BREAKING THE WEALTH TABOO

EXPLORING THE OPPORTUNITIES AND CHALLENGES WHEN PASSING ON WEALTH

Coutts

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As part of our efforts to reduce our environmental impact, this brochure is shared digitally and any hard copies are printed on paper sourced from sustainable suppliers.

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IT'S TIME TO TALK

Conversations about money are rarely straightforward, particularly when your family is involved. Discussing wealth with your loved ones is often treated as a taboo subject, which is why succession planning can be such a difficult process – where differing values, emotions and expectations collide. Yet it's important to start talking about passing on wealth so that you can break the taboo and begin to find ways to fulfil your family's values and goals.

Today's families come in all shapes and sizes and the relationships within them are continually changing, which can present various challenges. People from different generations want to live their lives the way they choose, according to their own ideas about money and what's important to them and this potentially creates a source of conflict.

Our experience is that although planning how to pass on wealth is a challenge, it also provides a great opportunity to bring families together when you go about things in the right way. Families who are able to discuss their ideas and opinions openly gain a sense of common purpose. Instead of being a burden, family wealth then becomes a way to build a shared vision of your future.

Coutts has been helping families talk about and plan their wealth successfully for more than 300 years. We've produced this guide to help you explore what wealth means to you and consider the many different ways you can make it work for you and your family. We hope it provides you with some fresh insights about how you can make this process a fulfilling journey for your family – today, tomorrow and beyond.

THE LIVES OF OTHERS

Many families find inspiration on how to frame their financial futures from the experience of others who share their opportunities and challenges. To help us produce this report, we've used findings from two client surveys about wealth and how people plan to pass it on to others, plus a comprehensive literature review and economic modelling. And naturally, we've drawn on our own long experience in advising clients as well.

Our methodology
This report is based on research conducted on behalf of Coutts by WealthInsight in 2013, with additional research carried out by Coutts in 2020. This work comprised the following:

1. A comprehensive literature review compiled from publicly available sources, subscription sources and proprietary WealthInsight databases (2013).

2. Economic modelling conducted by analysts and economists (2013).

3. Qualitative research from focus groups and interviews held all over the UK, with more than 120 high-net-worth individuals and couples, as well as advisers (2013).

4. Quantitative research from a screened panel of 270 respondents with liquid assets of more than £1 million, plus 120 respondents having liquid assets of more than £5 million (2013).

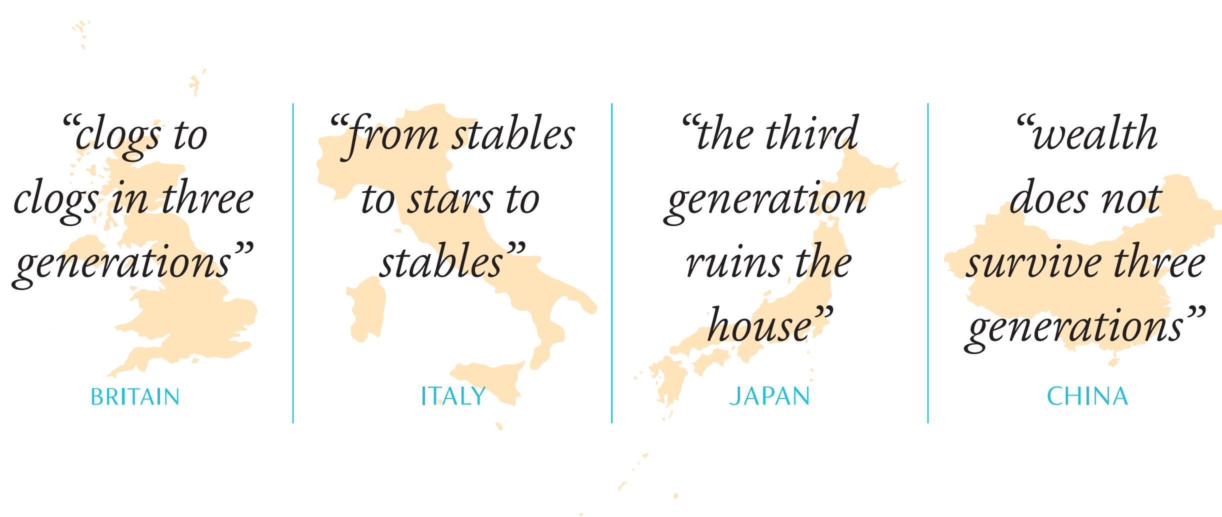
5. Quantitative and qualitative research to refresh the data and insight from our 2013 report through an online survey of 120 Coutts clients. Surveyed clients represent a wide range of demographic and wealth profiles (2020).

THE FIVE STEPS TO SUCCESS

Family wealth often fades through the generations. This principle is so well-established that many cultures and countries have a phrase for it. In Britain, it's "clogs to clogs in three generations"; in Italy, "from stables to stars to stables"; in Japan, "the third generation ruins the house"; and in China, "wealth does not survive three generations".

At Coutts, we believe it's possible to forge your own destiny as a family, but long-term success requires thoughtfulness, planning, education and communication.

To help organise your thoughts, we've grouped everything you need to consider into five steps.



The five steps to success

1
DEFINE YOUR PURPOSE AND VISION

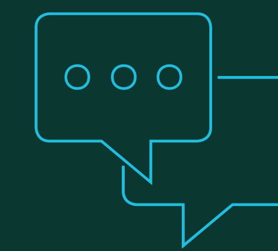
All successful journeys start with a destination in mind. Where do you want your wealth to take you and your family?

2
EXPLORE YOUR VALUES AND CONCERNS

Take the time to reflect on what's important to you in life. How will you pass on these values to those who will inherit your wealth, and manage the issues you're most concerned about?

3
DETERMINE WHAT'S FAIR AND MANAGE EXPECTATIONS

Balancing the expectations of everyone in your family can be tricky, particularly if their views are not in line with yours. Open conversations can help to shift everyone's point of view.



4
PREPARE THE NEXT GENERATION

It's a good idea to get your family involved in the process. Deciding how much information and responsibility to give them during your lifetime, as well as guiding them towards further learning, involves delicate choices.

5
DEVELOP AND IMPLEMENT YOUR PLAN

There are many ways to preserve your wealth to benefit future generations. The main advantage of starting to plan sooner rather than later is that it gives you the widest range of possible options and structures.

STEP 1

DEFINE YOUR PURPOSE AND VISION

What role do you see your family wealth playing in the future? Having a clear destination in mind will help make your wealth succession plans a success.

KEY POINTS

- Each family will view the purpose of their wealth differently according to their values, attitudes and experiences.
- Carefully consider who you will pass your wealth on to and when, as well as whether you'll ask anyone else to help you make these decisions.
- It's important to make sure your family are aware of your vision so that they understand the reasons behind your choices and you can develop a collective view as how to move forward together.

