Regions Wealth Podcast

Episode 38: Maintaining Generational Wealth: How to Protect and Grow Your Legacy

The secret to creating multi-generational wealth? Focusing on mindset, not just money. In part two of our series on generational wealth, Vice President and Wealth Advisor Allison Lederer joins us to discuss what families of all income brackets can do to create multi-generational wealth and ensure their kids and grandkids are well-equipped to maintain their family's legacy.

Episode Transcript

Sarah Fister Gale:

Welcome to Regions Wealth Podcast, the podcast that tackles life's challenges with financial experience. I'm your host Sarah Fister Gale.

An estimated 70% of families will lose their wealth by the second generation, and 90% will lose it by the third. While the reasons for this vary by family, some experts suggest that frank discussions about money, education, and a clear plan can help sustain wealth over time. So what steps can you take to ensure that your legacy survives past the next generation?

Joining me remotely is Allison Lederer. She's a Vice President and Wealth Advisor at Regions Bank.

Allison, thanks for joining us today.

Allison Lederer:

Well, thanks for having me.

Sarah Fister Gale:

In part one of this special series on generational wealth, we discussed *creating* generational wealth. If you missed that episode, you might want to go back and take a listen, because in *today's* episode, we're continuing that conversation by discussing strategies for *maintaining* generational wealth.

So Alison, we've taken some frequently asked questions from a bunch of people and developed a character who needs your help. Let's listen.

Gail:

"Hello there. My name is Gail, I'm 72, and I'd love to get your help with something that's been on my mind a lot recently. To put it frankly, I'm concerned about my son William's ability to manage his inheritance. I've worked so hard to maintain my father's legacy. Dad grew up quite poor, started working at age 13, and managed to start a successful business by age 22. He was quite fastidious with his money. While I lived a very blessed life, dad was also careful to instill the value of hard work in me. As a result, much of his wealth lives on today, so much so that William is now using his share of dad's money to spoil his two daughters rotten.

I want my son and my granddaughters to enjoy the wealth they've inherited, and I know my father would, too. But I fear that they're frittering it all away. Dad used to have this saying: shirtsleeves to shirtsleeves in three generations. Gosh, how he drove my sister and I nuts with that saying! But now I get it. My son has become too reliant on the family money, and if he keeps it up, dad's legacy will be gone before my grandkids reach adulthood."

Sarah Fister Gale:

So Gail mentions the old saying, "shirtsleeves to shirtsleeves in three generations." How common is it for families to lose their wealth?

Allison Lederer:

You know, it's actually very common. I believe that saying comes from the old Chinese proverb, "rags to rags in three generations." And it's interesting, because what that means is that the first generation is the one that typically makes the money, the second generation is the one that spends it, and then the third generation often sees none of that money. So it's fairly common, particularly without the right planning and implementation. You know, it's interesting. There's a stat that I've read about. It says an estimated 70% of high net worth families will lose their wealth by the second generation, and 90% will lose it by the third.

Sarah Fister Gale:

That just seems crazy to me. So why is it happening? What are the reasons that generations go through their money so quickly?

Allison Lederer:

Well, in my opinion, I feel the reason is that the first generation often does not adequately communicate with the second generation about wealth planning, the transfer of wealth, and the tax implications of the transfer. So, in addition, another thing would be that the family doesn't know what their family mindset is. What are the goals for the family? Hearing what is important from the first generation and learning how the money was earned is very important. And if the second generation misses it, then the third generation will miss it as well.

Sarah Fister Gale:

Okay. So reading between the lines, it sounds like Gail's family is quite wealthy. Are these issues relevant to middle class families as well?

Allison Lederer:

I kind of think that the middle class might suffer the most. There's more wealth to lose as a percentage of their total overall net worth. So they need to preserve the money that they have. They might be business owners. They sometimes have nowhere to transition that family business if their family members maybe aren't interested in doing it. So it's interesting. I think that the middle class might be more susceptible to this, especially because they don't have the right professionals to help them understand the planning and the implementation of their estate plan.

