

Secrets of Successful Families: Creating a Lasting Legacy

Presented by:

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THE NEW STANDARD IN WEALTH MANAGEMENT

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AGENDA

I. What Are Families and Family Businesses Attempting to Preserve?

II. The Problem: What Happens to Most Wealthy Families?

III. The Solution: Secrets of Successful Families

1. Collaborative Team of Advisors
2. Investment Planning
3. Tax Planning
4. Healthy Family Governance

What Are Families Attempting to Preserve?

WHAT ARE FAMILIES AND FAMILY BUSINESSES ATTEMPTING TO PRESERVE?

Financial Capital —“the Money”

- Cash
- Real Estate
- Stocks and Bonds

WHAT ARE FAMILIES ATTEMPTING TO PRESERVE?

“Money isn’t the most important thing in life, but it’s reasonably close to oxygen on the ‘gotta have it’ scale.”

— Zig Ziglar (1926-2012)

WHAT ARE FAMILIES ATTEMPTING TO PRESERVE?

Financial Capital—“The Money”

Non-Financial Capital

- Individual Capital: Each family member’s personal strengths/talents
- Collective Capital: Family’s collective capabilities and traditions
- Community Capital: Family’s contributions to others
- Spiritual Capital: Belief in a higher purpose

How Are Financial and Non-Financial Capital Related?

- Financial Capital supports and enhances Individual, Collective, Community and Spiritual Capital

WHAT ARE FAMILIES ATTEMPTING TO PRESERVE?

“A good man leaves an inheritance to his children’s children...”

— Proverbs 13:22

The Problem: What Happens to Most Wealthy Families?

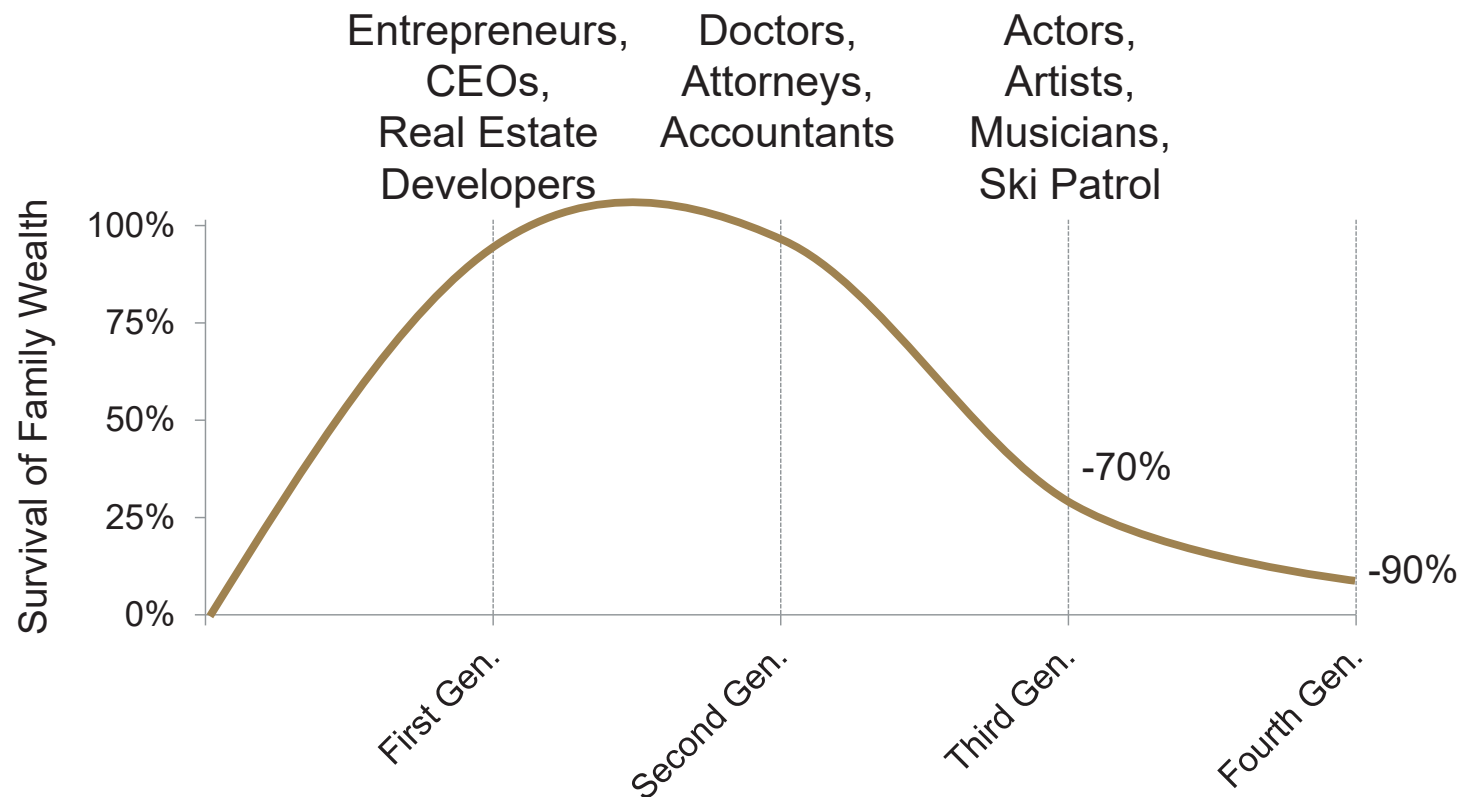
WHAT HAPPENS TO MOST WEALTHY FAMILIES?