When you're thinking about how to pass on your wealth, it's important to carefully consider your aims. While it sounds simple, defining your goals isn't always straightforward. Each family will view the purpose of their wealth differently according to their values, attitudes, experiences and traditions. Families are varied in nature, so having to think about their changing needs and priorities can be challenging.

Another important thing to take into account is that we're generally living longer, with the average life expectancy in the UK now more than 80 years. This means wealth has to last for longer, and the next generation may not inherit until they are in their 50s or older.

To help you make the decisions that are right for you, we've outlined three key questions you should think about when planning how to pass on your wealth.

1. When is the right time to pass wealth on?

It can be difficult to decide when to start passing on your wealth to your loved ones. If you do it without the appropriate preparation and context, the next generation could take your support for granted. This could lead to a lack of motivation to be self-sufficient or develop a successful career. Yet if you pass it on too late, you run the risk of them missing out on hands on experience and opportunities to fulfil their potential. However, it is not always a straightforward decision and a number of different approaches can be used – there's no right or wrong solution.

2. How much do you give and to whom?

It's important to think about how much wealth you'll pass on to the next generation, and how you'll divide it. Does treating your children fairly mean treating them equally? Or will you choose to split it based on their needs, priorities and abilities? Whatever you decide, you'll need to adapt your plans as your family situation evolves over the years.

3. Who gets involved in the decision making?

You may choose to make the decisions about your succession plans by yourself or discuss them with your family. While 87% of our survey respondents said they've done some wealth succession planning, only 35% have spoken to their families about passing on wealth.

This anomaly highlights how discussing wealth remains a taboo subject for many people, and the importance of communication with your loved ones. Outside of your family, you'll need to decide which professional advisers to use, such as financial planning specialists, accountants, lawyers and your private banker. You may also want to seek guidance from friends and confidants.

Client perspective

Freedom through financial security

You may want to provide financial security for the next generation as a way to help them follow their dreams. One of our clients says:

"My daughter is a driven person and has a passion for academic pursuits. I am very happy that her inheritance can allow her to pursue that field without significantly compromising her quality of life. It also gives me peace of mind to know that if I die before my wife, she can continue to have the same comfortable lifestyle we've enjoyed together."

STEP 1

Triggers for succession planning

Some people start succession preparations at the suggestion of their advisers, prompted by the need for effective tax planning or tax law changes. But our research shows how other factors also play a part at different stages of our lives.

BIRTH	A new addition to the family means thinking about how best to plan for their future, including considerations around trusts and tax.
EARLY YEARS	Events such as starting school often see parents and/or grandparents providing funding for private education.
EARLY ADULTHOOD	Typical events in this period include begining higher education, providing a deposit for a home or supporting a career.
RELATIONSHIPS	As well as helping out with the costs of marriages and civil ceremonies, and things like buying a first home together, parents often consider ways to protect family wealth if relationships break down.
RETIREMENT	Older generations want to make sure they have enough wealth to enjoy the rest of their life, but also want their children to have access to their money early enough so that opportunities do not pass them by.
LATER LIFE	Events such as ill health can make things complicated for your family, which is just one of the reasons why it's important not to put off starting your inheritance planning.

STEP 1

Where will your journey take you?

You'll also need to think about what you'd like your wealth to achieve, which is likely to be influenced by your history, values and personal experience. It's important to make sure your family are aware of your vision, and help shape it together, so that subsequent generations have a road map to guide them and can continue to follow a shared path.

We've highlighted five key aims many people have in common when it comes to shaping their vision.

1. Security
Having financial security is something everyone wants for their family, whether it's a decent home to live in, healthcare or protection in an emergency. Some people choose to buy properties outright for their children when they leave home, while others provide deposits and loans to help fund the purchase of their first property. Although most people decide to pass wealth down during their lifetime to cover these costs, others make provisions in wills or trusts.

2. Lasting legacy
You may wish to support one or two generations and often this is how far family wealth can stretch. However, if you are thinking about supporting further generations, this will require a different approach. Either way, you will need to develop a plan which supports your ambitions.

3. Education
Many people choose to put money towards their children's education, so it's important to ask yourself how long you'd like to give them support – just through school or all the way through university? And what if they want to embark on postgraduate studies? You may also decide the family wealth should help your children learn new skills and go towards training much later in life.

4. Opportunity
Wealth can be seen as a springboard for children wanting to pursue a particular career or passion that doesn't always have a substantial financial reward. In situations where wealth has been generated through business ventures, many families feel that it should be a catalyst for creating more wealth through entrepreneurial activity or involvement in the family business. Increasingly, families offer their children the freedom to choose how they want to use the wealth they inherit – but often within the framework they've collectively agreed for their wealth.

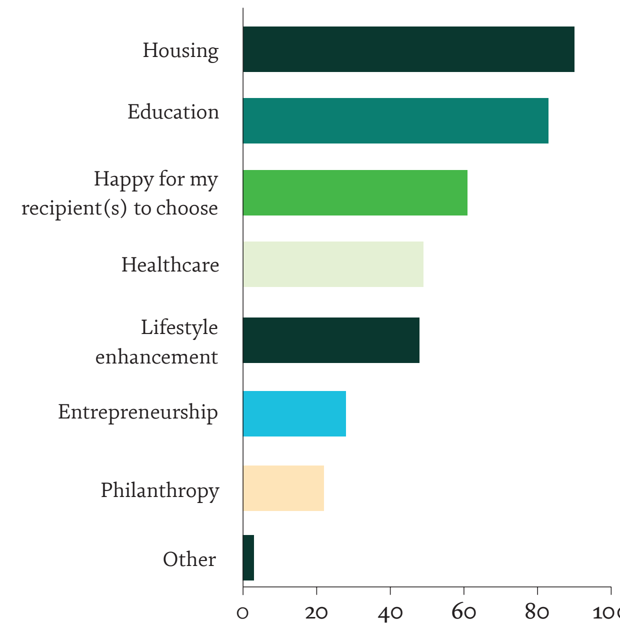
5. Giving
Giving to good causes is seen by many as one of the primary purposes of wealth. Philanthropy can provide an opportunity for children to understand their family's values and vision better, as well as the impact and influence these can have. Involving children in a charitable trust is also a useful way of teaching them about investment and how your family makes decisions.