So yes, regardless of your income level, your wealth, if you consider yourself just starting out or high net worth, whatever that means to you, it is highly critical to discuss saving and discuss your family plan and discuss the overall importance of your family's legacy.

Sarah Fister Gale:

That's interesting, and it sounds like you're saying for middle class families who are maybe passing on a business, they're giving their kids an opportunity to generate wealth, rather than just a portfolio of assets.

Allison Lederer:

Correct. Yes. And in that case, it's even more critical to keep having those conversations about why the business is there, why it's important, what the goals are for that business. And again, that communication will help not only make the business transfer successful, but also help maintain that generational wealth.

Sarah Fister Gale:

So let's listen to the next part of Gail's story.

Gail:

I know I'm partially at fault here. There are a few significant differences between how I was raised and how I raised William. For example, I started working at my father's business at age 16 — as part of the cleaning crew, if you can believe it! My sister and I received a weekly allowance, and our parents enforced a strict "save, share, spend" policy.

While my son did spend a few summers working at the family business, for the most part, he's lived an incredibly relaxed life. My dad passed away when my son was just a teenager, and he inherited a nice sum of money.

William is a talented artist, and that inheritance has supported him and allowed him the freedom to do what he loves. However, I'd always assumed that once he had a family of his own, he'd buckle down, figure out a way to earn a reliable income, spend more carefully, and save for the future. Unfortunately, that hasn't happened. My granddaughters are now four and six, and William hasn't changed his lifestyle one bit. And would you like to know what's even worse? The girls are growing up to become even more entitled than my son. I'd like to instill the values my father instilled in me before it's too late, but as grandma, I'm not sure how ***I*** *can change the way they're being raised."*

Sarah Fister Gale:

So Allison, let's talk a bit about value and mindset. It sounds like Gail's father worked hard to ensure that his daughters learn the same values and mindset that made him successful. When it comes to maintaining generational wealth, how big of a role do things like value and mindset play?

Allison Lederer:

You know, I think it's critical. When I was growing up, we spent time with my grandmother. She had a large garden, and it was in between her home and in the restaurant that she was actually the chef at. And so when we would visit her, we would put on our gardening gloves and spend time with her, learning about her garden, learning about what was important to her. It was really her time to just tell us about life and tell us what she thought. She was able to impart wisdom that we carry on with us as adults. And I think that was critical in my own personal life, to have that relationship. You know, a lot of values are missed because we just don't communicate. We are very busy. And if we remember that conversations don't have to be formal conversations, that they can be intentional or they can be organic, but if more families would discuss values and what they feel are important to them, they could pass that legacy onto their children and grandchildren and great grandchildren, who then can pass it on to their children and grandchildren.

You know, having those conversations about value and mindset are critical to maintaining that generational wealth. You know, one example that we could discuss is, I know a lot of people have heard about the Rockefellers and the Vanderbilts. And the Vanderbilts were the richest family in America in the 19th century, but their fortune was mostly depleted within two generations. They had a lot of in-family fighting. They sued each other. There was a lot of things that were not okay with the Vanderbilts. And the Rockefellers managed to maintain their status as one of the world's wealthiest families for seven generations. And now, that wealth supports about 250 descendants. You know, I think that the secret to maintaining that generational wealth was just talking about the mindset, developing a system of values, and communicating that. And they have traditions and institutions that have helped the family stay together and preserve their wealth. One of their biggest things is that they have a philanthropy component, and I think that that has made quite a difference in that family versus maybe some other families.

Sarah Fister Gale:

I love that. And it sounds like it's not just having conversations about wealth, but really setting expectations for the kids, even what Gail said about working in her father's business at age 16. Is it important to bring the kids into the business and maybe give them some responsibilities as a way to instill those values and mindset?

