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RESEARCH

Proactive communication key to smooth generational wealth transfers: report

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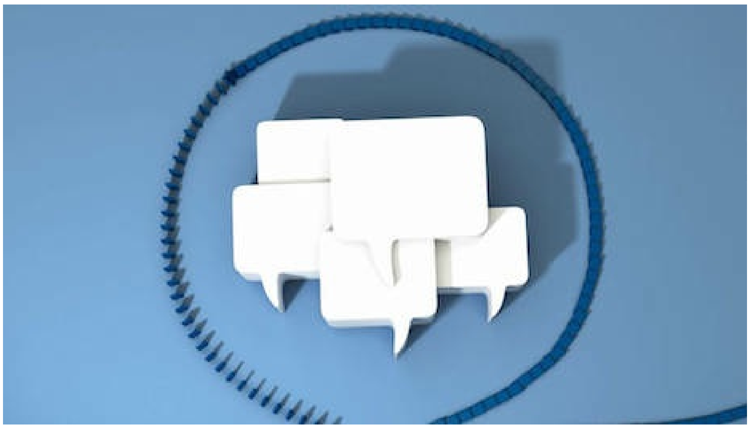


UHNWIs that fail to prepare for generational wealth transfers could stand to lose up to 40 percent more than those who properly plan. Image credit: Raymond James

By ZACH JAMES

Those in the affluent community seeking out the best outcome when it comes to shifting familial capital are being urged to speak up sooner rather than later.

According to a survey conducted by American investment banking firm Raymond James, high-net-worth individuals (HNWIs) should be proactive in their approach to managing generation wealth. Taxes play a large role in these actions, as without proper communication and planning, families could lose a sizeable swath of potential inheritances.

"The absence of effective planning can lead to a greater tax implication on the wealth transfer," said Will Lucius, chief trust officer at Raymond James Trust.

"In particular, for high-net-worth and ultra-high-net-worth individuals (UHNWIs) whose estate may be subject to a federal estate tax liability, the absence of planning could cause a taxable event with a range up to 40 percent," Mr. Lucius said. "As the survey indicated, 9 in 10 respondents listed tax efficiency as a stated goal in their wealth transfer plan, but only 26 percent have consulted tax professionals.

"This should be alarming insofar as there may be significant changes to the federal estate tax in the next several years."

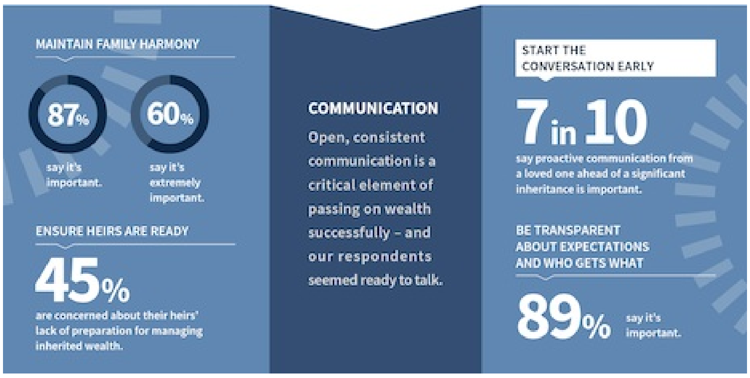
The "Does Your Wealth Have Momentum" survey was conducted in collaboration with American business intelligence company Morning Consult between Nov. 18 and Nov. 24, 2022. A total of 1,000 American investors with $500,000 or more in investable assets responded to the inquiry; Raymond James notes a three percentage point margin of error for the results.

Communication is key

According to the respondents and the survey's publisher, transparency among affluent individuals during the transition planning process is necessary.

Among those polled, 71 percent said "proactive communication of wealth transfer plans would be important to them if they were receiving an inheritance," with another 45 percent claiming to be "extremely transparent" with their heirs.

A further 87 percent stated that "family harmony" is important to maintain during these discussions, necessitating honesty between all parties involved. Eighty-one percent of respondents stated they've been at least "somewhat transparent" with their descendents.



A slew of data points back up the bank's assurances. Image credit: Raymond James

"For many, an ideal scenario would be to take a set dollar amount and divide it equally among heirs, but that's rarely the case," said Joe Weaver, president of Raymond James Trust, in a statement.

"With illiquid assets to consider such as property, collectibles, businesses, heirlooms and so on, the task of dividing assets equitably becomes more complex," Mr. Weaver said. "This is where discord in the family can begin if a client's intentions aren't clearly communicated."

Between 66 and 84 percent of respondents have a plan in place, the range split between those who do not have a financial advisor and those who do, respectively.

Once a plan is discussed, taxes are the next, and arguably most important aspect, to consider. Nine out of ten of those surveyed hold tax efficiency as an important aspect of their wealth transfer strategy, yet just over a quarter of them have consulted a professional in the field.

> Guiding your wealth toward the future you envision starts with a plan. Learn how a comprehensive wealth transfer strategy can help ensure your wealth has momentum: https://t.co/L4GgzkvuCy pic.twitter.com/uEO9JVy6ZO
>
> Raymond James (@RaymondJames) August 22, 2023

With more tax measures passing (see story) and others impacting home sales (see story), HNWIs should be increasingly on the lookout for ways to "maximize their legacy," as the report states.

"The results continue to trend as they have historically regarding wealth transfer and estate planning underscoring the importance that a trusted advisor can play in bridging the gap between the client's desired goal and actually implementing an effective plan," said Mr. Lucius.

"The majority of respondents working with an advisor have a documented plan in place with over 90% feeling confident in that plan," he said. "However, it is incumbent on advisors and other professionals to continue to reiterate to clients the impact that the absence of planning can have on a smooth transfer of wealth."

Despite calls to rally for wealth to be left for one's heirs, a sizable portion of those surveyed plan to leave money behind for charitable endeavors. Fifty-four percent plan to leave a "positive philanthropic impact," with 10 percent vowing to at least a quarter of their fortune to charity.

Lavish living

On top of over half of the report's interviewees planning to donate a chunk of their change as part of their wealth transfer plans, inheritances could be shrinking for other reasons.

As more than 100,000 HNWIs move house this year in fear of a global recession (see story), the number of the group owning multiple properties is also surging (see story).

> Our 2023 Second Home Attitude Report is out with some fascinating takeaways. Check out the full report and some of our newest drive-to listings: https://t.co/YM8zm3fJz2#housingtrends #realestatetrends #realestate #pacaso #proptech #luxuryrealestate #travel #familytravel pic.twitter.com/p1LFOeqhA1
>
> Pacaso (@PacasoHomes) July 13, 2023

The same group of affluent individuals who possess two or more homes is also spending more on family getaways, trips and relaxation; 81 percent say they would rather splurge on another vacation or house than pad their descendents' future inherited wealth (see story). This increase in spending seemingly comes from the "you only live once" mantra hitting home for those with a sizable bank balance.

Overall, luxury spending is expected to increase in the coming months and years, with travel set to hit an all-time high mark next (see story) and nearly 90 percent of fashion consumers poised to up their expenses in the segment in the same time frame (see story).