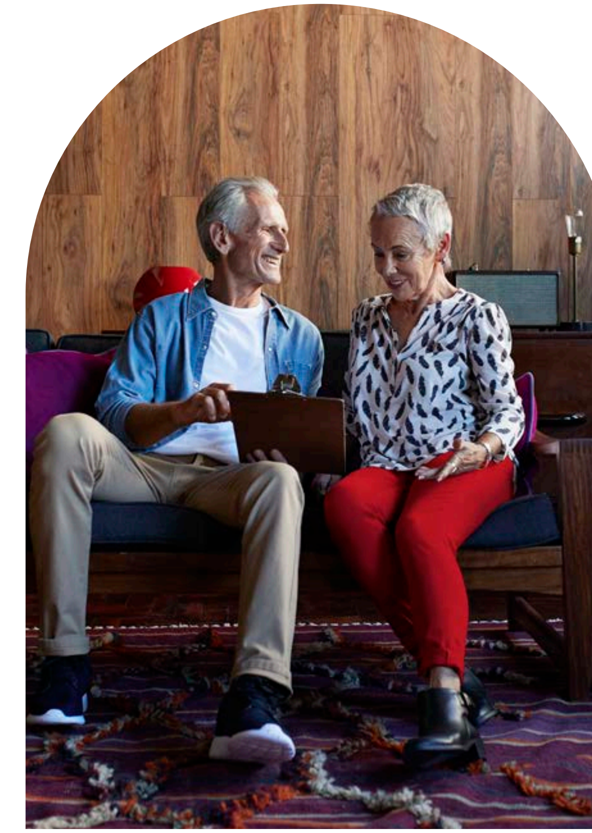
Client perspective
Home is where the heart is
Our vision for what we'd like our wealth to achieve often comes as a result of our personal experiences in life. Our survey found 71% want their wealth to provide housing for the next generation. With the increase in house prices over the past two decades, you'll need to invest a greater portion of your wealth if you choose to support their housing needs. One of our clients explains why helping future generations onto the property ladder is so important to them:

"As a child my parents could not afford to buy a property until I was 13 years old, so I feel very fortunate to have been a homeowner since I got married in the 60s. I believe owning a property provides a strong base for everyday life and stability."

Assess your priorities

Which of the following purposes do you want your wealth to have as it passes down or through your family?

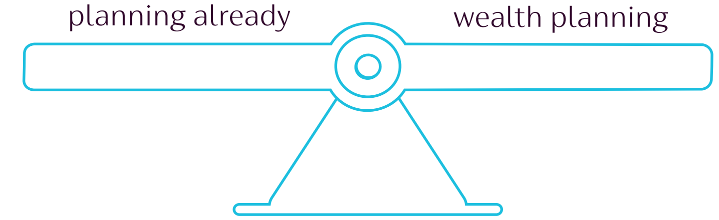




How much wealth planning have you done?

50% have done quite a bit or a lot of wealth planning already

50% have only done some, very little or no wealth planning



STEP 2

EXPLORE YOUR VALUES AND CONCERNS

When planning for succession, it's important to think about your family's beliefs and attitudes to wealth, as well as any reservations you may have about passing it on to subsequent generations.

KEY POINTS

- Take the time to reflect on what's important to you in life and how you will pass these values on to subsequent generations.
- Parents are not always aligned in their thinking, which is why it's almost always essential to discuss your ideas and hopes early so that a shared and coherent message is passed on to the next generation.
- Each family has their own concerns about their wealth, so it's important to discuss these worries openly with your loved ones as well as your advisers.

Your values are likely to be a complex combination of your own life experiences, your attitude to risk and your relationships with your family and friends. For many people, it can be a challenge to try to balance their values with the wealth transition process.

To help you assess your priorities, we've outlined four different attitudes to wealth which have emerged from both our research and experience. While the profiles might not be an exact fit for your situation, you may be able to identify with one or several of them and use the descriptions as a basis to assess your own outlook.

Custodian
You see yourself as part of a chain of stewards looking after your family's wealth for future generations. As a custodian, you tend to have a clear view of the values you want to pass on and prefer to preserve your wealth by using risk-averse, long-term investment strategies.

You're probably keen to discuss wealth transition with your family sooner rather than later. You like to have structures in place to protect the family wealth, while providing future generations with controlled access to it.

CONSIDERATIONS

- Is your family aware of how you'd like to pass your wealth through the generations and how this will be achieved?
- Are children in the family being prepared to become responsible custodians?
- Is there sufficient governance in place to achieve this aim?

Champion
One of your main aims may be to make sure the next generation appreciate the privileges that come with wealth and focus on keeping them grounded.

You may choose to pay for your children's education, but encourage them to follow their own path to help them understand the value of money and hard work. You'd like your children to reach their potential and embrace the benefits of being financially independent.

CONSIDERATIONS

- Have the expectations of the next generation been carefully managed?
- At what point would you step in if your children got into financial difficulties?
- What are your hopes for the next generation?

Consumer
You feel you've earned the right to spend your wealth and do what you want with it. You want to enjoy your wealth together as a family and make the most of all the opportunities it provides. This could include deciding to pass on more of your wealth to your children when they are young so that they can take advantage of all life has to offer. At the same time, you may be keen to give them the freedom to reach their own conclusions about what wealth means to them.

CONSIDERATIONS

- How will you make sure your children understand the value of money?
- What ambitions do your children have for the future?
- If you pass on wealth to your children when they are still young, how can you make sure they're still motivated to develop their own careers?
- How can you make sure your children try to get to grips with the responsibilities that come with wealth?

Philanthropist
You view wealth as a way to make the world a better place. You're likely to want to provide for your children's basic needs, such as education and housing. Yet you want to balance looking after your family with giving to philanthropic causes and making a difference to society.

You're keen to make sure your wealth is a force for good in the world and may have set up processes to channel your wealth into philanthropic causes. You may also engage with your children about their own philanthropic journey.

CONSIDERATIONS

- Does the next generation know what is expected of them and what role they might play?
- Has your vision been clearly articulated to your family?
- What is the right balance between spending and giving?
- Will philanthropic giving be limited to your life or will it be a legacy for future?

Wealth worries

FIVE COMMON CONCERNS OF WEALTHY FAMILIES

While being wealthy can open up many opportunities for you and your loved ones, it also carries a lot of responsibilities. Whether you're worried about family conflict or keeping the details of your finances private, we've highlighted five of the most common concerns of wealthy families.

1. Tax

Tax is one of the biggest considerations for wealthy families. Regular changes to tax and trust laws can make long-term planning a challenge, especially for complex estates.

Inheritance tax planning is best approached as a continuous process. It's important to review your plan regularly to make sure it's appropriate for your age and reflects any changes in your family as well as the latest laws and regulations.

2. Family conflicts

Wealth often helps bring families together, but it can also put a strain on relationships. Some family members may disagree with your philosophy on wealth, which could provoke feelings of resentment or envy, particularly when you haven't discussed your decisions with them. If your plans are only revealed after your death, this could lead to unanswered questions or misaligned expectations, and trigger conflict among your family.

In addition, you may worry that your children could be taken advantage of by people you believe are only interested in their wealth. Some people can also experience issues in their relationship if their partner's family has significantly more wealth than the other.

Client perspective

Addressing conflict within the family

There may be differences of opinion within your family about passing on wealth, which could cause tensions. Only 4% think that protecting family harmony is the most important reason for wealth planning, but one in five surveyed said they've experienced family conflict because of wealth.