Allison Lederer:

I do. When you own a business and you bring your kids to work with you, they understand. They see their parents work. They understand the business. I think involving them in why you started the business, what the intention is of the business, and then letting them do really the hard stuff, you know, starting them off at maybe cleaning, taking the trash out, whatever it is, just something where they have to earn the right to know what's going on in the business and feel like they're a part of it. And then when they can understand how hard that family's worked to keep that business, then it means something to them. They know that their parents worked day in and day out morning to night, trying to keep their family with the things that they needed. And when they see that their family worked that hard and they were there and they were present for that, it does make a difference long term.

Sarah Fister Gale:

And it sounds like Gail may regret that she didn't pass those same values along to her own son. As a grandparent, what can she do to ensure those values are passed on to her grandchildren?

Allison Lederer:

You know, I would say that she should just keep sharing her story, share that family story, even when it's annoying or repetitive to those that listen. Continue to tell the family story and the steps that her father took to grow the family's wealth. Help them understand that this story is the legacy and the foundation of their family's wealth. I think that grandparents have the luxury of time from a day-to-day perspective to impart that wisdom. And they can even write things down that are important. Write things down that she's learned, what legacies and values that she learned from her parents. It gets lost if it's not written down. And I think that that is a critical piece to establishing a family legacy, is just having it written down somewhere. There's an opportunity to discuss these things with family members over dinner. She can have an intentional goal of continuing that conversation and continuing that story. Preserving the wealth and the stories, I think, are equally important. I have a client who shared with me that she started doing videos. And some of the younger family members actually interviewed her, which is a great way to pass on that family legacy. I think that's an interesting take on trying to maintain that generational mindset and value.

Sarah Fister Gale:

So what are some tactics parents of all income brackets can use to instill values within their children and ensure those values are carried through multiple generations?

Allison Lederer:

So one thing that my father-in-law does for my children is he implemented something that I hadn't heard of, but it's been about 13 years since he started this. He started the save, spend, give. I know other families do this as well. And so some of the tactics that could be used are just simple. Teaching them the value of money would be another way. So for example, my son loves Xbox and PlayStation. Every time he goes to buy a video game, I say, "What could you get for this $50? What else could you buy for this?" And we equate it to grocery items, just because we're always buying groceries. So I said, "Gosh, you can buy probably 13 loaves of bread, maybe, for $50." And so I think little lessons every day that helps your children equate money with things, I think is important. So another thing is when I'm shopping with my daughter and she's trying to decide between two things. I'll say, "Okay. This one's $12. This one's $35. This one's 60. Which one do you love, love? Let's talk about the one that you can understand that you are spending that kind of money for something that you will definitely wear and not just throw in your closet because you just got tired of it."

We talk about money all the time and how valuable it is. And I think a lot of parents don't discuss how money works, right? A lot of parents are closed off, and I think you have to be open with your family about assets and intentions. And the more closed off we are, we just don't do our families any favors by being secretive and closed off. I think that that's really important to understand, at least of the value of money. And then you can instill the mindset of the overall family through that as well.

Sarah Fister Gale:

So you've mentioned the save, share, spend model a few times, and Gail mentions it as well. Can you briefly describe what that means and how it works?

Allison Lederer:

Sure. So I think it's listed a lot of ways. You can say save, share, spend, or save, share, give, however you want to say it. But basically, what you're doing is, is when your child receives a gift basically, you save one-third, so you put it in a little savings account or a piggy bank or whatever you want. Then, you spend a third. So whatever they feel like they want to spend money on, so they feel like they have some authority to, "Oh my gosh. I got a hundred dollars. Now, I can spend 33 on a new doll or some clothes or some shoes," whatever that might be.

The third aspect is the charity aspect. It's teaching your kids the value of giving to those who maybe don't have what you have. It teaches a philanthropic mindset. We did this with our kids after they decided they wanted to do a lemonade stand this past summer. And we said, "You know, I think you might earn more if you throw maybe a charitable component in there." And so they all stood outside and they made these big signs and said, "half of the proceeds will go to children's hospital." And, you know, that was a charity that they came up with, it was important to them. They thought it would be important to others. I think one gentleman came up to them and said, "Well, here's $40," and basically gave him his lemonade cup, you know? I think because it was a good cause, and I think that they understood that, gosh, when you are giving, people are more generous. And so, I think that they saw the result from that. And it wasn't just like, "Here's your free lemonade," or, "Here's your lemonade for two dollars." There was a component to that that we always talk about in our lives with our kids. And so I think that really allowed them to make a decision that translated into not only some philanthropic mindset values, but it also enabled them to make more money. And I think they saw that, which was cool.

