Uniting Around a Legacy

Many firms are trying to figure out what "next-gen" or "millennial" investors need. "Millennials" are not a monolithic group, however, and each client's unique challenges and family situation must be considered when developing strategies and plans. Here we examine some of the situations that we help families work through together.

Young investors face a critical set of decision points in their early years of independence. We work regularly with clients in their 20s and 30s, helping them make good decisions about starting new business ventures, funding their educations, managing inherited wealth and tackling other challenges unique to the time in their lives when they are first charting their long-term path. We find that these clients—often referred to with labels such as "millennials" or "next-gen"—face very different circumstances than their parents did, and thus they often make different decisions.

We need to understand these differences so we can provide helpful advice and proactive solutions. We are fortunate to work with clients of all ages and backgrounds; in many cases, we work with multiple generations within a family, and can see firsthand the similarities and differences between parents and children, and the circumstances they respectively faced when starting out. Broadly, our younger clients have some of the interests and traits associated with millennials, such as proficiency with technology, high levels of online engagement and connection, or rapid information consumption from a wide range of resources. However, it is the more nuanced differences that stand out to us, and that offer us a particular opportunity to not only help our younger clients, but to work more broadly with families to create value across generations.

1) Our younger clients are trending toward non-traditional income streams. Clients that are relatively early in their careers are generally working to build wealth and save for the future. Today, many of them find themselves in sectors shifting toward non-traditional corporate structures or work settings. Their compensation may take the form of consulting income, business distributions or equity ownership. Some of these structures enhance long-term security for the client, while others increase uncertainty. Nontraditional income influences the way we as advisors think about risk and liquidity for the client when investing their portfolio. And, it can pose challenges for those seeking loans or financing

ALICE PAIK
Head of Strategic Advisory

SHADIE PARIVAR
Strategic Advisory Analyst

from traditional banks—some clients are frustrated by the challenge of demonstrating income from a collection of non-traditional sources.

At times, younger clients benefit from the careful planning of their parents; their inherited wealth can come in many forms, such as LLC interests, private equity holdings, or income from family trusts. In these situations, clients are best served by a planning approach that carefully considers both their income statement and their balance sheet.

2) Our younger clients are trending toward entrepreneurial ventures. Technology and other factors are making it easier and less costly to start new business ventures, or to build a career on a set of ideas and projects, vs. the traditional path of long-term career commitments to an employer.

This approach offers many benefits—flexibility, opportunity, intellectual stimulation—but it also may carry individual and family risks. We work with all of our clients to systematically protect them with proper health insurance, an appropriate safety net for potential income interruption, and other potential issues. But this aspect of planning is critical for those who are embarking on an entrepreneurial path that may offer long-term reward, but meaningful short-term financial risk.

3) Our younger clients are trending toward sustainable investing and impact. Many of our clients were raised in homes focused on charity, philanthropy and giving back to their communities. They also grew up in an era of global connection, and have friends and contacts around the world. Thus, their investment thinking often reflects a combination of global awareness and desire to invest sustainably. A recent study in *Financial Advisor* found that 90% of millennial investors want their investments to "make a positive impact on society," notably higher than the generations immediately preceding them. Their key challenge is determining their specific goals for financial return and societal impact, and then selecting the solutions that maximize both.

In working with clients that face these emerging circumstances, we find that family collaboration and unity can be a powerful tool to help older and younger generations accomplish their goals together. Here, we offer a number of case studies and examples of situations where we worked with our family clients to enact a planning strategy that offered specific tangible benefits to both the parents and children.

Risk Management for the Young Entrepreneur:

Our client "Sharon" has both a young family and an entrepreneurial spirit. She wanted to start a new venture, but did not want to expose her family to undue burden or risk in the process. With a well-vetted business plan, she came to us for guidance on how to proceed.

We started by reviewing Sharon's cash flows and understanding her basic financial needs. As we do for many of our clients, we ran a capital sufficiency simulation to determine whether her current spending rate was in line with her long-term goals. This helped us assess the level of risk that she could afford to take when committing capital to a new venture.

Our next priority was to ensure Sharon's estate plan was in place and up to date. In addition to reviewing basic trust, will, and power of attorney documents, we advised her on the best entity to use for setting up her business, and on how to keep her business cash flows separate from her personal accounts. Additionally, as part of the review, we implemented a thoughtful succession plan and updated her personal and liability insurance.

Finally, we had a unique opportunity to assist Sharon as advisors to both her and her parents. We were able to strategize with the entire family about the most effective way for Sharon's parents to help with her venture. By engaging in upfront asset transfers to Sharon, rather than waiting to transfer wealth as an inheritance at the time of her parents' deaths, we helped her parents reduce transfer taxes while also enabling Sharon to utilize those funds at the time when she needed them most.

It was a highly rewarding outcome for all parties. Sharon gained a better appreciation of her parents' careful planning, and went into her venture with peace of mind that her family was protected, and her parents were impressed with her conservative approach to entrepreneurship, and were confident that she would be an effective steward of their hard-earned capital.