One of our clients describes the challenges she and her husband faced when discussing their children's financial future:

"My husband and I disagreed about whether we should help our children buy their first homes. He felt that as we had to do it on our own when we were in our twenties, they should too. It was only after talking everything through with our friends and accepting that things are different now (especially in terms of house-price-to-income ratio) that he changed his mind. Even so, we have given them a loan rather than a gift.

We're both self-made, but we come from different backgrounds and I had some financial support from my parents along the way. While my husband had no help, he forgets that he also benefits from the support I received as we are a partnership. He feels it is morally wrong to pass your wealth on to your children. I'm happy to devote some of our wealth to philanthropic causes, but don't see why we can't also help our children along the way."

3. Complacency

You may worry that wealth could negatively affect the drive and ambition of the next generation. One of the main concerns of parents passing on their wealth is that their children might assume they'll inherit enough money to sustain a lifestyle they enjoyed when they lived at home. As a result, they could lack the motivation to realise their full potential. Many parents face the dilemma of trying to strike the right balance.

4. Wealth erosion

You probably want your wealth to provide opportunities not only for the next generation, but for others too. You may worry about conflict within the family, including the risk of relationships ending and acknowledging new ones starting. This may introduce new complexities such as extended families and added financial pressures. That's why it's vitally important to maintain a framework for open discussions about wealth that involve everyone concerned.

Taxes can also have a significant impact, while uncertainty around investment returns can be another source of concern.

5. Privacy

Wealth is a deeply personal matter, but the internet and social media may make it difficult for you to keep your family's finances private. Many people agree that this increases physical and emotional security risks for their loved ones. In addition, much of the information available on the internet may not be accurate.

Public access to information about your wealth could lead to tricky family situations. For example, your child could find out something online that you haven't discussed with them, which could lead to difficult questions. Preparing for this eventuality can help your family navigate unexpected and unwelcome conversations.

STEP 3

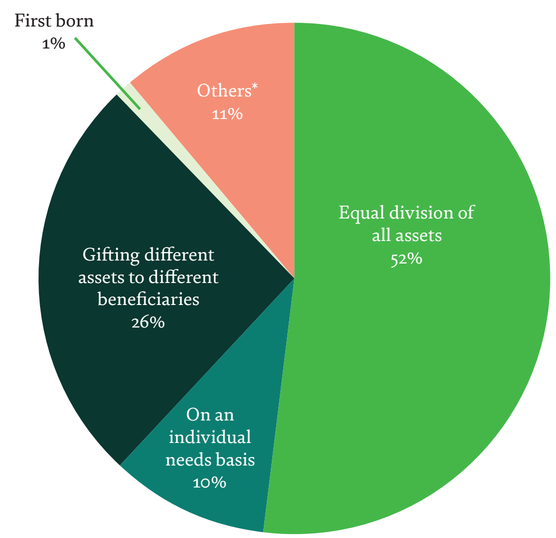
DETERMINE WHAT'S FAIR AND MANAGE EXPECTATIONS

How can you define what's fair when it comes to passing down wealth? When you're deciding how to divide your estate, the solution is rarely straightforward and depends on your changing family circumstances and priorities.

KEY POINTS

- Define what fairness means to you – dividing your wealth equally might not always be the most appropriate solution.
- How you acquired your wealth may influence the way you choose to pass it on to the next generation.
- Your definition of fairness may not fit with other people's, so make sure you explain your reasons clearly and address any misconceptions.

How do you plan to divide your wealth between family members?



* Other category – includes levels of involvement in family enterprise (1.6%), unknown/undecided (3.3%) or responded "other"(6.5%)
Figures have been rounded

One of the challenges people face when they're looking to divide their wealth is how to do so fairly. It can be seen as a taboo subject, and there's no right or wrong answer. To help avoid any conflict, it's important to explain your decision to family members in a clear and measured way.

While many people choose to divide their wealth equally among their family, this isn't always easy to achieve. Each family has its own unique dynamic, and some members may receive more financial support than others throughout their life. Sometimes this balance is never redressed or accounted for in succession plans.

Children often don't find out about their inheritance until their parents die, which can lead to confusion and unanswered questions. While it's understandable to be nervous about discussing this difficult subject, you're likely to feel relieved once you've talked through your plans with your family. Sitting down with your loved ones is also a good opportunity to address any misconceptions about the family's wealth.

Client perspective

Strike a balance

Many people want to ensure that their wealth doesn't hinder the next generation's sense of ambition. One of our clients explains:

"I would like the inheritance to provide a strong stable foundation for my children by providing the basics such as a good education of their choice as well as a mortgage-free abode. But I don't want them to have so much wealth that they feel that they don't need to work or aspire to something."

On an equal footing

Your ideas about fairness will be based on a variety of factors. Like many other people, one of our clients has decided to split her wealth equally between her children.

"The majority of my wealth will go in equal proportions to my four children. My brother and the grandchildren are the other beneficiaries. For some time, I have been gifting assets to my children. Three of them own their houses outright, while the fourth has a mortgage on a much more expensive London property."

STEP 3

10 INFLUENCES ON WEALTH DISTRIBUTION

How you acquired your wealth can influence the way you choose to pass it on to the next generation.

We've outlined some of the most common issues people consider when deciding how to divide their wealth.

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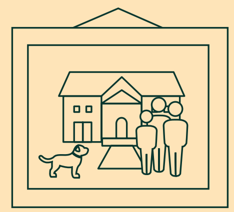

Maintaining the legacy
Whether for heritage, legacy or practical reasons, families are often keen that an estate or business stays together. People can also be reluctant to change the status quo for fear of being remembered as the generation responsible for a family rift.

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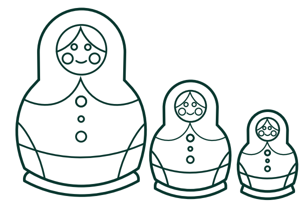


Business involvement
Achieving equality when planning for the succession of long-standing family businesses can be tricky. Not all members of the next generation may be interested in the business or show a flair for management or other roles. Some families concentrate the shareholding around those involved in the business, while others pass them down equally.

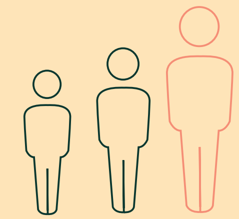
3.

Liquidity
For many families, the majority of their wealth is tied up in businesses and other assets. This means they can't readily access this wealth to distribute it equally, restricting the options for succession planning.

4.

Tradition
History and tradition can have a major influence on a family's succession plans. Certain assets may have to be handed down through the bloodline, stopping other members of the family accessing them. For example, a member of the bloodline may not be able to pass shares to their partner.

5.