Common Proverbs/Adages Regarding Family Wealth

UNITED STATES	– Shirtsleeves to shirtsleeves in three generations
CHINA	– Wealth never survives three generations 富不过三代
FRANCE	– The 1st generation builds, the 2nd strengthens, and the 3rd spends it all
GERMANY	– The father creates it, the son receives it, the grandson ruins it
INDIA	– Peasant's shoes to peasant's shoes in three generations
ITALY	– From stalls to stars to stalls
JAPAN	– The third generation ruins the house 長者三代
KOREA	– No rich man goes beyond three generations 부자가 3대 못간다
MEXICO	– 1st generation traders, 2nd generation gentlemen, 3rd generation beggars
PORTUGAL	– Rich dad, noble son, poor grandson
SCOTLAND	– The father buys, the son builds, the grandchild sells, and his son begs
SWEDEN	– Acquire, inherit, ruin
UNITED KINGDOM	– There's nobbut three generations atween a clog and clog

WHAT HAPPENS TO MOST WEALTHY FAMILIES?

Studies of Generational Wealth



Sources: Beckhard, R., and Dyer, Jr., W.G., "Managing Continuity in the Family-Owned Business," Organizational Dynamics, 1983; Ward, J. L., "Keeping the Family Business Healthy: How to Plan for Continuing Growth, Profitability, and Family Leadership," Jossey-Bass, 1987; The Economist, "The New Wealth of Nations," June 16, 2001.

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WHAT HAPPENS TO MOST WEALTHY FAMILIES?

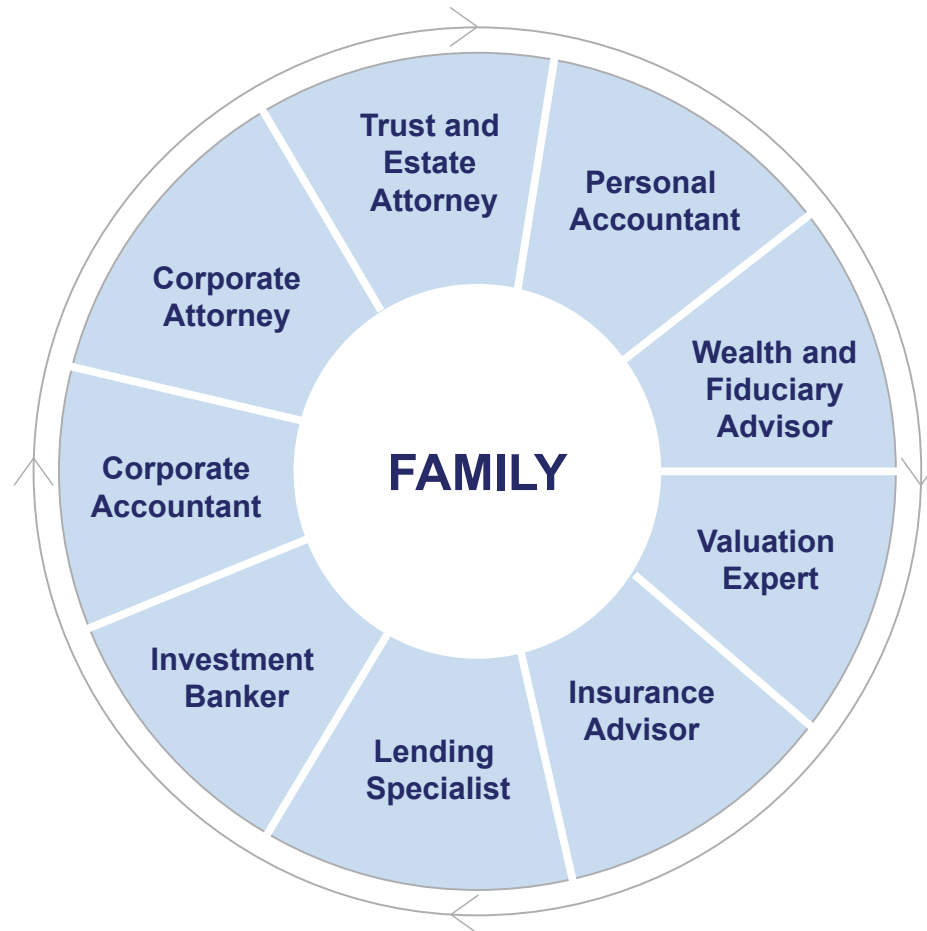
“Riches, in spite of the most violent regulations of law to prevent their dissipation, very seldom remain long in the same family.”

— Adam Smith (1723-1790)

