members and gather input, giving everyone a chance to voice their opinions. By making it a collaborative effort, all family members will feel they’ve been heard.

In the end, you’ll have something tangible to guide the future decisions you and your family make regarding your wealth. It will also reinforce the values you find important.

Family meetings

Meeting regularly with your family, with well-thought-out agendas, promotes open communication and discussion. Family meetings are an avenue to educate, create trust and harmony, and pass along your values. They can be formal or informal; large, medium-sized, or small; and balanced with the right mix of business and play. You can use family meetings as a way to weave in all of the different components of the softer side of wealth that we talk about here.

By communicating your values to your loved ones, you'll help educate them so that they'll pass on those same values to future generations.

Instilling family values

Establishing and instilling family values can be one of the most important things you do with your loved ones to ensure a successful wealth transition. By communicating what's important to you—business, education, and fun, for example—you're on the path to instilling the values you want your beneficiaries to live by, giving you a better chance at a lasting legacy.

A great place to start is with your mission statement. As we mentioned before, a mission statement outlines the purpose for your wealth. But you can also use it as an opportunity to embed the values you find most important. You can then continuously reinforce these values at family meetings and outings, and through everyday communication. These can be things like doing good works, receiving formal education, and getting involved in philanthropy. You can also explore your family's history, giving your loved ones a glimpse into what their relatives found important over time.

Establishing family governance

Family governance can help provide a framework for your family. It can take many different shapes and forms (a business, a family council, etc.). Consider establishing roles and responsibilities that give family members the opportunity to contribute to your goals and mission. If someone has a passion for giving, you could give him or her the title of "philanthropic educator." If someone is a natural leader, focus on mentoring and educating him or her in preparation to fulfill a suitable role in the future.

Roles in family governance go outside formally established legal titles (executor, trustee, etc.). Instead, you're creating additional roles that are agreed upon by the family (investment decision-maker, tax preparer, family historian, etc.). Consider learning what your beneficiaries are interested in and assigning them to roles based on their strengths. That way, they'll remain engaged and be more inclined to carry on your family's mission.

Using philanthropy

Philanthropy can have a powerful impact on a family. There's the most obvious benefit: the gift of giving. But for families with wealth, philanthropy has much more to offer.

By involving your family in philanthropy, you offer your loved ones many unique opportunities. We used the example earlier of designating a specific dollar amount, allowing your children to choose an organization to donate it to, and investing it in a donor-advised fund. This can help strengthen the value of giving, while also giving your children a chance to learn about investing. You can take it a step further and ask each child to explain why he or she chose a particular charity. This can teach business skills like presenting and persuasion. In addition, exercises in philanthropy can create ties among other siblings and unify the family behind a particular cause.

Understanding family dynamics

Throughout all of these important aspects of the softer side of wealth, you're going to encounter dynamics that are unique to your family—such as how siblings and loved ones interact with each other and how issues get resolved.

Interfamily relationships can sometimes get complicated. But we recommend working on managing these relationships so that everyone feels like they're being treated fairly. Focus on understanding the importance of inclusion, identifying and respecting individual strengths and weaknesses, leveraging and managing skills to apply them to specific roles and responsibilities within the family, and managing conflicts.

We're here to help

At Vanguard, we're here when you need us. Your relationship team is available to help you and your loved ones delve deeper into many of the topics that we simply touched on in this brochure. Whenever you're ready to get more involved, simply give us a call.

OUR COMMON THEMES

We've talked about a lot: our holistic approach, empowering beneficiaries through investing and planning, and the softer side of wealth. But what's common among all of these topics? The answer is communication, education, and family involvement.

Do your loved ones know about your wealth plan? Do they have the skills and knowledge to execute it? By remembering to also focus on the softer side, you can keep the momentum moving forward with your wealth goals. Because the process involves so many different moving parts, it's important to begin as early as possible. And remember that there are specific strategies and tactics you can implement to ensure you're successful.

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