Primogeniture
Although less common now, some people still choose to pass wealth on to their eldest son. Often, he will receive a flagship asset, such as a house or business, while his siblings receive a smaller inheritance.

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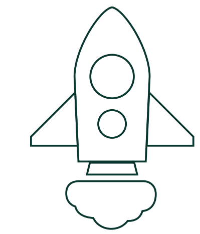
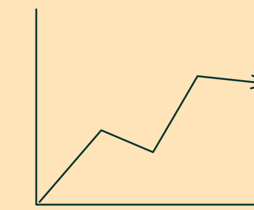


Entrepreneurial spirit
People with relatively newfound wealth, such as from the sale of a business, may feel less pressure to grow and protect it than those who have inherited it. In this case, they may feel that the next generation should be ambitious and business-driven like them. On the other hand, some parents prefer to limit the wealth they pass on so that their children also strive for their own success.

7.



Portfolio valuation
Many wealth portfolios don't lend themselves to equal division. For instance, properties can have a wide range of values and are difficult to split unless they are sold. In addition, a holiday cottage full of family memories may have more sentimental value than an investment property.

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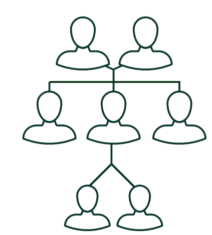

Family structure
Families come in all shapes and sizes, which can make planning how to pass on your wealth a complex process. Circumstances are always changing, which means it's important to work out how to strike a balance for everyone involved.

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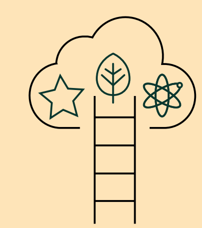
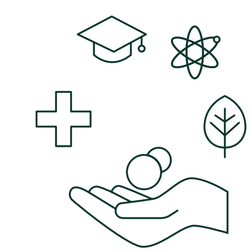


Supporting different aspirations
Parents often support their children based on their needs, and these can vary depending on their aspirations. For instance, a child may be pursuing their dream career, but it doesn't pay well. In this case, their parents may often step in and support them by helping them buy a house or car – or even top up their income.

10.



Values, behaviours and capabilities
Your values are a major part of deciding how to pass on your wealth. If you have a son or daughter who spends lavishly, you may be inclined to give their more careful and responsible siblings greater freedom to manage their inheritance. You may also want to provide additional support to any family members who are not in the same position to manage their wealth, such as for health reasons.

STEP 3

What does the next generation think?

When thinking about how to pass on their wealth, people often try to make the best decisions for their families. Yet these choices sometimes fail to take into account the perspectives of the people they will affect most – the next generation.

In many cases, children tend to be in tune with their parents' views about their wealth because they've been discussed within the family. They recognise that the family's wealth gives them financial security and can provide them with the opportunity to follow their dreams.

While there are undoubtedly benefits to inheriting substantial wealth, the next generation can sometimes feel overwhelmed by the prospect. This feeling is especially strong in those who feel they're expected to run the family business or estate, whether they want to or not.

A common concern among children is the prospect of being judged against their parents' achievements – as well as judging themselves against their parents' achievements. As a result, they sometimes put off career decisions by embarking on lengthy academic programmes, or choose a career that ensures they avoid direct comparison with their parents' success.

Members of the next generation may also be worried about what their friends think about their wealth. In particular, they could fear that people they meet are only interested in their family's money.

For many people, there is often a sense of guilt and anxiety about their inheritance. They may feel they haven't earned the opportunities they are given, which can affect their self-esteem and motivation.

STEP 4

PREPARE THE NEXT GENERATION

A vital part of passing on your wealth is preparing the next generation – a process that often takes place over many years. So, what are the best ways to do this, and where should you start?

KEY POINTS

- Recognise and appreciate that the next generation may have questions and concerns of their own.
- It's important to educate the next generation about the responsibilities that come with wealth, as well as encourage open communication within the family.
- There are many ways to prepare the next generation, from involving them in family trusts to introducing them to advisers.
- As a role model for the next generation, it's important to manage their expectations and explain the family's values.

Your family's wealth can open up a lot of opportunities for the next generation, but there can also be challenges along the way. That's why it's important to educate them about the responsibilities that come with wealth, as well as promoting constructive dialogue within the family.

Developing a shared plan for the future will give the younger generation the confidence they'll need to deal with the family's finances in the future.

Ways you can help prepare the next generation for what's ahead

Financial education
While there's no right age to start teaching the next generation about family wealth, it's never too early. Their financial education can start from something as simple as planning how to use their pocket money when they are young. Giving them a certain amount on a regular basis can encourage children to budget and save for something they really want.

When they're teenagers, you can introduce the next generation to the idea of investments by letting them make an imaginary portfolio or give them some money to invest. You can also teach them about credit. For example, you could give them a loan to buy a laptop which they'll then have to repay in monthly instalments. Children's ISAs and a stakeholder pension are useful vehicles to start their learning.

This process doesn't stop when they become adults. At this stage, you might encourage them to get more involved with investments, and it could be a good idea to send them on financial or business courses.

Client perspective

Encouraging financial independence
Teaching the next generation about the family's wealth is one of the most effective ways to prepare them for what's ahead. One of our clients shares his experience:

"We've prepared our children through education around wealth and values. The most important thing for us was to ensure that they maintain their own motivation to make their own wealth. What they get from us will be a bonus. They must never get complacent or feel entitled."

Family foundations
You can reinforce the importance of philanthropy by involving the next generation in your family's charitable trust or direct gifts to charities. Charitable foundations also provide an opportunity for future generations to be involved in decision making, leadership, governance and investment management.

Studies suggest that the earlier children become involved in philanthropy the more committed givers they become. It can start from something as little as giving unwanted toys to charity or a modest amount of money to a cause of their choice on special occasions.

Family meetings
Regular family meetings are a good way to get the next generation involved. You might set up regular structured meetings specifically to discuss wealth management and succession. This could involve drawing up a family charter or taking a less formal approach. Alternatively, the meetings could cover the next family holiday, philanthropic projects or a business idea.

One of the hallmarks of families that are successful in transitioning wealth to the next generation, is that they have worked hard to create a forum of open and honest discussion over the years.

Meeting advisers
Many families choose to introduce their children to advisers, including their bankers, accountants and trustees. They also start involving them in meetings while encouraging them to forge their own relationships. It's important to explain how to identify trusted advisers and how to work with them.

Networking
It's also worth seeing if any next-generation development programmes are available, which can provide financial training as well as mentoring and networking opportunities. These events can be useful forums to speak to peers about wealth in a safe environment.

Work experience
Family business owners often encourage the next generation to work in the business from an early age during weekends or school holidays. Older children could be invited to take a specific role to learn more about the business or get involved with governance as part of the preparation process. This will also help them define what they want from a career and what qualifications and experience they'll need to succeed.