The Solution: Collaborative Team of Advisors

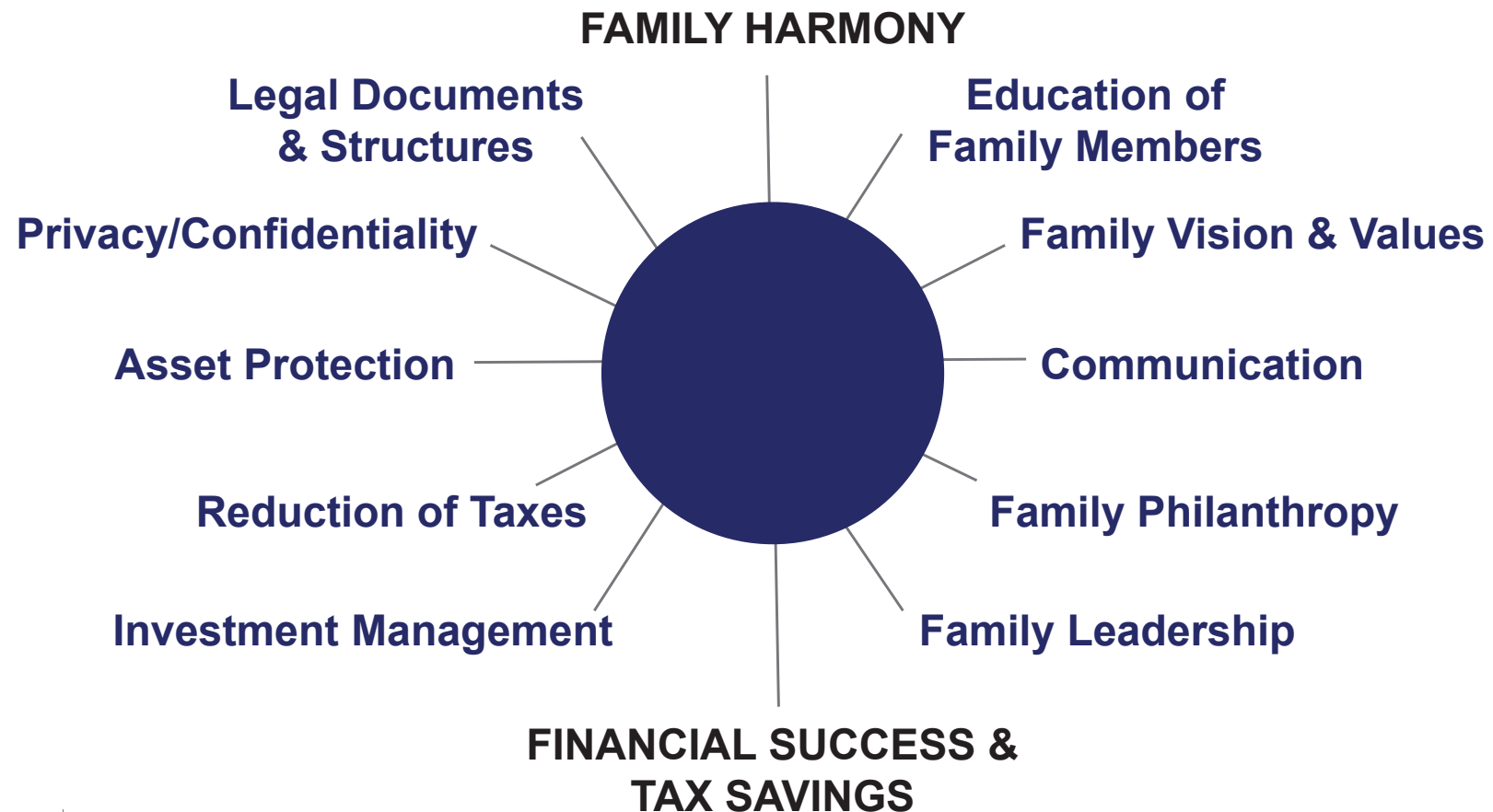
SECRETS OF SUCCESSFUL FAMILIES

Collaborative Team of Advisors



SECRETS OF SUCCESSFUL FAMILIES

Collaborative Team of Advisors



The Solution: Investment Planning

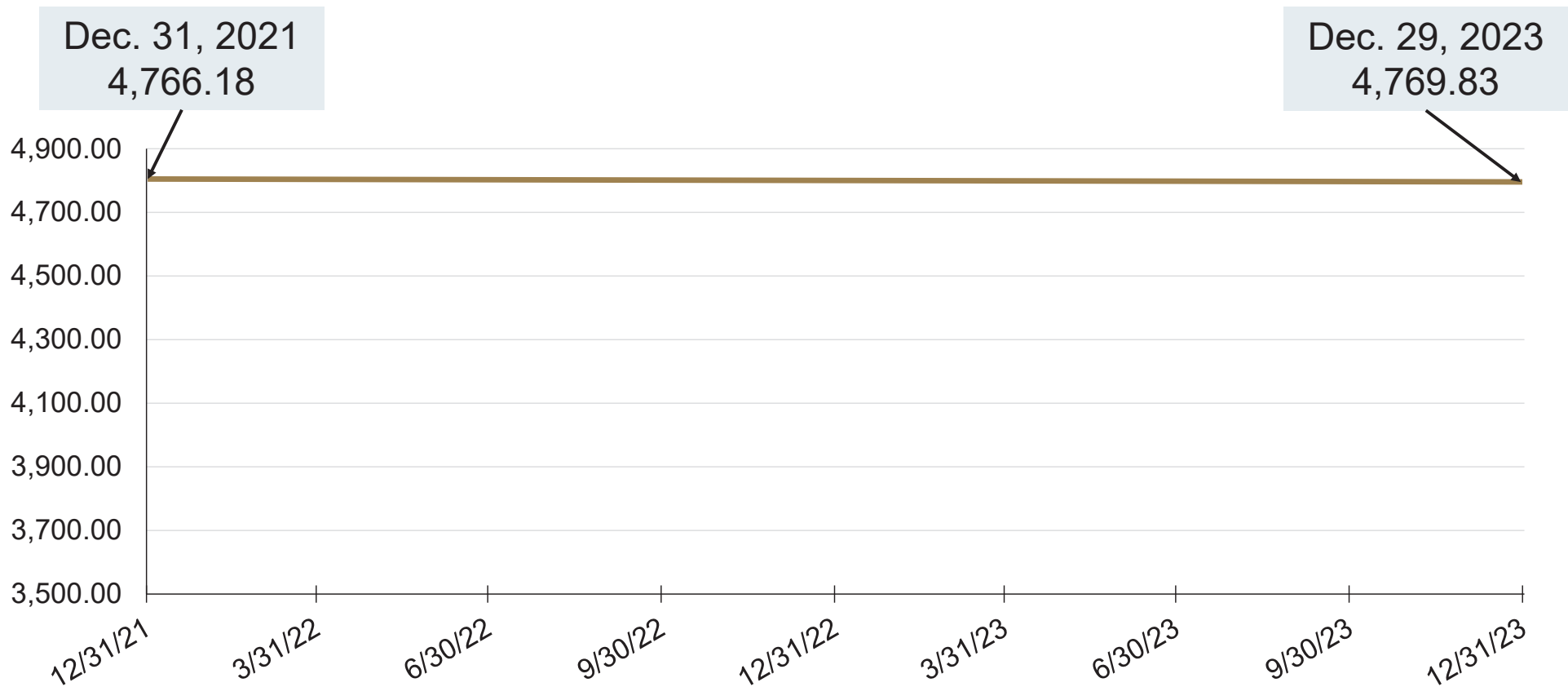
INVESTMENT PLANNING

Easy Question:

- How do we invest the family money?

FROZEN BY FEAR—VOLATILITY

S&P 500 Index Price (Straight Line)