Sarah Fister Gale:

I love that. Now, you've talked a lot about the importance of having conversations about money, but it seems like a lot of families take great pains to avoid talking about money. Do you think that's a mistake?

Allison Lederer:

I think it's probably one of the biggest mistakes. I meet with a lot of clients, and they say, "Well, I don't want to tell my kids anything until I'm gone." And I really think that's a mistake. We coach through that, because you need to be intentional, you need to have a plan, and having intention in what your estate plans, what it says is critical to maintaining that wealth. Not talking about things becomes something that eats away at your wealth and your relationship with your family. In my opinion, the core of a family relationship is trust. And when we let people into our financial world, there is so much trust there. And when you bring in your family and tell them what you want, you're letting them know that you trust them.

When your kids feel like you trust them, it's a really good relationship builder. And the kids don't have to know everything. But over time, they will, if you teach them. And when they can get involved then they don't feel like it's something hidden or secretive.

We'll have people that come to us and say, "You know, our parents passed away, and now we have this money." Often, what happens is their parents didn't relay to them what their intentions were, and then they just are kind of lost. So it's just important to talk about it and not make it a secret, and I think even more important is to write it down.

Sarah Fister Gale:

So do you think this is the case for middle class families, or is this just a good rule for the wealthy?

Allison Lederer:

Well, I think it's probably even more important. Like I mentioned before, the middle class can be kind of quite susceptible to losing their wealth. And quite frankly, they need to maintain that kind of wealth for their families. It's important to discuss and be open, because one dollar to them can be more valuable than one dollar to an ultra wealthy family, right? So to be open and discuss, regardless of income level, is critical to maintaining that wealth over time.

Sarah Fister Gale:

So let's listen to a little more of Gail's story.

Gail:

"My son and granddaughters stand to inherit a lot more money once I'm gone. Not only did I inherit a large portion of my father's estate, but when he sold the family business back in 2007, I also received half of the proceeds. Much of that money has been carefully invested and has grown exponentially over time. I've been careful to live well within my means — my goal has always been to ensure my father's legacy lives on. Now, however, I'm scared that the money will be gone before my granddaughters have families of their own.

I have an estate plan in place, but I think it might be time to revisit that plan. Currently, the money is set to be split 4 ways: 40% to my son, 15% for each of my granddaughters, and 30% to be split among several nonprofit organizations. My friend Ruthie suggested giving the kids the absolute bare minimum and creating an endowment in my family's name instead. That would be a lovely way to maintain my father's legacy, but I don't want to deprive my family. I'm just not sure what to do. I guess my question for you is, are there any safeguards I can put in place to ensure my son uses his inheritance wisely?"

Sarah Fister Gale:

Currently, Gail plans on distributing 70% of her estate among her son and granddaughters. Are there any tactics or estate planning tools she can use to ensure that money isn't spent frivolously?

Allison Lederer:

Yes. There are lots of options. The biggest would be maybe a trust that's put into place for the benefit of her son and her grandchildren. She could establish one for each potentially or a single trust that could dictate how the money would be distributed. Many clients have a trust that the income could be pulled out upon approval for health, welfare, education, et cetera. I have one client who wanted her son to work. And so every year, he has to bring in his W-2, and it's matched by the trust. It's quite interesting. There's many, many tools. There's very creative ways to structure a trust. They can be flexible.

For example, Regions can be the trustee of a trust, and we have a great team that gets to know the families and what goals the families have. And so what those trusts can do is create what we refer to as basically control from the grave. It's your way to ensure your family is carrying on your legacy.