Business ventures
The next generation may want to set up their own ventures. To encourage this, the family can help them build business cases, perhaps even providing seed funding, coaching or taking on non-executive roles to help.

Trusteeships
Some families include the next generation as trustees in family trusts to teach them more about the role. It also gives them clarity about the vision and values of the family while they learn how to manage finances and investments.

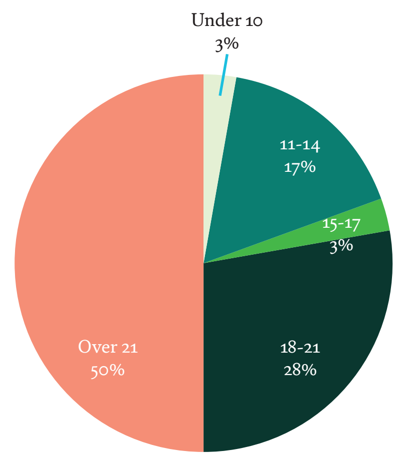
Dividends
Many children have been given shares and receive regular dividends from them. Some families use this as an opportunity to talk about the performance of the company and help them understand business reports and accounts.

Haven't yet started preparing your family for passing on and receiving wealth? You're not alone. Our 2020 survey found:

52% haven't **engaged** family heirs in discussion on the purpose of family wealth

66% haven't **involved** family heirs in managing family wealth

At what age did you start preparing younger family heirs for receiving family wealth?



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Client perspective

A partial view of the family wealth
Some people don't feel comfortable discussing the full details of the family wealth with their children. However, by getting the next generation involved in your decisions, you can emphasise what's important to you, like philanthropy. One of our clients says:

"I discussed the formation of a family charitable trust with my children and they are all trustees. I've also explained that I will be gifting them money in equal proportions to help with housing and will form a trust to support my grandchildren's education. I have also told them about the formation of a loan trust for their benefit. However, I have not discussed the majority of my assets, which will pass to them on my demise, or when I am quite a bit older."

DO YOUR CHILDREN LIVE THE HIGH LIFE?

Most parents want their children to understand the real value of wealth without developing a sense of entitlement. How you approach this issue will depend on your attitude to wealth – for example, someone who sees themselves as a custodian of their wealth will take a different direction than someone who wants their family to be able to enjoy all of life's luxuries.

As much as talking through your values and expectations is vital, actions speak louder than words. Understanding your own values and what inspires your children can be beneficial, as we explore on page 16-17. Here's a few examples of how you can help manage their expectations.

Economy or first class?
Most parents would agree that all short-haul flying should be done in economy, but what about long haul? If you fly first class, would it be unreasonable for your children to expect to do the same?

Ferrari or Ford Focus?
Buying a car for your children can help meet a basic need, but the choice of car is critical. If your children start asking for a supercar, it could imply they've lost sight of the value of money. And who will be responsible for paying the ongoing costs?

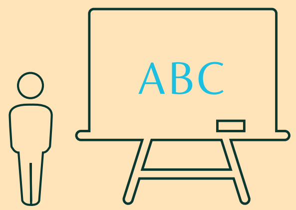
A place in the country?
Parents might choose to give their children deposits for a house or buy them a small property. Sometimes children might try to push the boundaries by asking for holiday homes or very expensive properties. This could be a good time to reinforce your family values and bring them back down to earth if you feel the request is inappropriate.

STEP 4

Practical ways to prepare the next generation

Growing up in a wealthy family provides the next generation with a range of opportunities, but it also comes with many responsibilities.

From childhood to adulthood, we've summarised some key steps you can follow to help them prepare for the future.



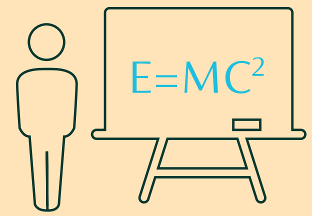
EARLY YEARS (5–10 YEARS)

Help them understand the basics through pocket money. Ideally, it should be given on a regular basis and used as a way for them to learn how to spend and save. For example, the pocket money can be split into 'spend', 'save' and 'give' pots and they have to decide how much goes into each, and why.

Be an effective role model by helping them understand the values that should underpin their actions. For example, show how you take care of possessions or give to charities.

Introduce them to the concept of work. It's important for them to understand where the family wealth comes from and give them the opportunity to do daily chores for no financial reward, while rewarding some others with money, like washing the car.

Talk to them about philanthropy to help teach them how to make choices about money, while communicating family values and informing them about the purpose of their wealth.



SECONDARY YEARS (11–16 YEARS)

Help them develop their financial vocabulary. More complex financial concepts can be introduced, like why we pay taxes. They may also start studying economics, and be able to start talking about things like inflation and diversification.

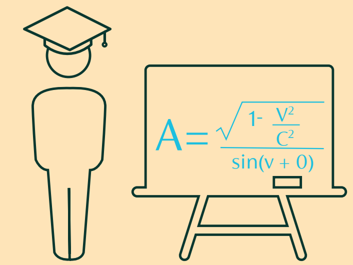
Allow them to take control of their own money so they can make their own decisions and mistakes. During this stage they'll be able to open a bank account and own a debit card, so make sure you highlight the importance of security and PIN numbers.

Encourage them to do work experience or pay them to do some additional jobs for the family beyond regular chores.

Reinforce the idea of family values by explaining the choices the family makes – for example, choosing to fly economy rather than first class. You can encourage them to get more involved in philanthropy by researching the charities they're interested in or volunteering for charities.

Encourage them to develop their own interests. Children can sometimes assume that they may not need to work when they're raised in a wealthy family, but it's important for them to identify their own interests so they can develop their independence.

Prepare them for tricky social situations. Sometimes, their friends may make comments or ask them questions about the family's wealth. It may be helpful to discuss the answers to these questions in advance and educate them about the risks of social media.



YOUNG ADULTS (17–24 YEARS)

Help them to take a more active role in managing their finances and introduce them to more complex concepts, such as investments and project management.

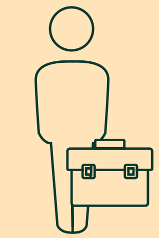
Start talking about the future in a meaningful way – including careers, qualifications and training, and how money relates to this.

Support them in finding their interests and developing their skills, beyond just the financial, and enable them to make personal choices.

Maintain communication about family values, in more informal settings like car journeys or formal settings like a family meeting.

Prepare them socially. As deeper relationships develop with their peers, they'll have to become more independent and may have to answer difficult questions about the family's wealth. Having a chat with positive role models and mentors can help.

Build their involvement with philanthropy. If you have a charitable foundation, you could create a junior board with responsibility for a grant-making pot. The junior board can then identify, research, choose and propose which charities they'd like to fund.



ADULTS (25 YEARS AND OLDER)

Maintain family communication. While your children may have moved into their own place by now, it's still important to get together as a family. Their personal relationships may also be developing, so it's worth talking about managing finances within a partnership.