Source: FactSet. Closing price adjusted for splits, dividends and/or capital gains distributions as of 12/29/2023.

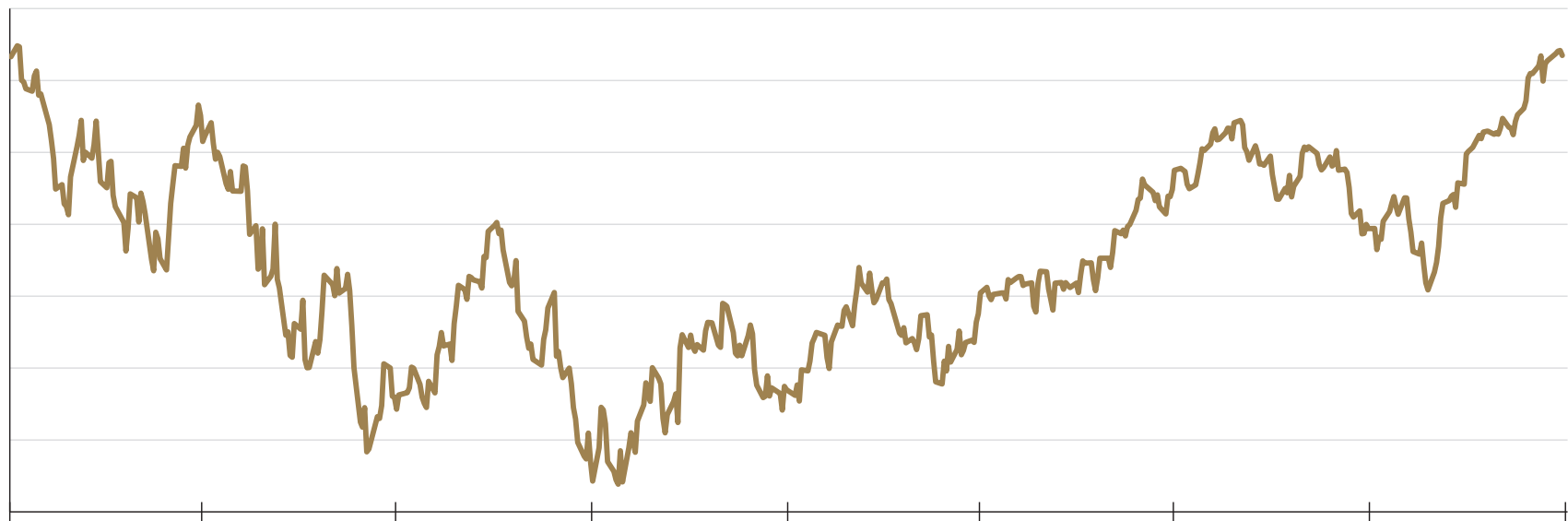
FROZEN BY FEAR—VOLATILITY

S&P 500 Index Price



Source: FactSet. Closing price adjusted for splits, dividends and/or capital gains distributions as of 12/29/2023.

FROZEN BY FEAR—VOLATILITY



The Solution: Tax Planning

TAX PLANNING

Easy Question:

- How do we minimize taxes?