So anything that your kids don't use for health, welfare, education, et cetera, can go to philanthropy or can go to the next generation for the same purpose. We've had many, many families create trusts that have survived many generations, and I think that's another way to continue that wealth transfer. And I think having a trust in place will help those that maybe are spendthrifts or people that we know that are in families that can't manage money. So I think that the trust is a really great way to do that. There are income distribution limits, not to get into the weeds. But let's say that you want to give a five percent distribution to your family every month. And so whatever the trust, the investment's earned, they can have five percent of it, no questions asked. And then there's ways to ask for more distributions if they were wanting to buy a car or a home. So, you know, there are creative ways to plan. You can also attach a philanthropy component to it. So let's say the family gets five percent, and then you say, "Well, two of that five goes to charity." It just depends on how much you have in trust and how much control you want to have over time.

Sarah Fister Gale:

That's a really good point. And Gail said she's planning on donating 30% of her estate. She also wants to maintain her father's legacy, though. So what are the pros and cons of donating that money directly to nonprofits versus creating a trust or an endowment fund?

Allison Lederer:

You can absolutely, do a direct donation to a nonprofit. So that is a very simple way to be able to create a legacy. You can also use an endowment, which you can dictate how the money is used for that. Some clients even opt for what we call foundations. And so, when you've got a foundation set up, you can actually have family members involved to participate in the foundation. And then that group collectively decides how the funds will be used and donated. So if you donate directly through your will, you can dictate how your funds are allocated to different nonprofits, or you can set up an outside endowment or foundation that also can create a legacy for your assets.

Sarah Fister Gale:

And what sort of professional should Gail work with to ensure these estate plans achieve all of her goals? Are there certain types of professionals that specialize in generational strategies?

Allison Lederer:

Yes. So at Regions, I'll speak directly towards what we do, is our clients have wealth advisors, like myself, through our private wealth department. And basically, we're the quarterback of the relationship. So when we meet with clients, we understand what their goals and their needs are. And then we bring in other members of the team who can offer some advice and guidance on some strategies involving your estate plan. We have a portfolio manager that actually manages the actual assets under investment. We have wealth strategists who can come in and look at the entire wealth plan and create a plan of action. And we also work with our clients' individual estate planning attorneys, and CPAs.

Sarah Fister Gale:

So Allison, at the end of each episode, we like to ask for some key takeaways. What key takeaways would you share with those hoping to ensure their legacy continues past the next generation?

Allison Lederer:

Well, first, I need to say I'm really happy to be part of this. I'm thankful that you included me, and I think it's very important to me personally to have this generational wealth conversation. It's what I am passionate about and what I do for a living. So I would say the biggest takeaway is to plan. A failure to plan is a plan for failure (laughs) in our world. So, you know, planning involves communication. It involves conversation, both organic and intentional. Talk about money. Come up with a plan and let everyone know what that plan is. Then the upcoming generation understands what's important to you and important to the overall family. And this can help ensure that money is transferred and not depleted. So we will not see rags to rags. Maybe we'll see rags to riches.

Sarah Fister Gale:

That is great advice. Thank you so much, Allison Lederer, Vice President and Wealth Advisor for Regions Bank. You've given us some great actionable insights today.

Allison Lederer:

Well, thank you for having me. I've enjoyed it. Thank you.

Sarah Fister Gale:

And thank *you* for joining us today. When it comes to wealth management, family dynamics can often present some unique challenges. We've covered a wide range of topics throughout this podcast series, so visit regions.com/wealthpodcast to explore past episodes. In our next episode, we'll be discussing the benefits of a corporate executor, so be sure to check back, and don't forget to subscribe to Regions Wealth Podcast through your favorite podcast service.

indication that the particular investment or investment course of action described herein is appropriate for any specific investor. In providing this communication, Regions is not undertaking to provide impartial investment advice or to give advice in a fiduciary capacity. References to a company or security or links to third-party website do not imply endorsement or recommendation.