Help them define their personal goals and assess career options. These choices could affect the financial assistance you decide to give them in the future. For example, they may pursue a lucrative career path and be able to support themselves.

Step up discussions about family wealth. As a family, you could review your view of the purpose of wealth and the principles the family should be guided by.

Encourage them to develop wealth management skills. They could manage some of the family wealth as part of an overall development plan, from taking on an investment portfolio to exploring a business idea.

Talk about entrepreneurialism. Think about how you'll support your children if they choose to pursue their own business ideas and contribute to the family's wealth independently.

Encourage them to take the lead on philanthropy. They could start to take a more formal role within the family by joining the board and contributing to cause they support.

STEP 5

DEVELOP AND IMPLEMENT YOUR PLAN

Now that you've decided how you'd like your wealth to shape your family's financial future, it's time to put your plan for passing down wealth into action. This is just the start of the journey – there's a lot to think about and it's important to consider all your options.

KEY POINTS

- There are many ways to discuss and pass on wealth and it's a good idea to start early so that you can still have some influence over what happens.
- A combination of approaches is likely to provide the best way to meet your needs, and make sure your beneficiaries don't pay more than their fair share of tax.
- It's also important to review your plan regularly and make sure it reflects any changes in your family situation, as well as evolving laws and regulations.

There are many ways to pass on wealth, and the main advantage of starting to plan early in life is that it gives you the widest range of possible choices. You're also more likely to understand and accept different ideas, as well as have more time to become comfortable with new structures and handing control of your money to someone else.

Ways to organise your wealth

In the first instance, it's essential to make a will and review it regularly. You may also want to think about inheritance tax, where the rules are complex and change frequently.

There are likely to be unintended consequences of any decisions you make, and any shift in your family situation will also make a difference. The following areas are some of the most common ways to organise your wealth.

1. A will

A will is the blueprint for working out what you'd like to happen to your assets. It's crucial to write one and keep it up to date in order to avoid potentially costly and time-consuming problems for your family after you die. If you're concerned about privacy, you could also draw up a letter of wishes that gives detailed instructions about what your executors and trustees should do when you die – but unlike a will, it's not a public document.

Client perspective

Minimising stress

Planning in advance can help prevent unnecessary stress for the next generation after your death. One of our clients explains:

"We've tried to ease the 'burden' on the girls should anything happen to both of us at the same time, which is our biggest concern. We've redone our wills and ensured that our trustees will be supportive and helpful to them. They both have Coutts accounts and know that they will be looked after by the bank in more general terms, which is very comforting to know."

STEP 5

It's also becoming increasingly popular for people to include information about the origins of your family's wealth. A written story or video can help to reconcile your values with the way the rest of your family thinks about money, as well as instil feelings of fairness and recognition.

2. Gifts and exemptions

One of the easiest ways to help children or other family members is by making regular gifts from income. This approach is particularly efficient because inheritance tax (IHT) is not charged on gifts made from any 'excess' income — loosely defined as income not otherwise required to maintain your usual standard of living.

Gifts up to a certain value in a given tax year are generally exempt from IHT. In addition, parents and grandparents can gift additional money to their children as a wedding present.

Gifts worth more than the limits will be subject to IHT if you die within seven years of handing over the money. These gifts are called potentially exempt transfers (PETs) because if you die within seven years, your beneficiaries may have to pay tax on a sliding scale, depending on how much you gave away and how long you survived from the date of the gift.

3. Family structures

Another way to pass money down the generations is through a formal structure, and there are a number of different options. For example, you can put a limited amount of cash into a trust without triggering any immediate IHT charge. This route could provide a valuable source of funding for, say, grandchildren's education.

These types of structures can be useful where the financial needs of various beneficiaries are not yet clear, which is helpful in such an uncertain and changing landscape. In effect, they can create a fund that different children or grandchildren can benefit from if and when needed.

4. Philanthropy

The decision to give is usually deeply personal and the inspiration often comes from our own lives. Those that see education as the source of success look to create that opportunity for others. People who enjoy the arts want to provide others with similar experiences. Those who travel widely often confront challenging conditions and see opportunities to change them.

Whatever your reasons, philanthropy can be an incredibly rewarding experience if you want to make a difference to the causes and communities you care about. It's a journey that involves thinking about your own values and developing a strategy, as well as working out how to assess the impact of your giving. Speaking to others who have given to draw on and learn from their ideas, insights and their experiences can be helpful.

Establishing a charitable foundation can be an excellent opportunity to engage the whole family in creating a lasting legacy. There's a lot involved, from registering with the Charity Commission to managing donations and meeting reporting commitments, which is why it's important to seek professional guidance.

Client perspective

Focusing on philanthropy

You may choose to pass on most of your wealth to philanthropic causes while providing for the basic needs of the next generation. One of our clients says:

"My wife and I have set up a charitable foundation which will receive the bulk of our wealth. We'll pass on some of our wealth to our children for housing, to our grandchildren for education and to other family members to use as they see fit."

KEEP IT IN THE FAMILY

A prenuptial agreement (or prenup) sets out what would happen to your assets if your relationship breaks down or ends in a divorce. Prenups have become increasingly popular as we are marrying later in life than in previous generations and have accumulated our own assets such as property, shares or pension pots before we get married.

A prenup is legally binding on both parties, providing they meet a number of requirements. The caveat is that while UK courts will recognise prenuptial agreements, they also still have the ultimate discretion to ignore any agreement reached if its terms are is deemed to be unfair to any children of the marriage.

There can also be some tax advantages to giving. If you leave more than 10% of your estate to charity, your IHT rates fall to 36% on the rest of your estate. Gifts made to charity during your lifetime are also exempt from IHT and will often result in income tax and capital gains tax savings too.

5. Pensions

Although pensions are generally considered to be a retirement planning vehicle, changes in legislation have made them of considerable value as an estate planning solution too. A recent shift in legislation has allowed people to pass their pensions to their beneficiaries tax efficiently at the time of their death.

The chosen beneficiaries can inherit the fund as a lump sum or they may retain the fund within the pension. They can then receive income and/or capital withdrawals in the future.

It's important to ensure your pension funds are held in the most appropriate structure for you during your lifetime and thereafter. In this way, you can make sure you're using your pension as efficiently as possible for yourself and your family.

Information is based on our understanding of current tax law and practice, is provided only for general information purposes, and is not intended to constitute definitive tax advice. If you require specific tax advice, please contact your private banker. Tax reliefs and other matters referred to in this factsheet are those applying under current legislation, which may change, and the value and availability of any such reliefs depend on your individual circumstances.

POWERS OF ATTORNEY

A power of attorney is a legal document that allows someone to make decisions for you or act on your behalf if you're no longer able, or no longer want to, make your own decisions. This may just a temporary situation, for example an illness or for prolonged periods of travel, or you may need to make longer term plans.