TAX PLANNING

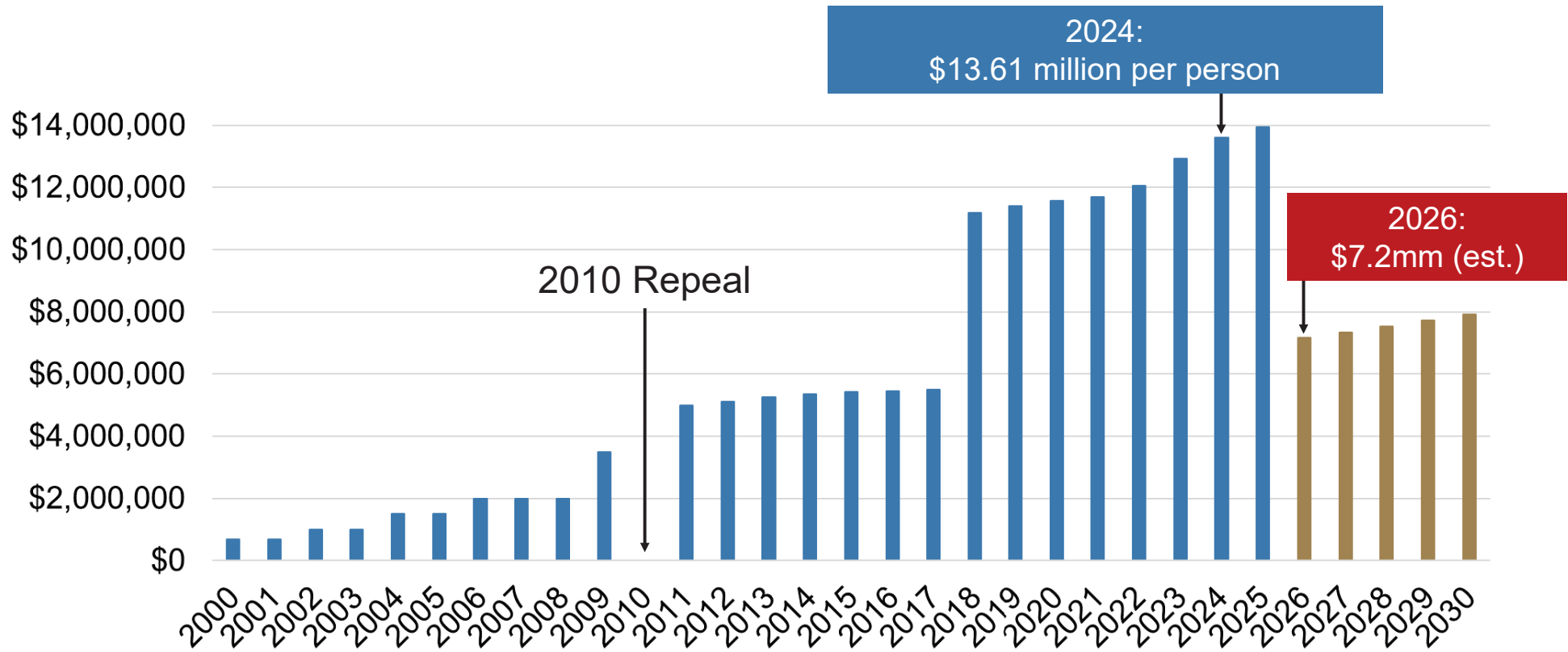
Income, Estate, Gift and GST Taxes

Possible Planning Strategies

1. Gifting of the Annual Gift Tax Exclusion Amount—\$18,000 Per Person in 2024
2. Intra-Family Loans—at the Lowest Applicable Federal Rates
3. Dynasty Trusts and/or Spousal Lifetime Access Trusts (SLATs)
4. Family Limited Partnerships (FLPs) and/or Family LLCs—with Intra-Family Discounting
5. Non-Grantor Trusts—for State Income Tax and/or Section 1202 QSBS Purposes
6. Irrevocable Life Insurance Trusts (ILITs)
7. Charitable Remainder Unitrusts (CRUTs); Charitable Lead Annuity Trusts (CLATs)
8. Qualified Personal Residence Trusts (QPRTs)
9. Grantor Retained Annuity Trusts (GRATs)
10. Sales to Intentionally Defective Grantor Trusts (IDGTs)