Sustainable Investing in a Family Foundation:

"Helen" is another younger client of ours whose family has a long history of charitable giving. In the 1980s her parents set up a family foundation, and about five years ago, they asked Helen to assume leadership. We had worked with Helen's parents to educate her on the functions of the foundation and the values on which it was based. Because of this, Helen felt empowered to take on this role when the time came and immediately wanted to bring her own perspective to the foundation. Helen broadened the mission of the foundation to address a wider range of sustainability topics, such as the environment, education and health care in developing countries.

She also wanted to develop a stronger link between the foundation's portfolio decisions and its mission, with specific ideas about investing more of the foundation's assets with companies, managers and ventures that provided both a financial return and positive global impact.

In helping her implement her ideas, we advised a patient approach, in which we worked with her to gradually adjust the portfolio over time. We find that in most cases, when a client is transitioning assets toward sustainable investments—especially when a portfolio is already fully invested—it is important to move deliberately. When taxes are a factor, it is essential to consider the consequences of exiting holdings that may be held at a low cost basis, and in non-taxable situations (such as Helen's family foundation), it is still important to carefully evaluate potential new managers on both a financial basis and on the basis of potential social impact. The family greatly appreciated this approach; Helen was pleased to have a team focused on the full range of investment factors she considered important, and Helen's parents were also confident in the portfolio changes, as each manager we recommended was approved through our firm's strict

Lending A Hand

Under current tax law, family members can lend money to each other on favorable terms without creating a taxable transfer of wealth. We help families use this tool in situations when parents want to help their children fund education expenses, start businesses or otherwise make progress toward their goals. The children benefit from lower rates than they are likely to get elsewhere, and the parents benefit from the ability to transfer assets to the next generation without gift-tax consequences. Perhaps most importantly, the family is able to collaborate around a common goal, and achieve it together.

Financial Advantage of Intrafamily Lending

Assume that a parent lends their child $1 million to be paid back over nine years, at the current IRS-allowed rate of 1.65% for medium-term loans. If the child is able to earn a return of 6% on that money over the nine-year term (through investments, successful growth of a business or other means), the result is a meaningful transfer of wealth—free of gift taxes—from one generation to the next.

Loan Amount	**$1,000,000**
Loan Payback Amount After Nine Years	**$1,158,688**
Assets After Nine Years (growth at 6%)	**$1,689,479**
Net Wealth Transfer (free of gift tax)	**$530,791**

Other Advantages

All in the Family: Interest payments remain in the family, rather than being paid to a bank or lender. Additionally, expenses such as closing costs can be avoided or minimized with family loans; such costs can be substantial with outside lenders.

Friendly Terms: Intrafamily loans are allowable at very low rates by the IRS without tax ramifications. In the example above, the parent was able to lend at 1.65% to their child; currently, a similar loan from a bank would likely carry a rate closer to 10%. Intrafamily loan rates may be particularly beneficial for family members with poor credit history.

overall due diligence process. After the time and effort they had put into their foundation, they were thrilled to see their daughter leading it to strong financial results and an expanded mission.

The cases of Sharon, Helen, and many others give us new opportunities to learn about the needs of our younger clients, and they also highlight for us that there are more similarities than differences between generations. Like her parents, Sharon is risk-averse. Before heading down the entrepreneurial path, she wanted to have a safety net in place and make sure her family was protected. Helen shares her parents' love of charitable work and is focused on reinvesting her family's wealth into her community through high-quality investments.

In many ways, our interactions with younger clients mimic our experiences with our older ones—they want to build their wealth, provide for their families, own homes, cover college tuition, live comfortable lives, avoid becoming a burden on their children, and have enough wealth to give back to their communities. These values are not new to us. But the position of younger investors in the world is new, so we adapt in order to meet them.

These examples also highlight for us the fact that a relationship with both the older and younger generations of a family puts us in a position to be most effective during transitional moments. Bridging that gap and finding common ground is perhaps the most rewarding outcome we can help families and younger investors achieve.

Steps Toward Sustainability

Many investors have deeply held beliefs and values that shape their life choices, yet three out of four investors are still hesitant about discussing sustainable investing with their advisors, according to a 2013 study by Calvert Investments. We have found that an incremental approach, with an emphasis on comfortable starting points, is an excellent way for families to begin building a sustainable investment plan that addresses their full range of goals.

Identify the values you prioritize.

Families often have a wide range of beliefs; you and your family may struggle with how to tackle all of your values within your portfolio. It can be helpful to target one or two priority issues to begin making concrete progress.

Consider and learn about all your options.

There are many tools at your disposal, from simple screening to innovative impact strategies. After learning about your options, you can select the ones that best match your specific goals.

Stay true to your plan; be comfortable with gradual change.

Sustainable investing is a worthy endeavor, but changes to your portfolio should progress at a deliberate pace. By proceeding gradually, you can avoid disruption and leave time to adopt new ideas you learn from experience.

1. http://www.fa-mag.com/news/millennial-interest-in-values-investing-rising-with-performance-27349.html