By putting appropriate lasting powers of attorney in place you can nominate the individual(s) that you would like to make decisions for you. There are two types of lasting powers of attorney:

- **A property lasting power of attorney** specifies the people you want to make decisions about your finances
- **A health lasting power of attorney** nominates those individuals you want to make decisions about your medical and social care after you have lost capacity.

Lasting powers of attorney are relatively easy to arrange, although taking professional advice will ease the process and ensure that the documents are ultimately fit for purpose.

52% say their views on wealth planning and/or preparing their family heirs have changed over the years – it's normal for your priorities and attitudes to shift over the course of your life

6. **Insurance**

You could make it easier for your family to pay their IHT bill by taking out a life insurance policy. Make sure the policy is held in a trust – if you don't it will add to your estate and further increase the IHT liability.

Most policies used in these circumstances are written on a whole-of-life basis to ensure that they remain in place until the IHT liability is due. Contracts can operate with either guaranteed premiums or reviewable premiums, giving significant flexibility when seeking to structure suitable cover at an acceptable overall cost.

This approach can be particularly cost effective for clients who are relatively young and in good health. Term assurance can also be used to provide for potential IHT liabilities such as those associated with the making of gifts or those which might apply to non-domiciled clients who may leave the UK in future.

Bringing it all together

Most families find that the most effective way to pass on their wealth is to do so gradually, and adapt to changing circumstances. It's unlikely that one single approach will satisfy all of your objectives, which is why it's usually a good idea to combine different strategies, and to review them regularly.

One of the biggest challenges for many people is to make sure they don't give too much away too soon. You might feel uncomfortable about losing control or worry that your beneficiaries are too young to take on the necessary financial responsibilities. However, these concerns can sometimes become an excuse for inaction and delay the process of preparing the next generation.

Other issues can also be a source of concern, such as the possibility of divorce, remarriage and bankruptcy. Yet there are many ways to balance flexibility with control even when the assets are no longer under your legal ownership. It's almost always best to seek professional advice to guide you through what's most appropriate.

START YOUR CONVERSATION

We know that all families are unique and there isn't a blueprint for succession planning that will work for everyone. You can interpret the five steps we've highlighted in different ways and only you will know what's right for your family.

Remember that coming up with a plan to pass on your wealth doesn't happen by chance – it takes a lot of thought, communication and preparation. The earlier you start, the more chance you'll have of finding how to pass on your wealth in ways that work for all of you.

It's important to approach succession planning as a continuous process. Review your plan regularly to make sure it's appropriate and reflects any changes in your family as well as the latest laws and regulations. At every stage, you'll have to think about striking the right balance between giving money away now and retaining control so you can continue to decide how it's used.

Decisions are usually best taken together as a family. It's unlikely everyone will see things the same way, which is why we believe it's a good idea to get everyone involved now to avoid disagreements later. For example, if you intend to give according to financial need rather than divide your wealth evenly, you'll be able to explain why.

By drawing out what's important to you, we'll help you clarify what you want to achieve, and then avoid the pitfalls and make the most of the opportunities. After considering the implications of any decisions, we'll help you put your plan in place.

The cycle of wealth
Make sure your financial affairs are always in order so that you can secure your family legacy. Drawn up by the whole family, a succession plan can help ensure your wealth is passed on properly while preparing your heirs for the life that comes with it.

WHAT HAPPENS NEXT?

If you're thinking about organising your family's finances, we can help.

For generations, Coutts has been advising wealthy families on the challenges they face in ensuring that family wealth is not dissipated through lack of purpose, lack of preparedness or lack of communication. This experience is available to you as a Coutts client.

Please get in touch with your private banker to find out more.

COUTTS, MORE THAN A BANK

With a client list that makes history and defines success, Coutts is renowned for its personal approach to private banking and wealth management.

We are a private bank with a clear purpose – to champion potential and help people, families and businesses thrive. Our highly personal approach means we focus firmly on each client's specific needs. We help you save, borrow and invest your wealth so you can lead financially better lives.

As a bank, we provide a first-class, exceptional service. But we are so much more than a bank. Our unrivalled understanding of what it means to be wealthy, along with our strong network of contacts, means we are a trusted partner, adviser and friend to our clients. There is a reason why families stay with us for generations.

Coutts Institute

As one of the UK's leading wealth managers, Coutts provides a comprehensive range of services beyond investing. From finding effective ways to protect and pass on wealth to planning for retirement, we are experts on the issues that matter most to you, including trusts, pensions and wills.

For those with more complex needs, the Coutts Institute focuses on governance issues associated with substantial wealth. These include financial solutions for family businesses, fulfilling personal ambitions for philanthropy, preparing the next generation for a successful future and helping our clients navigate the complexities of passing on wealth.

Wealth succession
At Coutts, we know that the ability to pass wealth successfully from one generation to another is an ongoing journey. Our specialists are equipped to help clients tackle key questions, such as when and how to talk to the next generation about wealth.

Next generation
Wealth can be a tricky subject to approach with your children. At Coutts, we understand the importance of starting those conversations early and giving the next generation the tools and insights they need for the future. We offer a series of programmes to introduce the next generation to a like-minded peer group, in order for them to understand and discuss key themes such as entrepreneurship, financial awareness, social impact and personal development.

Philanthropy
Having supported many philanthropists, we recognise that there is no single way to give to your chosen causes. The options are more varied and exciting than ever. We provide you with specialist knowledge on creating giving strategies based on your personal passions and beliefs.

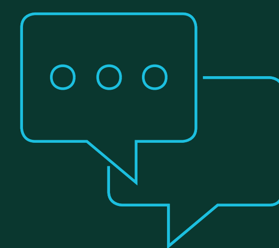
Family business
The key to a healthy family business is careful planning and open communication. Our experts are an invaluable resource, sharing insight and expertise around themes such as family governance, ownership succession and leadership development.

The five steps to success

1
DEFINE YOUR PURPOSE AND VISION
All successful journeys start with a destination in mind. Where do you want your wealth to take you and your family?

2
EXPLORE YOUR VALUES AND CONCERNS
Take the time to reflect on what's important to you in life. How will you pass on these values to those who will inherit your wealth, and manage the issues you're most concerned about?

3
DETERMINE WHAT'S FAIR AND MANAGE EXPECTATIONS
Balancing the expectations of everyone in your family can be tricky, particularly if their views are not in line with yours. Open conversations can help to shift everyone's point of view.



4
PREPARE THE NEXT GENERATION
It's a good idea to get your family involved in the process. Deciding how much information and responsibility to give them during your lifetime, as well as guiding them towards further learning, involves delicate choices.

5
DEVELOP AND IMPLEMENT YOUR PLAN
There are many ways to preserve your wealth to benefit future generations. The main advantage of starting to plan sooner rather than later is that it gives you the widest range of possible options and structures.

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