TAX PLANNING

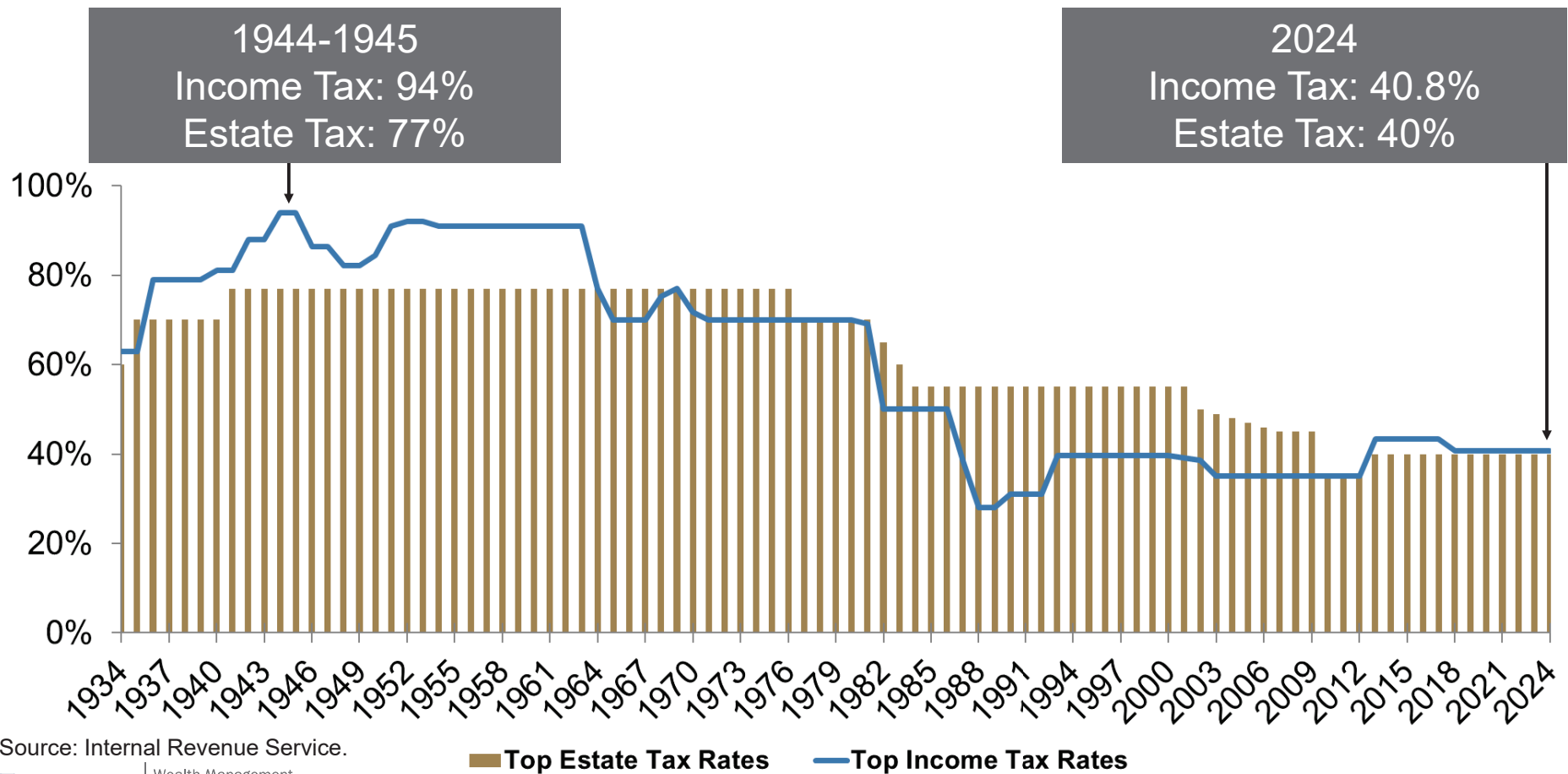
Historically High Exemption Amounts (Past and Projected)



The chained CPI tends to increase more slowly than the regular CPI. The exclusion amount is \$13,610,000 per person in 2024. Rev. Proc. 2023-34, 2022-38, 2021-45, 2020-45, 2019-44, 2018-57, 2018-18, and 2017-58. Projected future exemption amounts based on average annual 2.5% inflation adjustments.

TAX PLANNING

Highest Income and Estate Tax Rates: 1934-2024



TAX PLANNING

The Cost of Procrastination

Assumptions:

Net Worth	\$50,000,000	Growth Rate on Assets	7.0%
Unified Credit Per Individual: 2024	\$13,610,000	Strategic Planning Discount	35.0%
Unified Credit Per Individual (estimated): 2034	\$8,490,939	Estate Tax Rate: 2024	40.0%
Married (Y/N)	Y	Estate Tax Rate (estimated): 2034	40.0%

	STATUS QUO	STRATEGIC PLANNING WITH CHARITABLE FUND
Estate Value Today	\$50,000,000	\$50,000,000
Strategic Planning Discount	\$0	(\$17,500,000)
Charitable Fund	\$0	(\$5,280,000)
Net Taxable Estate	\$50,000,000	\$27,220,000
Amount Due IRS	(\$9,112,000)	\$0
Total Net to Family/Charity	\$40,888,000	\$50,000,000

<u>COST OF PROCRASTINATION</u>	<u>TAXES</u>	<u>AVG. COST PER MONTH</u>
Today in 2024	(\$9,112,000)	(\$195,319)
Ten Years in 2034	<u>(\$32,550,276)</u>	
ADDITIONAL TAXES	(\$23,438,276)	

The Solution: Healthy Family Governance

HEALTHY FAMILY GOVERNANCE

Hard Questions

- How much is enough?
- How much is too much?
- How much is enough that they'll do something, but not too much that they'll do nothing?

Answer with a Question

- How much have you prepared them for?

PREPARING THE FAMILY FOR THE MONEY

“It has left me with nothing to hope for, with nothing definite to seek or strive for. Inherited wealth is a real **handicap to happiness.**”

— William K. Vanderbilt (1849-1920)
Grandson of Cornelius Vanderbilt

PREPARING THE FAMILY FOR THE MONEY

“The almighty dollar, bequeathed to children is an **almighty curse**.
No man has a right to handicap his son with such a burden as great wealth.”

— Andrew Carnegie (1835-1919)

“I regard large inherited wealth as a **misfortune**, which merely serves to dull men’s faculties... merely **encourages laziness** and impedes the healthy development of the individual's capacity to make an independent position for himself.”

— Alfred Nobel (1833-1896)

“I am living proof **money cannot buy friendship**.”

— Doris Duke (1912-1993)

“Remember whenever money is involved, it brings out horrific things in people, it has the power not only to split families apart, but to **destroy the foundations of one’s life**.”

— Gloria Vanderbilt (1924-2019)

HEALTHY FAMILY GOVERNANCE

How Do We Prepare Our Family for the Money and Avoid “Shirtsleeves to Shirtsleeves?”

Five-Step Process for Family Governance

1. Education: Learn the possible problems and potential solutions
2. Communication: Discuss and evaluate in a safe family setting
3. Mission, Vision and Values: Plan for the future using family values
4. Teamwork Practice Opportunities: Test drive using Steps 1-3 (Family Philanthropy)
5. Transition to Family Leadership: Structure and process for management of family wealth

EDUCATION

	NBA	NFL
Average annual salary (2023-2024)	\$9.7M	\$2.8M
Average career length	4.8 Years	3.5 Years
Players who are broke within 2 to 5 years into retirement	60%	78%

Sources: National Basketball Players Assn. (2023); National Football League Players Assn. (2023); Pablo Torre, “How (and Why) Athletes Go Broke,” Sports Illustrated (March 23, 2009).

COMMUNICATION

Problem:

- You can choose your employees, but you can't choose your family
- Baby Boomers, Generation X, Generation Y (Millennials), Generation Z (the "iGeneration"), and now Generation Alpha

Solution:

- Intergenerational conversations with active participation of family members

COMMUNICATION

Family Council Meetings: Evaluation and Discussion in a Safe Family Setting

- Should we sell or keep the family business?
- What do we do with the vacation house or the family ranch?
- What is an appropriate lifestyle, and when should it start?
- Which organizations do we want to support?
- When does a person become a member of the family?
- Prenuptial agreements?

MISSION, VISION AND VALUES

The Meaning and Purpose of the Family's Wealth

The Who, What, When, Where, Why and How Questions

- Who do we want to be as a family?
- What are we trying to accomplish?
- When should we start?
- Where do we want to end up?
- Why do we care?
- How are we going to get there?

MISSION, VISION AND VALUES

The Meaning and Purpose of the Family's Wealth

Write It Down—in Your Own Words!

- Family Mission Statement
- Family Constitution / Family Charter
- Ethical Will
 - Legal Wills deal with valuables, while Ethical Wills deal with values
- Letter of Wishes / Statement of Wishes
 - Guidance for the future trustee of your financial assets

MISSION, VISION AND VALUES

The Meaning and Purpose of the Family's Wealth

How Do You Articulate Your Mission, Vision and Values?

- Personal and/or family stories
 - Where did we come from and how did we get here?
- Advice and hopes for present and future generations
- Be positive

MISSION, VISION AND VALUES

The Meaning and Purpose of the Family's Wealth

“Begin with the end in mind.”

— Stephen R. Covey (1932-2012)

TEAMWORK PRACTICE OPPORTUNITIES

Benefits of Philanthropy

- Economic—Tax breaks¹
- Social—Signaling one's wealth or status²
- Psychological—Giving causes happiness³

¹ Clotfelter, C. T., "Federal tax policy and charitable giving," Chicago: University of Chicago Press (1985); Clotfelter, C. T., "The economics of giving," in J. W. Barry & B. V. Manno (Eds.), "Giving better, giving smarter", Washington, DC: National Commission on Philanthropy and Civic Renewal (1997); Reece, W. S., & Zieschang, K. D., "Consistent estimation of the impact of tax deductibility on the level of charitable contributions," *Econometrica* (1985).

² Becker, G. S., "Theory of social interaction," *Journal of Political Economy* (1974); Glazer, A., & Konrad, K. A., "A signaling explanation for charity," *American Economic Review* (1996); Griskevicius, V., et al., "Blatant benevolence and conspicuous consumption: When romantic motives elicit strategic costly signals," *Journal of Personality and Social Psychology* (2007).

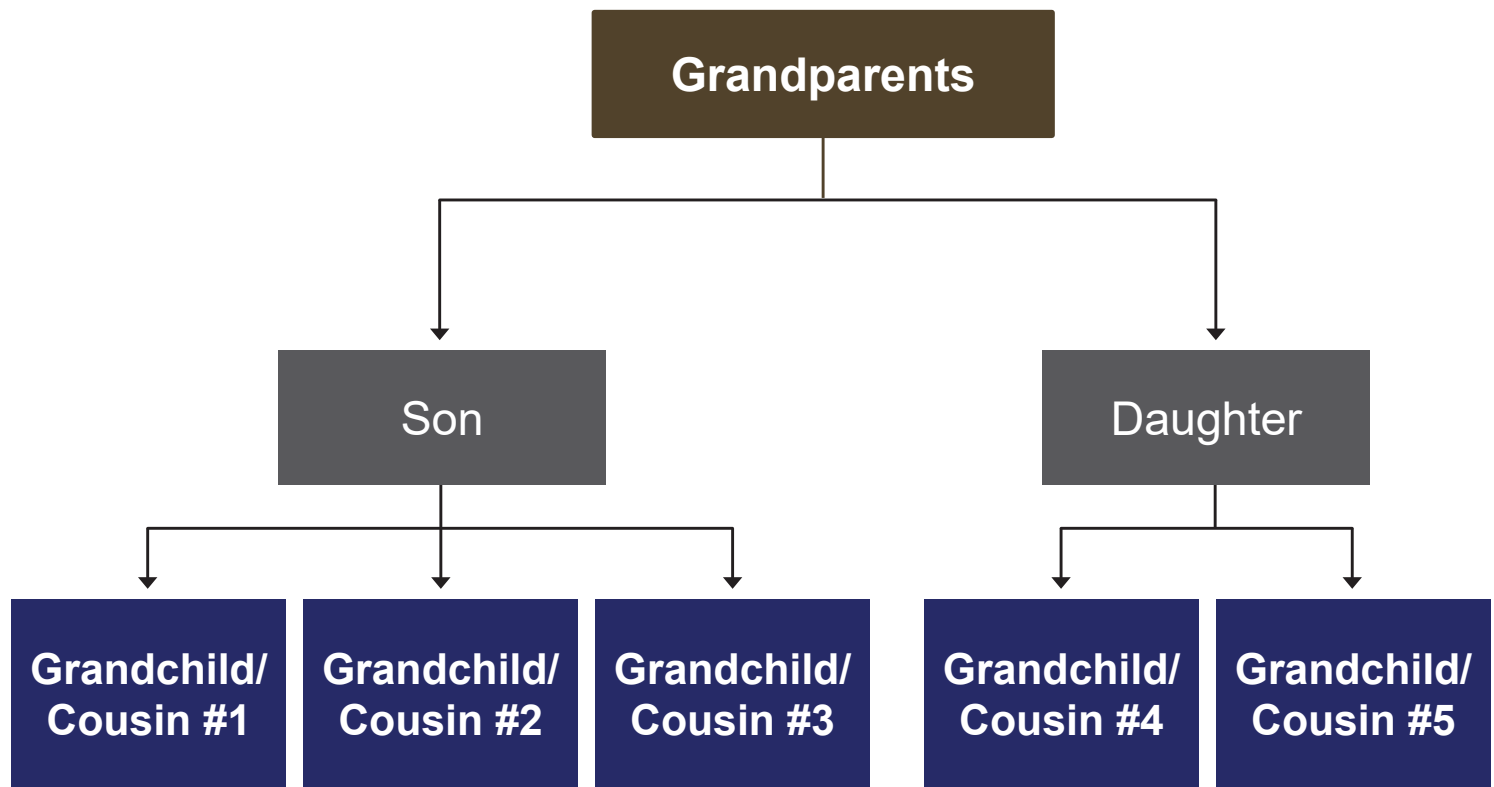
³ Andreoni, J., "Giving with impure altruism: Application to charity and ricardian equivalence," *The Journal of Political Economy* (1989); Andreoni, J., "Impure altruism and donations to public goods – a theory of warm glow giving," *Economic Journal* (1990); Dunn, E. W., Aknin, L. B., & Norton, M. I., "Spending money on others promotes happiness," *Science* (2008).

TEAMWORK PRACTICE OPPORTUNITIES

Family Philanthropy

Grandparents Set Aside \$25k Annually for Charity:


- \$1K directed by each grandchild
- \$5K directed by son's children
- \$5K directed by daughter's children
- \$10K directed by cousin consortium



TEAMWORK PRACTICE OPPORTUNITIES

Family Philanthropy

Why It Works—Family Members Learn:

- **Communication, negotiation and shared decision making**
 - **Leadership**
 - **Accountability**
 - **Investing and financial literacy**
 - **Responsibility to help others**
- 

These are all skills that are necessary for managing the family's "wealth."

TEAMWORK PRACTICE OPPORTUNITIES

Family Philanthropy

“Paradoxically, families often learn more about long-term wealth preservation through the process of learning to give away than by the process of learning to accumulate and spend.”

— *Family Wealth* by James E. Hughes, Jr.

TRANSITION TO FAMILY LEADERSHIP

Family Governance Models

1. Royal: Father or mother (oldest child or most able/interested)
2. Anarchic: Anarchy rules, family fights often
3. Representative: Equal equity, elected members lead
4. Capitalist: You get what you work for
5. Socialist: Equal shares and partners
6. Entrepreneurial: Company sold, money for venture capital
7. Laissez-faire: Sell company and give equally to each
8. Utopian: Business is a resource, family built around it

REPRESENTATIVE FAMILY GOVERNANCE MODEL

Family Members

- Choose the family's "executive committee"
- Rules for participation:
 - Not automatic
 - Certain criteria must be met

Executive Committee

- Chooses and monitors professional advisors

Collaborative Team of Advisors

- Administers, invests and distributes the family's property

THE ROTHSCCHILD FAMILY—SUCCESS STORY

“It requires a great deal of boldness
and a great deal of caution to make a great fortune;
and when you have got it,
it requires ten times as much wit to keep it.”

— Nathan Mayer Rothschild (1777-1836)
Son of Mayer Amschel Rothschild

Thank You!

BIO

Justin Miller, J.D., LL.M., TEP, AEP®, CFP®

Partner and National Director of Wealth Planning, Evercore Wealth Management

Managing Director, Evercore Trust Company

Justin Miller is a Partner and National Director of Wealth Planning at Evercore Wealth Management and a Managing Director at Evercore Trust Company, where he works collaboratively with accountants, attorneys, and other advisors to provide comprehensive wealth planning advice to clients. Prior to joining Evercore in 2021, Justin was a national wealth strategist for 10 years at BNY Mellon. He previously was a managing director at Wells Fargo and began his career as a tax attorney at Sidley Austin.

Justin also is an adjunct professor at Golden Gate University School of Law, a Fellow of the American Bar Foundation, and a Fellow of the American College of Trust and Estate Counsel. He has served in leadership positions with the American Bar Association, California Bar Foundation, San Francisco Estate Planning Council, and State Bar of California, and is a former editor-in-chief of the California Tax Lawyer. Additionally, he is a past recipient of the Outstanding Conference Speaker Award from the California Society of CPAs and the V. Judson Klein Award from the California Tax Bar.

Justin received a B.A., with honors, from the University of California, Berkeley, and a J.D. and LL.M. in Taxation from New York University School of Law. He also holds the Accredited Estate Planner® and CERTIFIED FINANCIAL PLANNER™ designations and is a member of the State Bar of California.

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